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**UNIVERSITY OF WARWICK
DEPARTMENT OF POLITICS AND INTERNATIONAL STUDIES**

**TAIWAN'S ECONOMIC DIPLOMACY AND SOUTHWARD
POLICY IN THE 1990S**

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Submitted in fulfillment of the requirements for the degree of Doctor of Philosophy

November 2004

DEDICATION

In memory of my father, Mr Cheng-Hsung Liaw (1937 – 1994)

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DECLARATION

This dissertation is presented in accordance with the regulations for the degree of Doctor of Philosophy. All materials have been properly identified and the work described in this dissertation is entirely original and my own, unless otherwise indicated. The author also confirms that no portion of this dissertation has been submitted for a degree of any other university.

ABSTRACT

The thesis contributes to the development of a theoretical framework of economic diplomacy by employing 'levels of analysis' proposed by Hollis and Smith. In order to assess Taiwan's economic diplomacy, three levels of analysis are employed: changes in the international system, contradictory decision-making at the government level, and the efforts of political elites and business networks. Only this neutral heuristic tool can analyse the roles of Taiwanese business people and the role of the Taipei government in the post-Cold War era.

The author analyses Taiwan's diplomacy from an economic perspective, thereby making up for the insufficiencies of those conventional approaches which have tended to focus exclusively on the political and military dimensions. The central theory that Hollis and Smith choose is Neorealism because it serves best the interlinking function between international system and states. In so doing, I also want to dig deeper and improve Neorealism, by modifying the level of international system to incorporate both the level of state and the level of individual. After I enrich 'levels of analysis' by emphasising the roles of Taiwanese business people in Taiwan's economic diplomacy, this thesis, therefore, makes substantial contributions to international relations as a discipline beyond the account of Hollis and Smith. Viewed from the bottom up, explanations in terms of the decisions and actions of Taiwanese business people seek understand their influence on the international political economy beyond Taiwan *per se*.

Taiwanese investment in China has since relaxed tension across the Taiwan Straits. Investment by Taiwanese business people has made it easier for the Taiwanese government to enter into formal relationships with countries in Southeast Asia. In addition, Taiwanese business people have retained research and development in businesses in Taiwan. Taiwanese business people also promote regionalisation and globalisation in East Asia. They have been proactive, independent rather than at the beck and call of the Taipei government, and have even put pressure on the government to change its policy to permit cross-Straits trade. They serve as pioneers, surrogates, intermediaries and hindrances in Taiwan's economic diplomacy. In general, Taiwanese business people play a major role in Taiwan's economic diplomacy, while the Taipei government plays but an auxiliary role in the field.

TRANSLITERATION

Where there are references to Chinese names, in most cases, the system of Romanisation of Chinese characters used in this study is Mandarin (the *pin-yin* system). This is because the *pin-yin* system is widely used by the academic field. The only exceptions are proper names and places in Taiwan (e.g. 'Taipei') and the names of some famous people such as Lee Teng-hui and Su Chi. The author also Romanises names according to each person's preference. Therefore, Wade-Giles system is employed when the person chooses her/his name by herself/himself. Following the Chinese convention, some famous names in the text and notes are given with the family name first followed by the given name, e.g. Deng Xiaoping. However, if the name is widely used in its own style, sometimes the given name is followed by the family name (e.g. Samuel C.Y. Ku). In the bibliography, for both English and Chinese authors, the family name is given first, followed by the given name after a comma (,).

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Co-operation
APROC	Asia-Pacific Regional Operations Centre
ARATS	Association for Relations Across the Taiwan Strait (China)
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asian Nations
CCP	Chinese Communist Party (China)
CDS	Capitalist Developmental States
CEO	Chief Executive Officer
CEPD	Council for Economic Planning and Development (Taiwan)
CEPT	Common Effective Preferential Tariff
CETRA	China External Trade Development Council (Taiwan)
CIECA	Chinese International Economic Cooperation Association (Taiwan)
CITC	Committee of International Technical Cooperation (Taiwan)
CNAIC	Chinese National Association of Industry and Commerce
CSCAP	Council for Security and Cooperation in the Asia-Pacific
DPP	Democratic Progressive Party (Taiwan)
ECAN	EU-China Academic Network
EIU	Economist Intelligence Unit
EPZ	Export-processing zone
EU	European Union
FAPA	Formosa Association for Public Affairs
FDI	Foreign direct investment
FTA	Free trade agreement
FY	Fiscal year
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GSP	Generalised System of Preference
ICDF	International Cooperation and Development Fund
IECDF	International Economic Cooperation and Development Fund (Taiwan)
IIR	Institute of International Relations (Taiwan)
IIT	Intra-industry trade
IMF	International Monetary Fund
IPE	International Political Economy
KMT	Kuomintang (Chinese National Party)

LCD	Liquid crystal display
LD	Laser disc
MAC	Mainland Affairs Council (Taiwan)
MFN	Most Favoured Nation
MNCs	Multinational corporations
MOEA	Ministry of Economic Affairs (Taiwan)
MOFA	Ministry of Foreign Affairs (Taiwan)
MPI	Ministry of Planning and Investment (Vietnam)
MSG	Monosodium glutamate
MTCR	Missile Technology Control Regime
NAFTA	North American Free Trade Agreement
NGOs	Non-governmental organisations
NIEs	Newly industrialising economies
NTR	Normal Trade Relations
NT\$	New Taiwanese Dollar (新台幣)
OBU	Offshore banking units
ODA	Official development assistance
ODM	Original design manufacturing
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturing
PECC	Pacific Economic Cooperation Conference
PLA	People's Liberation Army (China)
PNTR	Permanent normal trade relations
PRC	People's Republic of China
R&D	Research and development
RMB	Renminbi (人民幣, Chinese currency)
ROC	Republic of China
SEF	Straits Exchange Foundation (Taiwan)
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises
TECRO	Taipei Economic and Cultural Representative Office
TFT	Thin film transistor
TNCs	Transnational corporations
TPERI	Taiwan Political and Economic Research Institute
TRI	Taiwan Research Institute

TSEA	Taiwan Security Enhancement Act
TSMC	Taiwan Semiconductor Manufacturing Co
TSU	Taiwan Solidarity Union (Taiwan)
UK	United Kingdom
UMC	United Microelectronics Corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
VCCI	Vietnam Chamber of Commerce and Industry
WTO	World Trade Organisation

Note:

1 billion = 1,000 million

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Chapter 1

Introduction

1.0 Introduction

With the advent of the Communist revolution in Mainland China, relations between the "People's Republic of China" and Taiwan (otherwise called the Republic of China) have remained strained and often hostile. This hostility was heightened during the period of the Cold World, with each side of the political divide aligning with a different block of 'cold warriors'. While the People's Republic of China managed a rather tempestuous relationship with the defunct Soviet Union for strategic purposes, the Republic of China (Taiwan) found a willing ally in the United States. Despite a number of military skirmishes across the Taiwanese Straits, both the governments of Mainland China and Taiwan have somehow managed to maintain a fragile but stable relation. However, while scholars continue to focus on the military strategic aspect of this fragile relationship, less attention is given to the plethora of other unofficial ties that help sustain this relationship. This work attempts to fill this lacuna. The aim of this work is to explore the role of Taiwanese business people in sustaining this relationship.

1.1 The Major Findings of the Thesis

In the late 1980s, Taiwanese businesses increased their investment both in Southeast Asia and in China. The Taiwanese government encouraged investment in the former by promulgating the so-called 'Southward Policy' and by providing assistance (when it concludes international agreements with other governments) to businesses investing in that region. It was much more cautious about investment in Mainland China, however, urging a policy of 'No Haste, Be Patient' in order to restrain what it saw as the abiding irresponsibility of the business community.

Taiwanese business people are the pioneers of Taiwan's economic diplomacy, but they are also often regarded by the Taipei government as traitors or betrayers of Taiwan by investing in Mainland China. Therefore, this thesis will attempt to determine what roles Taiwanese business people actually play in the development of Taiwan's economic diplomacy. Taiwanese business people largely ignored the policies of Taiwan in order to pursue profits. How, then, have they contributed to Taiwan's economic diplomacy? Sometimes, we can see that Taiwanese business people have helped to relax the tensions across the Taiwan Straits. However, in the Taiwan Straits Crisis of 1995-1996, they did not work to stop the crisis. Only when the US intervened did the crisis finally die down. Therefore, this thesis also aims to define the impacts of the international system on Taiwan's economic diplomacy. Because foreign policies are typically devised by state leaders, there is a need to review these policies. How do they impact on Taiwan's economic diplomacy?

Taiwan's policies are devised both by the presidency and the cabinet. Therefore, we need to explore to what extent these two institutions are consistent with each other. Do they always go hand in hand, or are they sometimes mutually contradictory? If contradictory, what would be the best solution for resolving the disagreements and conflicts between them?

This thesis aims to contribute to the field of International Relations by providing a comprehensive three-level analysis of Taiwan's external relations. It also aims to analyse Taiwan's diplomacy from an economic perspective, complementing the more conventional approaches, which are often insufficient, inasmuch as they tend to concentrate on political and military aspects only. Viewed from the bottom up, explanations in terms of the activities of Taiwanese business people clarify their influence on the international political economy beyond Taiwan *per se*. The activities of Taiwanese business people entail significant economic implications, thus becoming a special object and source of explanation of analysis. Taiwanese business people are a distinct source of the 'shoving and shaping' forces, playing alongside those of the structural level. Thus it is insufficient to offer analyses exclusively from the perspective of states and political elites. The bottom-up influence of Taiwanese business people cannot be ignored. Conversely, any study that would concentrate exclusively on Taiwanese business people could not hope to provide a complete or thoroughgoing analysis of Taiwan's economic diplomacy. However, combining these three levels (viz. the system, state and individual levels) may provide a comprehensive analysis of Taiwan's economic diplomacy as a whole.

My thesis defends the following claims:

- The Taiwanese business community invested in Mainland China in spite of government caution and even put pressure on the government to change its policy so as to permit cross-straits trade beginning on 5 August 1987.
- Government policy suffered from multi-track decision-making, with the result that it contained some contradictions. Business people, by contrast, were on the whole more clear-sighted.
- Taiwanese business people undoubtedly benefited in some respects from government help in investing in Southeast Asia, but they followed their own agenda, used their own initiative, and did not increase their investment in that area to the extent that the government had hoped.

I characterise the triple role of the business people vis-à-vis the government under the following headings:

- Surrogates: their dealings with other nations sometimes took the place of inter-governmental links.
- Middlemen: their activity sometimes proved useful to the government when it finally came round to seeking informal links with other governments.
- Hindrances: the business community at times acted against government policy (for example, when choosing to 'Go west' rather than to 'Go south').

However, the self-interested policy of business people did coincide with the

government's call to 'root enterprise in Taiwan', because even the companies which transferred most of their manufacturing operations to other countries retained important research and development functions in Taiwan.

1.2 Methodology

Among the three levels of analysis, every level introduces elements of bias into the explanations it provides. In terms of the **system level**, the unit or state level overstates the distinction among states, and undervalues the impact of the system on the actions of states. In terms of the **state level**, the system level supposes that states are more identical than they are and overstates the impact of the system on the behaviour of the units (states). However, the two levels of analysis are both crucial and complementary perspectives which must be taken into account in any comprehensive analysis of the behaviour of the system as a whole. It is not possible to establish a neutral theory. Even the most thorough and persuasive attempt at a wholly systemic account of international relations by Waltz cannot get rid of all state-level causes. Following Hollis and Smith, we propose three broad reasons why states must be credited with contributing to the behaviour of the system.¹

The **first** is that international power cannot easily be conceived by analogy with natural force. Although power can be a structural feature, power is also a resource to be used by agents, which means that they have

¹ Martin Hollis and Steve Smith, *Explaining and Understanding International Relations*. Oxford: Oxford University Press, 1992, p. 118.

to know how to use it. **Secondly**, a wholly systemic account would need very strong notions of function and structure. However, since the structure shows itself only in the behaviour of the units, and since functional explanations must involve purposive behaviour by the units, there is no way of inferring that the units are only dependent. **Thirdly**, changes within and between the units are the only plausible explanations of changes in the system.

Even Kenneth Waltz also recognises that the 'shaping and shoving' of structures may be effectively resisted, even though structures 'shape' and 'shove'.² Thus, we have also to look at the state level. The absence of government in the international system makes it extremely different from domestic politics, strongly suggesting that the units affect the shape of relations, no matter how firm the shove is.

Similarly, we have found reasons to doubt whether 'national interest' is defined well enough in order to serve as a clear and compelling goal for the units of international relations. Therefore, we should open the box. Debate on this layer of the problem cannot proceed without also taking into consideration the **individuals** who engage in the actual processes of a decision-making.

² Kenneth Waltz, "Reflections on *Theory of International Politics: A response to my Critics*", in Robert O. Keohane, ed., Neorealism and its Critics. New York: Columbia university Press, pp. 343-44.

Correlation of world forces is the most important factor at the level of system. The merit of state-level analysis is that we can analyse international relations in greater depth than if we limited ourselves exclusively to the system level. However, foreign relations should be understood not only as the extension of domestic politics but also in terms of reactions to the broader international environment. To over-emphasise domestic politics would be to become guilty of a fallacy, because the analysis of domestic factors necessarily involves the evaluation of the international environment, from which it cannot ever be fully extricated. The problem with relying exclusively upon the levels of system and state is that it tends to provide an over-rationalised account that fails to take into account the constraints imposed upon the rational capabilities of decision-makers in terms of scarcity of information, times limitations, and various other internal and external pressures. Therefore, we have to turn to the level of the individual, where we may examine the personality, worldviews and biases of state leaders, as well as the impact of business people on national politics. **Only the theory of 'three levels of analysis' approach, which we employ to analyse Taiwan's economic diplomacy is sufficiently comprehensive.**

At the international system level, the changing international environment — which provides the setting of Taiwan's Economic Diplomacy — will be analysed. At the state level, Taiwan is also included. The third level consists of Taiwanese business people and political leaders.

1.3 The Research Development of the Thesis

The argument of this thesis is that in the Post-Cold War era, Taiwanese business people have played a major role in Taiwan's economic diplomacy. The Taiwanese government has played merely a complementary or auxiliary role — when it concludes international agreements with other countries in order to protect Taiwanese business people's interests, for example. It is an exaggeration to state that, since the beginning of the 1990s, Taiwan's economic diplomacy has achieved significant international space. Taiwan does use foreign trade, foreign investment and foreign aid in order to break out of its diplomatic isolation and obtain some degree of international recognition. However, this has not resolved the question of sovereignty. Although Taiwan's international standing has been ameliorated to a certain degree, this has proved to be only 'bubble diplomacy'.³ Sometimes the Taipei government tried to improve bilateral trade and economic cooperation, and then endeavoured to cultivate political connections. Very frequently, Taiwan's entrepreneurs have served as pioneers and intermediaries in setting up the links, and it is in the footsteps of these pioneers and intermediaries that the China External Trade Development Council (CETRA) and the Ministry of Economic Affairs (MOEA) have made contact with foreign government officials or non-official partners. The CETRA, established in 1970, had signed 129 bilateral trade cooperation agreements with 47 countries up to 1991.⁴

³ See Chapter 4.

⁴ Wei Ming, *The Bilateral Diplomacy of the Republic of China*. Taipei: Institute for National Policy Research, 1991, p. 49. (衛民, *中華民國的雙邊外交*, 台北: 國策中心, 1991, p. 49.)

As Robert Gilpin puts it, "In every area of international economic affairs, economic and political issues are deeply entwined."⁵ Françoise Mengin adds that there is an interweaving at the national level of the economic and political spheres in the nature of the decision-making mechanism.⁶ After the establishment of economic relations, many countries have by degrees allowed these ties to develop naturally into political links with Taiwan.

At the international system level, as the Cold War ended and the structure of the global system fundamentally changed, the debacle of international communism led Western countries to become more concerned about their general domestic unemployment and declining military-industrial complexes than with security issues.⁷ The People's Republic of China's (PRC) declining political leverage in the international society was enhanced by the coincidental Tiananmen Massacre, as a result of which it was perceived as failing to abide by international humanitarian norms. Meanwhile, the prominence of economic issues offered Taiwan a good opportunity to deploy its accumulated wealth as a tool to achieve its international space. The relaxation of tensions across the Taiwan Straits also encouraged foreign countries to re-evaluate their relations with Taiwan, because the PRC's 'engagement' with Taiwan — the second major investor in Mainland China — undermined

⁵ Robert Gilpin, *The Political Economy of International Relations*. Princeton: Princeton University Press, 1987, p. 24.

⁶ Françoise Mengin, "The Prospect for France-Taiwan Relations", *Issues & Studies*, vol. 28, no. 3 (March 1992), p. 46.

⁷ Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", *Issues & Studies*, December 1995, pp. 28-9.

Beijing's attempts to stop other countries making official contact with Taiwan. Also, the growing prominence of "Greater China"⁸ made Taiwan an attractive partner to Japan and Western countries, which saw Taiwan as a useful bridge to Mainland China. These countries, technologically highly developed and world-renowned multi-nationals, were attracted by the prospect of combining these assets (via Taiwan's capital and management personnel) with Mainland China's massive market and its cheap land and labour.

However, some scholars and politicians believe that integrating the PRC in the international system is the best strategy for maintaining international order. Proponents of this view include John King Fairbank, Michael Oksenberg, Andrew Nathan, Robert B. Zoellick, Richard Nixon and Edward Heath.⁹ This point of view tends to produce a more conservative attitude towards Taiwan and is apparently unfavourable to Taiwan's economic diplomacy.

At the state level, the pragmatic diplomacy of Taipei pushed for dual recognition and a substantive relationship between Taiwan and foreign countries. Beijing's diplomacy regarding economic issues was becoming more pragmatic through its coexistence with Taipei within international organisations such as the Asian Development Bank (ADB) and the Asia-Pacific Economic Cooperation (APEC). The

⁸ "Greater China" as used here comprises Taiwan, the Mainland, and the Hong Kong and Macao areas. For a conceptual analysis of Greater China, see David Shambaugh, ed., Greater China: The Next Superpower? Oxford: Oxford University Press, 1995.

⁹ Rosemary Foot, The Practice of Power – US Relations with China since 1949. Oxford: Clarendon Press, 1997, p. 223. Also interview with Shaun Breslin, May 1998.

democratisation of Taiwan has led to both a promotion of its international image and to greater interaction with Western countries, which often take democratic progress and respect for human rights into account when dealing with bilateral relations.

In order to break through its diplomatic isolation, Taipei has used its great financial resources and economic strength to win friendship. The 'Six-Year National Development Plan' (1991-96), which involved investments of US\$300 billion, attracted many suitors, including foreign companies and high-ranking visitors. Consequently, many countries competing for economic favours have been upgrading their Taipei trade offices. However, the Plan created only 'bubble diplomacy' in Taiwan's economic diplomacy. When Lien Chan succeeded Hau Pei-tsun as the premier of the Executive Yuan in 1993, he cut the budget of the Plan considerably. The Western countries left, thus proving themselves to have been fair-weather friends.

Foreign aid is a technique of economic statecraft, by which aid is used as an instrument of policy in order to achieve certain goals. Foreign aid implies a relationship between two actors that may be designated on the one hand as 'donor' and on the other as 'recipient'. In a nutshell, foreign aid may be regarded as a factor in a form of power relationship. Hence, the donor must possess a capability that can be converted into an aid relationship. The exact political functions served by aid relationships are not always easy to determine. The most apparent political function of aid will be clear from an examination of the conditions as laid down by the donor. Foreign aid relationships can also serve a coercive function. A reward, once offered

and accepted, can seem subsequently to be punitive if the donor threatens to withdraw or cease rewarding the recipient in the future. Because the aid relationship exists over time, the opportunity for the donor to assume an intrusive and even coercive role vis-à-vis the recipient will increase. Moreover, the donor may attempt to link the aid relationship with other foreign policy issue areas.

In 1961, the Committee of International Technical Cooperation (CITC) of Taiwan was established to provide agricultural technical assistance to African and Latin American countries. In 1988 Taipei's government set up the International Economic Cooperation Development Fund of the Republic of China (IECDF), amounting to about US\$1.2 billion, to assist friendly developing countries in their economic development and to intensify bilateral economic cooperative relations. Offered through the IECDF, Taiwan's economic assistance package consists largely of loans, technical assistance on a project basis, and technical training. In 1996 the International Cooperation Development Fund (ICDF) was set up and subsequently incorporated the IECDF. The Ministry of Foreign Affairs (MOFA) also replaced the Ministry of Economic Affairs (MOEA) as the leading institution in distributing the fund.

Taiwan's foreign aid programme rests on the decision-making process of the Ministry of Foreign Affairs (MOFA) and the Ministry of Economic Affairs (MOEA). Although the assumption is that both the MOFA and the MOEA hold joint jurisdiction over decision-making, each ministry regards the issue of aid from a

slightly different perspective. The MOEA regards it more from an economic viewpoint, examining aid proposals carefully in order to ensure the efficient and effective use of money. However, the MOFA is more concerned with aid as a diplomatic lever, without denying the need for wise planning of aid for the business interests and development needs of recipients. Aid programmes are sometimes used as an expedient political instrument to win diplomatic favours, thereby taking advantage of changing international circumstances or sustaining relationships with countries deemed 'politically correct' and important to Taiwan. As a result, the MOFA has played a more important role than its predecessor (the MOEA) in the decision-making process.

Since the late 1980s, Taiwan's foreign aid to Pacific Asia has concentrated on countries that have formal relations or substantive relations with Taiwan. In Southeast Asia, only Brunei, Laos and Cambodia have not received Taiwan's aid. As applied to Southeast Asia, the foreign aid programme was designed to facilitate and reinforce the 'Southward Policy', by concentrating on improvements in infrastructure (e.g. industrial parks, roads, and export processing zones) that would help Taiwanese companies that invest in the countries concerned. (However, Taiwanese business people did not reap much benefit; instability in the political economy of Indonesia and the Philippines made it impossible to operate profitably in those countries.)

In addition, since 1978, when China initiated its economic reform, its economic growth has boomed, and its economy has become potentially the most dynamic in

East Asia. In the same period, China proposed extremely beneficial conditions for foreign direct investment, thus attracting Taiwanese business people. In response to pressure from Taiwanese business people, the government of Taiwan permitted cross-straits trade effective on 5 August 1987.

On the other hand, due to the change of the objective environment in the late 1980s, in order to avoid economic over-dependence on Mainland China or the possibility of Beijing taking unfavourable measures against Taiwan, as well as to create a suitable environment for Taiwan's investment, the Taipei government not only requested that Taiwanese business people abide by the Policy of 'No Haste, Be Patient', it also called for the Southward Policy, encouraging them to concentrate and develop their economic activities in Southeast Asia.

These two policies, which were against the interests and inclinations of the business community, were produced by the presidency. They were inconsistent with the attempt to establish Taiwan as an Asia-Pacific Regional Operations Centre (APROC), which was the plan of the Executive Yuan. This double-track decision-making led to confusion and rendered the government less effective and successful in economic diplomacy than the entrepreneurs who follow their own economic interests.

Foreign aid helps Taipei to reach its Southward Policy objective only to a rather limited extent, through economic cooperation with the Philippines, Vietnam, Thailand, Indonesia, etc., although this competes with Beijing peacefully in the international

diplomatic arena. When the heads of Southeast Asia's central banks held a summit meeting in Indonesia in February 1998, Taiwan also promised to provide a loan to countries in Southeast Asia in order to tide them over during a period of financial crisis. In spite of the Taiwanese government's assistance and encouragement, the total investment projects and capital of Taiwanese business people in Southeast Asia did not increase as expected.

On the one hand, Taiwan's gross domestic product (GDP) had shrunk from US\$272 billion in 1995 to US\$269 billion in 1998. Its economic confidence has now been undermined to some extent, leading to the declining effectiveness of its economic diplomacy. On the other hand, since the Taiwan Straits Crisis of 1995-96, Beijing has been more alert to Taipei's economic diplomacy and has thus taken a tougher stance against it. Obviously, Beijing is increasingly sensitive to the gains which Taipei has recently made. President Lee Teng-hui's visit to Cornell University made Beijing believe that Taipei's economic diplomacy had crossed the line it had set. Accordingly, the PRC held missile exercises in order to force Lee to back down and to prevent him from achieving a greater international presence. Thus came the Taiwan Straits Crisis of 1995-1996. The Beijing government will continue to be a major factor in Taiwan's foreign relations, and it is still difficult for other countries to cross the line set by the PRC.

At the **individual level**, Deng Xiaoping enjoyed privilege and charisma in China after the economic reform. Deng Xiaoping's 'southern inspection tour' during January-

February 1992 — which included visits to Shanghai and Guangzhou, as well as the Shenzhen and Zhuhai Special Economic Zones — set the course of economic development in China in the first half of the 1990s because it confirmed that economic 'reform' was a successful policy which should be carried further.¹⁰ As a result, in 1993, Taiwanese business people started to pour their investment into China. Within ten years, most Taiwanese foreign investment centred on China. In addition, individual entrepreneurs have been crucial elements of Taiwan's economic diplomacy. They have served as pioneers to cultivate countries without official relations. Political elites, too, have been important: they have played a complementary (albeit still crucial) role in encouraging Taiwanese private trade associations to hold conferences and sign agreements with foreign business organisations. These associations include the Chinese National Association of Industry and Commerce, the Euro-Asia Trade Organisation, the General Chamber of Commerce of the ROC, and the ROC-USA Economic Council.

Taiwanese political leaders have also had a significant influence on the developments outlined in this thesis. Sometimes, this influence has been negative — as when the politicians attempted to curb investment in Mainland China in order to avoid economic or political absorption by the PRC. However, the capacity of Taiwanese leaders to negotiate and compromise has also proven important. President Lee Teng-hui and Premier Lien Chan (also Vice-President) have both visited foreign countries

¹⁰ Robert F. Ash & Y.Y. Kueh, ed., *The Chinese Economy Under Deng Xiaoping*. Oxford: Oxford University Press, 1997, p.1.

in order to enhance Taiwan's international standing and to help and protect Taiwanese business people. Although these visits have sometimes provoked the hostility of the PRC, their general effect has been constructive for Taiwan's diplomacy.

It is clear that only profit-making enterprises can last over the long term. Although the Taipei government tried to curb the 'Go west' trend, investment in China proved more profitable. The overlapping and multi-track decision-making of the Taipei government proved relatively futile. The obsessive concentration on security led to policies which were against the inclination of Taiwanese business people, who had already increased their investment and involvement in Southeast Asia before they had been urged to do so by the Taiwanese government. Taiwanese business people continued to invest in Southeast Asia as usual, regardless of governmental directives. They also rooted their enterprises in Taiwan, making Taiwan the potential Asia-Pacific Regional Operations Centre (APROC). Vietnam and China became the new popular destinations of Taiwanese investment. Generally speaking, Taiwanese business people were proactive in investing overseas rather than investing at the beck and call of the Taipei government, and they used the networks they built with the local overseas Chinese in Southeast Asia and China. The encouragement and help of the Taipei government in signing bilateral investment guarantee agreements and double-taxation agreements played a complementary role at most. Meanwhile, in relation to Taiwan's economic diplomacy, Taiwanese business people served as surrogates (people whose dealings with other nations take the place of government-to-government links), middlemen (people whose activity proves useful to the

government when it finally comes round to seeking diplomatic links), and sometimes 'hindrances' to Taiwan's economic diplomacy (by insisting on 'Going West' at a time when the government were explicitly urging them to 'Go South').

In this work, these three distinct but complementary levels of analysis will be employed to analyse the achievements and restrictions of Taiwan's economic diplomacy (including foreign aid, foreign trade and foreign investment) since the beginning of the 1990s. The relationships between the government and the business people will be assessed. Chapters 5, Chapter 6 and Chapter 7 will comprise the distinctive contribution which this thesis hopes to make to politics and international studies as a discipline.

Chapter 2

Literature Review

2.0 Introduction

There are three sections in this chapter. To clarify my approach, this chapter will re-examine several related approaches in the first section, so that I can justify my choice. I have taken the approach of 'levels of analysis' proposed by Hollis and Smith, which is based on Neorealism.¹ This is because Realism/Neorealism has been dominant in international relations, especially in analysing East Asia. Waltz's systemic explanations can serve as the theoretical framework because Neorealism (Waltz's theory) offers a means to integrate different levels of analysis. Therefore, 'levels of analysis' has been the best approach so far. However, the approach of Hollis and Smith is not perfect. In this thesis, the roles of Taiwanese business people are emphasised because they serve as pioneers, intermediaries and surrogates in Taiwan's economic diplomacy. In addition, they are promoters of regionalisation and globalisation in East Asia. This section also reviews the relevant theories of Realism/Neorealism, Liberalism/Neoliberalism, Fukuyama, Constructivism, the Business approach, and Developmental State approaches.

However, Realism/Neorealism cannot fully address the roles of Taiwanese business

¹ Martin Hollis and Steve Smith, Explaining and Understanding International Relations. Oxford: Oxford University Press, 1992.

people. Liberalism/Neoliberalism is very weak and powerless to deal with system account. Fukuyama fails to predict the demise of Communism system. The Business approach proposed by Susan Strange is limited when it applied to the roles of Taiwanese business people. Developmental State Approaches are already out of phase when they ignore the structural conflict of the Taipei government. The structural conflict is the contradiction between the cabinet and the presidency.² Following all this analysis, the section will come to a theoretical conclusion.

The second section is the review of empirical studies. This starts with more traditional and 'Realist' account of Taiwan's foreign policy and interpretations of Cross-Straits Relations, which include Gao Lang's account of the evolution of Taiwanese diplomacy and Suisheng Zhao's account of the importance of nationalism in Chinese foreign policy. The next part fills gaps in the 'Realist' approach with non-official diplomacy. Following the non-official diplomacy, this chapter highlights the existing studies of Taiwan's economic diplomacy, which focus upon non-security factors in Taiwan's external relations. This includes sub-sections on the role of foreign aid, and the role of business investment and/or trade. It also includes an account of the analyses of Hsin-hsing Wu, Gerald Chan and Teh-chang Lin. The third section, in conclusion, identifies issues arising from the analysis of the existing literature, and sets the agenda for the rest of the dissertation.

² See 'double-track' decision-making in Chapter 6.

2.1 Theory Review

In the book of Hollis and Smith, Waltz's systemic theory is chosen and given a great deal of space.³ This thesis follows Hollis and Smith by using levels of analysis. This is because Realism/Neorealism has been a leading theory in international relations, especially in East Asia. Waltz's systemic explanations can therefore serve as the theoretical framework because Neorealism (Waltz's theory) offers a means to link different levels of analysis, although the aim of this dissertation is actually to extend the theory to complete this type of work which Waltz never tackled.

2.1.1 Realism/Neorealism

Realism is sometimes called the 'power-politics' school of thought. Political realism has been the mainstream of both academic thinking on international relations and conceptions of policy-makers and diplomats. As a theory, or a proposition about the individual, the state, and the system, Realism is dominant among the entire theoretical field. Especially in the Anglo-American world, in the years after 1940 when it emerged to explain the 'lessons' of appeasement and the beginning of the Cold War period. Afterwards it was tested by behavioural or social science approaches. Realism came back in the mask of Neorealism in the 1980s.⁴ Neorealism thus emerged as a structural Realism, explaining international relations with a refined structural theory.

³ Martin Hollis and Steve Smith, *Explaining and Understanding International Relations*. Oxford: Oxford University Press, 1992.

⁴ Graham Evans & Jeffrey Newnham, *The Penguin Dictionary of International Relations*, London: Penguin Group, 1998, p. 465.

Neorealism define power in a different way. For many Realists, the desire for power is based on the nature of man. Morgenthau's objective laws state that 'the desire to attain a maximum of power is universal' among nations. The laws have their roots in human nature.⁵ Realists regard power as both means and end. Neorealism does not regard power as an end in itself. Neorealism believes that either too much power or too little power will lead to risks, so power is only a useful means.⁶

Neorealism has two major concerns. The first is an attempt to correct Realism's powerlessness to deal with economic issues. Morgenthau has been criticised for trivialising economic factors. Therefore, notions of 'hegemony' and 'regimes' are introduced to rectify this. Neorealism thus used 'hegemonic stability' as the mechanism to interpret economic perspective. Therefore, realism has become able to deal with the economic issues in international relations in the end. The other major concern is to develop a thoroughgoing structure in the international system. He asserts that other Realists define their so-called systems based on the capabilities of the units (states) composing the system. They are merely 'reductionists'. Waltz asserts that the behaviours of states can be only explained at the level of international system. The intention or capabilities of states, or the human nature of their national leaders should be all excluded from the explanations.⁷

⁵ Hans J. Morgenthau, *Politics Among Nations*. New York: Alfred A Knopf, 1972, p.36.

⁶ Kenneth Waltz, 'Realist Thought and Neorealist Theory', in Robert L Rothstein, ed., *The Evolution of Theory in International Relations*. Columbia, S. C.: University of South Carolina Press, p. 36.

⁷ Martin Hollis and Steve Smith. *Explaining and Understanding International Relations*. Oxford: Oxford University Press, 1992, pp. 36-37.

Waltz asserts that a system is a set of interacting nation-states having behavioural patterns and identities over time. Its structure defines the ordering of its divisions. Structure involves an ordering principle, differentiation of the functions of different divisions, and the distribution of capabilities. The ordering principle is anarchy, which means the absence of a higher government beyond states. There is no differentiation of capability, because states perform similar functions. The distribution of capabilities (bipolar or multi-polar) determines all the variety in states' balance-of-power behaviour. Kenneth N. Waltz's influential *Theory of International Politics* is the most far-reaching theoretical attempt to re-establish the central tenets of Realism.⁸

Neorealism is able to explain how structures affect performance and outcomes despite the consequences of features attributed to power and status.⁹ Waltz argues that the international system functions like a market that is interposed between the economic players and the results they produce. The international system conditions the calculations, behaviour and interactions of the units.¹⁰ Robert Cox and Richard K. Ashley complain that Neorealism has appeared as a 'problem-solving theory' and lost the interpretive strength of classical Realism.¹¹ However, there is no central government in the international society. There is no supreme power beyond nation-states, so anarchy makes every individual state able to wield its power to

⁸ Kenneth Waltz, *Theory of International Politics*. Reading, MA: Addison-Wesley, 1979.

⁹ Kenneth Waltz, 'Reflections on *Theory of International Politics*: A Response to my Critics', in Keohane, ed., *Neorealism and its Critics*, p. 344.

¹⁰ Kenneth Waltz, *Theory of International Politics*. Reading, MA: Addison-Wesley, 1979, pp. 89-98.

¹¹ Joseph S. Nye, Jr., "Neorealism and Neoliberalism", *World Politics*. Vol. 40, No. 2, January 1988, pp. 241.

influence the shape of international relations. The Holist explanations like that of Waltz cannot prevent other theorists from having their say. Reductionists are also sometimes convincing. Waltz also admits that his holist approach cannot explain everything.¹² Therefore, we still need to look at the state level when we examine Taiwan's economic diplomacy.

Moreover, the Realist/Neorealist perspective on economic statecraft cannot fully explain the political economy between Taiwan, Mainland China and Southeast Asia. The Realist/Neorealist school of thought on international political economy argues that states are the only important actors in the world economy. In an anarchic international society, relative gains in wealth and power are the targets of those actors. The structure of bipolar power, either in political or economic terms, determines who wins and loses in the international arena. Foreign trade and investment policies can therefore be employed as instruments to increase national interests. The policy implication following this analysis is that coercive and exchange-oriented 'economic statecraft', such as economic aid sanctions, should be based on a careful calculation of foreign policy goals. From this perspective, economic interaction between Taiwan, China and Southeast Asia would be utilised to serve political goals. If the state can effectively control the pace of and developments in economic interaction, trade and investment can be reduced or expanded to a great extent according to the decision makers' political judgment.¹³

¹² Kenneth Waltz, 'Reflections on *Theory of International Politics: A Response to my Critics*', in Keohane, ed., *Neorealism and its Critics*, pp. 322-45.

¹³ Leng, Tse-Kang, "Dynamic of Taiwan-Mainland China Economic Relations – The Role of Private Firms", *Asian Survey*, Vol. 38, No. 5, May 1998, p. 494.

However, the Realist/Neorealist assumption cannot fully interpret the interactions between Taiwan, China and Southeast Asia. Because internationally oriented firms occupy strategic positions vis-à-vis bargaining with home and host countries, states have to adjust their roles regarding promoting or restraining economic transactions. Many Taiwanese business people have long escaped governmental restrictions and launched new investment projects on Mainland China and Vietnam based on their own calculations of economic profits. They actually have to negotiate with the governments of host countries rather than the Taipei government. Taiwan's regulative policies have not proven to be very successful in restraining trade with and investment in the PRC.¹⁴

2.1.2 Liberalism/Neo-Liberalism

There are four major strands of classical Liberalism: (1) 'commercial Liberalism', which expresses the peaceful dimension of trade (theories which link free trade with peace); (2) 'democratic Liberalism', which asserts the pacific effects of republican government (theories linking democracy and peace at the unit level of analysis); (3) 'regulatory Liberalism', which expresses the significance of rules and institutions in affecting relations between countries; and (4) 'sociological Liberalism' (theories asserting the transformative effect of trans-national contacts and coalitions on national attitudes and definitions of interests as well as international integration).

¹⁴ Leng, Tse-Kang, "Dynamic of Taiwan-Mainland China Economic Relations – The Role of Private Firms", *Asian Survey*, Vol. 38, No. 5, May 1998, p. 495.

Neoliberalism, composed of all the four categories, is generally thought to be a theory to challenge Realism/Neorealism in conventional international theory.¹⁵

Joseph Nye asserts that systems can have two dimensions. They are structure and process. In Neorealism, 'structure' refers to the distribution of capabilities among units. On the other hand, 'process' refers to the ways in which the units relate to each other. Liberalism has traditionally stressed two features of 'systemic process': 'non-power incentives' and 'variations in the capacity to communicate and cooperate'. Liberalists thus often emphasise how 'trade and economic incentives' may change states' behaviour. Likewise, Liberalists often emphasise 'the effects of increased transnational (and transgovernmental) contacts on attitudes and abilities to communicate'. 'Institutions and norms have played an important role' in Liberalism all the time.¹⁶

Although Nye attempts to establish a Neoliberal systemic theory, thus integrating with Neorealism, he appears to be not very convincing. He asserts that Neorealism would be very suitable a structural theory at system level while Neoliberalism could be very productive at the 'process level' of system theory. However, when we apply this theory to East Asia in the 1990s, it is not very fruitful. Although a systemic process could allow states to communicate with one another and could reach mutually

¹⁵ Joseph S. Nye, Jr., "Neorealism and Neoliberalism", *World Politics*. Vol. 40, No. 2, January 1988, p. 246. Also, Graham Evans & Jeffrey Newnham, *The Penguin Dictionary of International Relations*, London: Penguin Group, 1998, p. 361.

¹⁶ Joseph S. Nye, Jr., "Neorealism and Neoliberalism", *World Politics*. Vol. 40, No. 2, January 1988, pp. 250.

beneficial agreements, thus changing their political outcomes¹⁷, all the communication channels were cut off from the two governments across Taiwan Straits in the 1990s, and they did not reach any significant agreements at all. Before Taiwanese business people went to Vietnam, conducting investment and trade, no agreements between Taiwan and Vietnam had been concluded. Also, much of Liberalism only focuses on the effect of domestic politics rather than the effect at the system level. Therefore, this thesis does not employ Neoliberalism at the system level. The author uses levels of analysis based on Neorealism at the system level in this thesis to strive to better analyse the economic diplomacy of Taiwan in the 1990s in order to fill this gap.

Fukuyama

The prominent economic issues after the end of the Cold War have also been gaining ground and have attracted academic commentary. As one scholar puts it, "Almost overnight, the phrase 'end of history' was used as a synonym for the 'post-Cold War era'; and Francis Fukuyama, hitherto almost unknown amongst students of international relations, became an instant intellectual celebrity".¹⁸ By 'end of history', Fukuyama does not mean that politics, war or conflict would no longer take place. His argument is essentially normative. At the end of the twentieth century

¹⁷ Ibid.

¹⁸ Martin Griffiths, *Fifty Key Thinkers in International Relations*, London: Routledge, 1999, p. 68. At the same time, Lee Kuan Yew from Singapore still emphasised that Asian people were professedly satisfied with authoritarian government, attempting to justify his 'Asian values'. China's leaders also emphasised that to enable 1.2 billion people in China to survive the best way is to support human rights, thus refusing political reform and continuing to abuse human rights. Fukuyama without doubt states that many Asian societies have paid 'lip service to Western principles of liberal democracy, accepting the form while modifying the content to accommodate Asian traditions'. See Fukuyama, *The End of History and the Last Man*, London: Hamish Hamilton, 1992, p. 243. Cited in Martin Griffiths, *Fifty Key Thinkers in International Relations*, p. 71.

the fusion of liberal democracy and capitalism has proved better than any other political/economic system. This is because the combination is able to satisfy the fundamental drives of human nature, which consists of two basic desires. One is for material goods and wealth, the other for recognition of worth as human beings by those around us. Capitalism is the best economic system for maximising the production of goods and services and for exploiting scientific technology to create wealth. Nonetheless, economic growth is not everything. Only liberal democracies can meet the fundamental human need for recognition, political freedom and equality.¹⁹

Therefore, Taiwan's democratisation and liberalised economy conducted since the late 1980's made it more acceptable and praiseworthy for Western countries. Even before Fukuyama's theory came out, Western countries had been prone to take democratic improvement and protecting human rights into account when they assessed bilateral relations, although democratisation has never been the only criterion in decisions whether or not to establish bilateral ties with Taiwan or allow it to upgrade representative offices in Western countries.

Unfortunately, unlike other theories, Fukuyama's liberal democracy has not been realised throughout the world. China and Vietnam have sustained their own political systems while at the same time pursuing capitalism. However, this enables Taiwan and Taiwanese business people to wield more economic power in the international

¹⁹ Martin Griffiths, Fifty Key Thinkers in International Relations. London: Routledge, 1999, pp. 69-72.

arena as these states have opened to business from Taiwan. Taiwanese business people can still invest in China and Vietnam and deal with local officialdom, promoting regionalisation and globalisation in East Asia.

2.1.3 Constructivism

Alexander Wendt's constructivist myth, that 'anarchy is what states make of it', is reassuring. That is, states view the international system from several perspectives. This is because states meet one another by not one, but three societies of international 'anarchy'. The first is a 'Hobbesian anarchy', where states regard other states as 'enemies' and where conflicts happen all the time, as in the pre-1648 age. The second is a 'Lockian anarchy', where states interpret other states as competitors, but obey the rules of 'live and let live' and respect each other's right in order to coexist, as in the Westphalian system of sovereignty after 1648. The third is a 'Kantian anarchy', where states cooperate with one other and where the 'self-help' of a 'Hobbesian anarchy' yields to an 'other-help' notion based on a 'collective-identity', and where war is put out of place in support of sincere cooperation – a situation that supposedly characterises the world after 1945.²⁰

The myth claims to build a bridge between Neorealists and Neoliberals. Neorealists indicate that 'anarchy is the cause of war', implying that anarchy means that international politics tends to be conflictual. Neoliberals believe 'there is an

²⁰ John M. Hobson, "Social Theory of International Politics by Alexander Wendt (Review)", *American Journal of Sociology*. Vol. 106, No. 2, September 2000, pp. 520-521.

international society', implying that, reconciled by international society, anarchy could be cooperative. Wendt asserts that anarchy is necessarily neither conflictual nor cooperative. Therefore, there is no permanent nature to international anarchy. If states behave conflictually towards one another, then it appears that the 'nature' of international anarchy is conflictual. If states behave cooperatively towards one another, then it seems that the 'nature' of international anarchy is cooperative. It is what states do that we must focus on to understand conflict and cooperation in international politics. Therefore, we should not focus on the made-up 'nature' of international anarchy. States determine the 'nature' of international anarchy.²¹

Constructivism argues what states do rely on what their identities and interests are, and identities and interests change. It also maintains that identities and interests in international politics are not constant. Therefore, they have no predetermined nature. This is true for the identity of the sovereign nation-state. This is also true for the identity of international anarchy. The important thing is to look at how identities and interests are constructed. We need to look at how they are made through specific international interactions. Therefore, Constructivism's myth that 'anarchy' is what states make of it appears to 'build a bridge' between Neorealist 'truths' and Neoliberal 'truths'.²²

Wendt classifies some IR theories, including Neorealism, as 'materialist'. This

²¹ Cynthia Weber, *International Relations Theory – A Critical Introduction*, London, Routledge, 2001, p. 60.

²² Cynthia Weber, *International Relations Theory – A Critical Introduction*, London, Routledge, 2001, p. 60.

classification is important because he relies on it to argue that constructivist IR is characterised by not being 'materialist'.²³ 'What makes a theory materialist' is that it explains phenomena by power rather than by ideas. Neorealism counts as a 'materialist theory' because it identifies regularities that link the international distribution of power to state behaviour.²⁴ Wendt's argument is that the international system should be regarded as a normative sphere (or international society). States are governed by a sense of 'obligation' but do not compete with one another. Wendt criticises the notions of 'interest' of being a 'rationalist' or a 'materialist'. 'Materialist theory' presupposes that interests are created before social interaction. Therefore, once formed, interests never change. However, Wendt argues that state interests are shaped by their identities.²⁵

Identities are socially constructed by international cultures. International cultures can exist at any given time. Because international cultures are different over time, state identities and interests are thus different. Therefore, this has essential consequences for interstate behaviour and 'structural change' in world politics. This approach is a fruitful alternative to the Neorealism definitions of the 'international' that pass through historical sociology.²⁶

²³ David Dessler, "Social Theory of International Politics By Alexander Wendt (Review)", *American Political Science Review*, Vol. 94, No. 4, December 2000, pp. 1002-1003.

²⁴ Alexander Wendt, *Social Theory of International Politics*. Cambridge: Cambridge University Press, 1999, pp. 97-103.

²⁵ Dale C. Copeland, "The Constructivist Challenge to Structural Realism: A Review Essay", *International Security*, Vol. 25, No. 2, Fall 2000, p. 187.

²⁶ John M. Hobson, "Social Theory of International Politics by Alexander Wendt (Review)", *American Journal of Sociology*, Vol. 106, No. 2, September 2000, p. 521.

Wendt asserts that Waltz's theory is based on a *de facto* individualism (whether or not intended as such) because Waltz takes the properties of his units of analysis as predetermined rather than deals with how these are produced by interaction.²⁷ Although Wendt is fruitful in addressing international system, I agree that Wendt admits that we can disagree about the agent-structure problem while agreeing on the levels of analysis. That is, the two problems are, in fact, two different problems. We can regard 'levels of analysis' as questions about what drives the behaviour of predetermined states. Then we regard 'agent-structure' as questions about what constitutes the properties of those states in the first place.²⁸

The period following the end of the Cold War has witnessed the resurgence of nationalist and separatist demands in the international political economy. Recurring tensions in the Taiwan Straits in the past ten years are a good example. In November/December 2003, Taiwan's President Chen Shui-bian stirred up tensions with the Mainland by calling for a referendum that might take Taiwan a step closer to formal independence. This led to an annoyed reaction from China and a censure from the US. This question comes up regarding why the Taipei government appears to be pursuing a policy which will eventually lead to direct confrontation with the PRC. Meanwhile, the Taipei government may drive its ally, the US, into a position which may make it necessary to reconsider its assurance to defend Taiwan. In order to understand Taipei's behaviour, we need to examine the dynamics of the

²⁷ Alexander Wendt, "Levels of Analysis VS. Agents and Structures: Part III", Review of International Studies, Vol. 18, No. 2, 1992, p. 183.

²⁸ Alexander Wendt, "Levels of Analysis VS. Agents and Structures: Part III", Review of International Studies, Vol. 18, No. 2, 1992, p. 185.

globalisation process and its impact on the development of a Taiwanese national identity. According to the constructivist approach, the globalisation process has influenced Taiwanese identity-building. The constructivist asserts that identities and interests of international states are shaped through interactions and processes (such as the globalisation process). This enables us to link globalisation and identity. Uwe Wunderlich has conceptualised globalisation and its influence on national identities, thus providing a theoretical framework to apply to domestic developments in Taiwan in the post-Cold War era.²⁹ However, Wunderlich has not mentioned how firms play in the interactions and processes in Taiwan's economic diplomacy in East Asia. He only emphasises the issue of Taiwanese national identity, not at all the roles of firms.

2.1.4 Business

Research on economic statecraft indicates that coercive tactics such as sanctions do not work well after new actors such as non-governmental organisations (NGOs) and multinational corporations (MNCs) have emerged.³⁰ A home country government cannot easily influence multinational corporations that acquire their capital, technology, and sales through the international market. As overseas connections become more important to these businesses, it is host country laws rather than home country policies that do influence the everyday operations of MNCs. As a result of market internationalisation, there will be much stronger competition among states for

²⁹ Uwe Wunderlich, "Globalisation and Identity Building: A Constructivist Approach to Sino-Taiwanese Relations", Paper Presented in the European Association of Taiwan Studies Conference, SOAS, 18 April 2004.

³⁰ Kenneth Rodman, "Public and Private Sanctions Against South Africa", *Political Science Quarterly*, Vol. 109, No. 2, 1994, pp. 313-34. Also see Gary Hufbauer, Jeffrey Schott, and Kimberly Elliot, *Economic Sanctions Reconsidered*. Washington, D.C.: Institute of International Economics, 1990.

world market share. This competition will compel states to bargain with MNCs to establish operations within the territory of the state and with national firms not to go abroad.³¹

Susan Strange maintains that in this day and age, leaders of states are maybe the last to recognise that they no longer have the authority over national societies and economies which they used to have. The heads of the Soviet Union and the states of central Europe stepped down because of their disillusion. However, the disillusion is not limited to socialist systems. In almost all capitalist countries, popular disappointment with the national leaders is growing, including the US, Great Britain, Italy and France. Like Japan and South Korea, Taiwan is a state with a strong government that has successfully used the necessary means to circumscribe and control foreign trade and foreign investment, and to allocate credit and guide corporate development in the private sector. Nonetheless, in the Cold War, Taiwan benefited from the US economic and military aid. Together with its extremely high domestic savings and low consumption, Taiwan made profit successfully. In addition, Taiwan was free from the pressure of abiding by the norm of free trade and was also given access to US markets, and later to European ones. Last but not least, Taiwan could also somehow obtain necessary technology at that time. However, the Cold War is over, and under the pressure of the US and other Western countries, Taiwan can no longer be exempted from introducing a more liberal

³¹ Susan Strange, "States, Firms, and Diplomacy", *International Affairs*. Vol. 68, No. 1, 1992, pp. 10-12.

non-discriminatory trading regime (although Strange disputes this term).³² To sum up, the exceptionalism of the Asian countries, including Taiwan, has been significantly worn away and will continue to be. In almost all the Asian countries, as in other areas, there will be contention for control over the institutions and agencies of government. There will be contention among factions of political parties, and between vested interests in the public and the private sectors. There will be power struggles among divisions of the state bureaucracy. It is inevitable that both the unity and the authority of government will suffer.³³ The government can no longer command but has to suffer, negotiate and compromise. I admit Susan Strange is successful by stating the above, but she fails to point out that Taiwanese business people also play essential roles in promoting regionalisation and globalisation of East Asia, including Taiwan, China and Southeast Asia.

2.1.5 Theory on East Asia/Developmental State Theory/Neo-Statism

The term 'developmental state' was coined by Chalmers Johnson.³⁴ His purpose was to distinguish between the state typical of the region of Asian capitalism and that common in the realms of Anglo-American capitalism.³⁵ The importance of strong state control over economic affairs is emphasised in East Asia, including Japan, Korea and Taiwan.³⁶ Chalmers Johnson argues there were still many 'socialist' essentials

³² Susan Strange, "*Caveat hic dracones: a critique of regime analysis*" in Stephen D. Krasner, ed., *International Regimes*. Ithaca: Cornell University Press, 1983, 337-54.

³³ Susan Strange, *The Retreat of the State – The Diffusion of Power in the World Economy*. Cambridge, 1998, p. 7.

³⁴ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press, 1982.

³⁵ Linda Weiss & John M. Hobson, *States and Economic Development: A Comparative Historical Analysis*. Oxford: Polity Press, 1995, p. 149.

³⁶ This article later argues that there are differences between Taiwan and Japan.

within the industrial strategy of these Capitalist Developmental States (CDS). Late 1980 economic theory could not deal with Japanese-style economies. Leading thinkers ignored the success and achievements of these systems by regarding them as exceptions in order to fit their theories. Chalmers Johnson argues that the success of the Japanese economy is neither random nor a function of culture. However, it is due to policy, particularly to Japanese industrial policy.³⁷ In his book, Johnson rejects neoclassical economic theory and convergence theories of political and economic development. According to Johnson, the Japanese economy was guided by the state in guidelines that the state wanted it to go. Japan has a political economy different from that of the Anglo-American countries. It is Japan's 'elite state bureaucracy' that governs the country. Johnson argues that although Japan is not under the democratic guidance prevalent in the West, the Japanese state is still able to wield grand strategy.³⁸

Johnson might have been true in the earlier post-war era for Japan. However, this perspective is not consistent with the present situation of Taiwan. This thesis argues that while the Taipei government used to play a key role in economic policy planning, its influence has been on the wane; and that particularly where economic diplomacy is concerned, it plays a more auxiliary role. Taiwanese business people play a major role in Taiwan's economic diplomacy.

³⁷ Chalmers Johnson, "The Japanese Political Economy: A Crisis in Theory", *Ethics and International Affairs*, Vol. 2, pp.79-98.

³⁸ Chalmers Johnson, *Japan, Who Governs? The Rise of the Developmental State*, London: Norton & Company, 1995.

Robert Wade's book on Taiwan builds on former work by Chalmers. In terms of the accomplishment of Taiwan, South Korea and Japan, Robert Wade argues that it is neither free market principles nor government intervention that achieves the success. He asserts that the combination between markets and administration works. Wade has made a good case for his view that while market forces have done a great deal in the economic development of Taiwan, the Taipei government has also played a key part.³⁹

Rejecting the neoclassical account, he highlights the contribution of the governed market approach. Wade spends a whole chapter in detailing the areas where Taiwan's economic strategy matches the neoclassical account.⁴⁰ However, he expatiates on state intervention in Taiwan from chapter 4 to chapter 6. He outlines the all-encompassing role of state-owned enterprises and the use of the financial and fiscal system to employ resources. He also describes the trade regime and the neoclassical account of export-led growth. Although exporters benefited from a free trade regime for inputs, the domestic market for final products was protected in many ways up to the 1980s. In addition, exporters were given support that went beyond a favourable exchange. Wade also emphasises the political foundations of Taiwan's economic development. According to Wade, Taiwan is different from Japan because of the weakly developed political linkages between the state and the private sector. He states that Taiwan has an interesting model that stresses the 'governance' of the

³⁹ Wade, Robert, Governing the Market – Economic Theory and the Role of Government in East Asian Industrialization. Princeton: Princeton University Press, 1990.

⁴⁰ Wade, Robert, Governing the Market – Economic Theory and the Role of Government in East Asian Industrialization. Princeton: Princeton University Press, 1990.

market.

This thesis doubts Wade's emphasis on the role of government because when several state-owned enterprises and party-owned enterprises did 'Go South', as had been urged by the Taiwanese government, they suffered a serious setback. Many policies of the Taipei government proved to be awkward. When the government intervened, very often Taiwanese business people became confused. In the end, Taiwanese business people as a whole are usually more clear-sighted than the government. The bottom-up forces by the collective businesses demonstrate themselves to be fruitful, promoting regionalisation and globalisation in East Asia. Wade is also wrong when he chooses to characterise the political system as 'corporatist'.⁴¹ He is again wrong when he asserts the decision-making is cohesive because it is actually inconsistent and contradictory.

This thesis, while arguing for the importance of the role of Taiwanese business people, is not unaware of that fact that the government and institutions still matter. The author tries to apply Wade's theory to Taiwan's economic diplomacy in the 1990s, with efforts made to fill the gap left by Wade. Taiwanese business people can make great contributions to cross-border politico-economic activities. In terms of this, Taiwanese business people's impact on East Asia has been far greater than that of a mere developmental state. On the other hand, the government's role is still

⁴¹ Stephan Haggard, Book Review: Governing the Market – Economic Theory and the Role of Government in East Asian Industrialization by Robert Wade, *Comparative Politics*, Vol. 86, No. 1, pp. 280-281. Wade is right when he specifies the significance of Taiwanese authoritarian political structures.

necessary to help them to cultivate Taiwan's foreign relations with its neighbours in East Asia by concluding international agreements with the latter.

Linda Weiss strongly challenges the view that global economic interdependence is eating away the modern state. Weiss refutes the argument that in the face of globalisation, the national governments have become less relevant. She emphasises the state-informed and state-embedded institutions for governing the economy. The impact of external economic pressures is to a large extent domestically determined.⁴² She argues that states that are able to deepen economic interdependence can also build sophisticated and flexible relations with domestic groups. Moreover, responding to globalisation will probably make states become more efficient and capable, strengthening their ability to direct domestic economic policy. According to the current orthodoxy, states are merely victims of changes that cross their borders and are beyond their control. However, Weiss asserts that although modern globalisation is the most significant force in the world, the state is as much midwife or perpetrator as victim.⁴³

Linda Weiss and John M. Hobson argue that neoclassical orthodoxy is wrong. They assert that states in East Asia have played a major part in building industrial prowess and export competitiveness. The NIC states of Korea and Taiwan deepened their infrastructural power. Therefore, they can shift resources from agriculture to

⁴² Nana Poku, *The Myth of the Powless State: Governing the Economy in a Global Era* by Linda Weiss (Review)", *Pacific Review*. Vol. 11, No. 4, 1998, pp. 584-585.

⁴³ G.J. Ikenberry, "The Myth of the Powerless State: Governing the Economy in a Global Era by Linda Weiss (Review)", *Foreign Affairs*. Vol. 78, No. 2, March-April 1999, pp. 140-141.

industry; and from domestic to export production. Therefore, the combination of market-orientation and active state involvement is crucial to the narrative of their success.⁴⁴

According to Weiss and Hobson, in Taiwan, liberalisation was a highly managed affair. Import controls were not removed, but constantly reshaped and redirected. Thus Taiwan maintained a protective system. However, this system became able to promote import substitution for export production. In general, the ways of the economies in East Asia handling their trade are *different* from those of many developing countries.⁴⁵

In both Taiwan and Korea, government intervention has been crucial to the operation of labour markets. Such intervention is categorised into many forms, from repression of organised labour to legal restraints on trade union activity. Governments in Korea, Singapore and Taiwan tried to prevent the organised mobilisation of labour. This is not because they are afraid of a sudden wage increase. However, they are afraid of national security caused by a domestic uprising in the Cold War era.⁴⁶ The free trade regime was politically constructed up to the 1980s. Therefore, they assert that an export-oriented economy is not a surrogate for

⁴⁴ Linda Weiss & John M. Hobson, States and Economic Development: A Comparative Historical Analysis. Oxford: Polity Press, 1995, p. 12.

⁴⁵ Linda Weiss & John M. Hobson, States and Economic Development: A Comparative Historical Analysis. Oxford: Polity Press, 1995, p.145. Also see Wade, Robert, Governing the Market – Economic Theory and the Role of Government in East Asian Industrialization, Princeton: Princeton University Press, 1990, p. 125.

⁴⁶ Linda Weiss & John M. Hobson, States and Economic Development: A Comparative Historical Analysis. Oxford: Polity Press, 1995, p. 147.

non-involvement on the part of government. According to Weiss and Hobson, an export-orientation is something that requires careful coordination.⁴⁷ Weiss and Hobson's argument is rather parallel to Wade's. However, this thesis asserts that if coordination is necessary, the government needs to be coordinated rather than to coordinate Taiwanese business people.

2.1.6 Theoretical Conclusion

Realism/Neorealism has been dominant in international relations, especially in East Asia. The central approach I choose is 'levels of analysis' based on Neorealism, because it serves best the interlinking function between international system and states. In so doing, Hollis and Smith dig deeper and improve Neorealism, by modifying the level of international system to incorporate both the level of state and the level of individual. In the Neorealist systemic explanation, the behaviour of the units is based on rationality and shaped by the structure of the system. The system theory by Waltz can thus explain why different units behave in the same way. Waltz's systemic explanations can serve as the theoretical framework because Neorealism (Waltz's theory) offers a means to amalgamate different levels of analysis. Thus, 'levels of analysis' has been the best approach so far. After I enrich 'levels of analysis' by emphasising the roles of Taiwanese business people in Taiwan's economic diplomacy, this thesis thus makes significant contributions to international relations as a discipline beyond the account of Hollis and Smith.

⁴⁷ Linda Weiss & John M. Hobson, States and Economic Development: A Comparative Historical Analysis. Oxford: Polity Press, 1995, p. 147-153.

Liberalism/Neoliberalism is rather impotent in addressing system level issues. Most of its account is still focused on Subnational level. Therefore, it is very difficult for Liberalism/Neoliberalism to link system level and state level. Fukuyama is now notorious because China and Vietnam still sustain their communist systems, and they seem to prosper increasingly. Therefore, 'the end of history' has not yet happened.

When it comes to constructivists, Wendt also admits that we can disagree about the agent-structure problem while agreeing on the levels of analysis. I have the same opinion when Wendt says so. That is, the two problems are, in fact, two separate problems. Therefore, 'levels of analysis' do not have to take the agent-structure problem into account.

As far as neo-Gramscianism is concerned, the theory of Robert Cox and Stephen Gill can only construe the impact of capitalism and culture on international social forces. This is because when Taiwan faced the pressure of the USA and appreciated the New Taiwanese Dollar, Taiwanese business people were forced to establish themselves in China and Southeast Asia. However, the various contributions of Taiwanese business people in East Asia still need expatiating by 'levels of analysis'. People like Susan Strange point out that leaders of states can no longer have the authority over national societies and economies that they used to. They have to share the 'power' with business people who rise to negotiate in the diplomatic arena. Susan Strange's non-state actor/business theory can explain the triangular diplomatic system,

but it fails to look at the nitty-gritty of how Taiwanese business people perform in East Asia.

Developmental state theorists are definitely out of phase in the 1990s. All the characteristics of the state described by Wade are far from the facts because he fails to find out the structural conflict of the Taipei government. Double-track decision-making can only lead to inefficiency and confusion rather than 'governing the market'.

All the mainstream international relations theorists, including Realists, liberals, constructivists, Gramscians, non-state-actor/business and developmental state theorists, can merely interpret partially the quintessence of Taiwan's economic diplomacy in the 1990s. Therefore, 'levels of analysis' proposed by Hollis and Smith are used to illustrate the panorama. Only this neutral heuristic tool can roughly analyse the roles of Taiwanese business people and the role of the Taipei government in the post-Cold War era. Therefore, 'levels of analysis' adopted by this thesis has been the most effective approach so far. However, in this thesis, I expatiate on the roles of Taiwanese business people, beyond the approach proposed by Hollis and Smith. Taiwanese business people's contributions are thus emphasised. They serve as pioneers, intermediaries and proxies in Taiwan's economic diplomacy. Furthermore, they are promoters of regionalisation and globalisation in East Asia.

2.2 Review of Empirical Studies on Taiwan

2.2.1 Traditional and Realist Accounts of Taiwan's Foreign Policy

There have been many works on the diplomacy of the Republic of China (ROC) since Taiwan emerged as one of the newly industrialised countries (NICs). Most of them concentrate on political negotiations between states or governments.⁴⁸ This is not wrong in terms of *Webster's Third New International Dictionary*, which defines diplomacy as 'the art and practice of conducting negotiations between nations for the attainment of mutually satisfactory terms'. Since the 1980s, the pragmatic diplomacy of the ROC has drawn the attention of many scholars.⁴⁹ The issue of Taiwan's return to international organizations is also widely noted.⁵⁰ The theoretical foundation for 'pragmatic diplomacy' can be found in many places, the fundamental basis being as follows: (1) an international act performed by a political entity, (2) as equivalent to the exercise of a nation's sovereign rights, (3) as having its origins in the ROC Constitution, and (4) as a proper and logical means of expressing a nation's struggle for its 'international right of survival'.⁵¹

⁴⁸ Bernard T.K. Joei, "Pragmatic Diplomacy in the Republic of China: History and Prospects" in Jason C. Hu, ed., *Quiet Revolutions on Taiwan, Republic of China*. Taipei: Kwang Hwa Publishing Company, 1994, pp. 297-330.

⁴⁹ Bernard T.K. Joei, "Pragmatic Diplomacy in the Republic of China: History and Prospects" in Jason C. Hu, ed., *Quiet Revolutions on Taiwan, Republic of China*. Taipei: Kwang Hwa Publishing Company, 1994, pp. 297-330. See also, Chiao Chiao Hsieh, "Pragmatic Diplomacy: Foreign Policy and External Relations" in Peter Ferdinand, ed., *Take-off for Taiwan*. London: Pinter for Loyal Institute of International Affairs, 1996, pp. 66-106. See also, Linjun Wu, "Limitations and Prospects of Taiwan's Informal Diplomacy" & Kay Moller, "Does Flexible Diplomacy Improve Taiwan's International Status?", in Jean-Marie Henckaerts, ed., *The International Status of Taiwan in the New World Order*. London: Kluwer Law International Ltd, 1996, pp. 35- 62. See also Michael Yahuda, "The International Standing of the Republic of China on Taiwan" in David Shambaugh, ed., *Contemporary Taiwan*. Oxford: Oxford University Press, 1998, pp. 275-295.

⁵⁰ Jean-Marie Henckaerts, ed., *Ibid.* pp. 63-189.

⁵¹ Bernard T.K. Joei, *op. cit.*

Gao Lang separates Taiwanese diplomatic history into two periods.⁵² He selects six indicators to assess the diplomatic relations of the ROC from 1950 to 1972: (1) the changes of countries with official relations and (2) treaty relations, (3) changes of embassies, (4) the exchange of visits between high-level officials, (5) the situation with the United Nations' ballot, and (6) the expansion of economic and trading relations. Gao further suggests another selection of five indicators to evaluate the diplomatic activities of the ROC from 1972 to 1992: (1) the changes of countries with official relations, (2) the changes of units stationed abroad (3) the changes in treaty relations, (4) the exchange of visits between high-level officials, and (5) the situation of participating international organisations. He concludes that the quandary of Taiwan's pragmatic diplomacy is that the expectation of the masses exceeds its achievements. In addition, Gao also believes that until the PRC changes its attitude, the struggle across the Taiwan Straits will not cease, and the diplomatic predicament of Taiwan cannot find an easy solution.

An-chia Wu asserts that in the post-Cold War era, while evaluating the international political environment, Peking's leaders are still swayed by Deng Xiaoping's remarks.⁵³ In the aftermath of the dramatic changes in the former Soviet Union and in Eastern Europe, Chinese leaders changed their views towards the international

⁵² Gao, Lang, The Evolution of Foreign Relations of the ROC 1950-1972, Taipei: Wunan, 1993. (高朗, 中華民國外交關係之演變 1950-1972, 台北:五南, 1993) See also Gao, Lang, The Evolution of Foreign Relations of the ROC 1972-1992, Taipei: Wunan, 1993. (高朗, 中華民國外交關係之演變 1972-1992, 台北:五南, 1993)

⁵³ An-chia Wu, "Peking's Taiwan Policy in the Post-Cold War Era", Issues & Studies, July 1994, pp. 1-15.

environment. Thus they also re-evaluated their policy on Taiwan, readjusting the organisations and personnel in charge of the policy, insisting on the 'one country, two systems' formula, promoting cross-Straits economic exchange and trade development, blocking Taiwan's international activities, and continuing the strategy of combining the advocacy of 'peaceful unification' without renouncing use of force. In general, according to Wu, Peking's strategy is thus both hard and soft. The hard tactics continue to threaten the use of force, although this is very unlikely. In Wu's analyses, the use of force would not only damage the international ambience of peace and development, but also ruin China's 'four modernisations' (in industry, agriculture, defence, and science and technology). The soft tactics oblige China to continue to promote peaceful unification while the blockade policy continues. In contrast, Lee Teng-hui, Taiwan's former president, formally renounced the use of force to solve the issue of unification, hoping for a reciprocal declaration from China. According to Wu, China will never abandon the use of force. However, Wu believes that the resolution of this issue will drag on until both sides find the ripe time and right conditions for holding negotiations on the termination of hostility or the conclusion of a peace agreement, although Wu has mentioned that Peking will continue to promote cross-Straits economic and trade exchanges to lessen the gap between the two sides. Since the exchanges are largely a tool to achieve unification, all the policy decisions and arrangements for the exchanges will be made accordingly. However, further analysis of economic changes has not been developed in this article.

Taiwan's diplomacy has always been conditioned by the military coercion and

peaceful offensive of the PRC. Nationalism is a crucial element of the PRC's Taiwan policy. Suisheng Zhao maintains that the rise of nationalism does not necessarily make China become irrational against Taiwan or threaten international society.⁵⁴ Instead, China's policy of national reunification is flexible, and nationalism has not prevented the PRC from adopting a peaceful offensive as the key approach towards Taiwan. Zhao asserts that in addition to sustained dialogue, if Taiwan does not declare independence, China will permit it to be a country in everything but name, symbols, and formal diplomatic practice. Chinese nationalism is assertive in defending territorial integrity and national unity. Unless China's national interests or territorial integrity is in danger, its nationalism does not become more intense nor its international behaviour particularly aggressive. Thus he concludes that David Shambaugh is right to characterize Chinese nationalism as 'defensive nationalism', which is 'assertive in form, but reactive in essence'.

Leaders in Taiwan have been credited with making important contributions to Taiwan's foreign policy, although this discussion has not been much developed.⁵⁵ After Taiwan's democratic transition, the KMT still remained in power. Chao and Myers find that Taiwan's leaders have developed a creative leadership style of a distinct type. The book *Democracy's New Leaders in the Republic of China on Taiwan* analyses former president Lee Teng-hui and premier Lien Chan have been analysed in terms of their leaderships. In 1993, Lee and Lien initiated the foreign

⁵⁴ Suisheng Zhao, "Chinese Nationalism and Beijing's Taiwan Policy: A China Threat?" *Issues & Studies*, January/February 2000, pp. 76-99.

⁵⁵ Linda Chao and Ramon H. Myers, *Democracy's New Leaders in the Republic of China on Taiwan*. Stanford, California, 1997.

policy of pragmatism (*wushi waijiao* 務實外交). Lien tried to improve economic relations and foster other exchanges with the Mainland while resolving disputes between the two Chinese societies. This was quite successful. In addition, Lien also tried to upgrade Taiwan's relations with other countries and enable it to enter other organisations, like the United Nations. Lee and Lien even accepted the possibility of double recognition. Lee's speech at Cornell University in 1995 exasperated the PRC, since Lee rarely mentioned reunification with China while emphasising Taiwan's democracy and the people's wishes for parity in the international arena. Lien's visit to Europe that same month further incensed China. Then in 1996, the new foreign minister, John Chang, expressed the view that Taiwan does not mean to provoke Beijing with its diplomatic initiatives and that entering the United Nations is its long-term goal but not its priority. Lien tried to resume delayed negotiations between China and Taiwan. By late 1996, Beijing still had not replied to Taiwan's leaders. In terms of Taiwan's foreign relations, Chao and Myers focus only on the level of individual statesmen/politicians. There are no other levels of analysis.

2.2.2 Non-Official Diplomacy/Informal Diplomacy

After Chiang Ching-kuo lifted martial law in Taiwan in 1987 and allowed Taiwan's people to visit Mainland China, the tension between Taiwan and China began to relax. Before Taiwan's president, Lee Teng-hui, visited his alma mater, Cornell University, in the summer of 1995, when the PRC launched the 1995-1996 crisis, relations across the Taiwan Straits had improved significantly. There are several academic studies of

this trend.⁵⁶

Françoise Mengin, in an article on Taiwan's non-official diplomacy, states that the Sino-American normalisation has both led to Taiwan's diplomatic isolation and turned the status of Taiwan from an international issue into one of Chinese internal affairs.⁵⁷ Since then, only economic, cultural and scientific ties – not political links – are allowed between Taiwan and the countries that recognised the PRC. Countries like Japan and the US transferred their relations with Taiwan from an official to a nonofficial realm. Because of Taiwan's accumulated wealth, European countries are willing to set up non-official ties with Taiwan. This is on a basis quite similar to those ruling US-Taiwan or Japan-Taiwan relations: they aimed at keeping the facilities of diplomatic and consular relations under the guise of private arrangements. In several ways, Taiwan has been successful in extending political relations to economic ties. There has been a substantial rise in high-ranking contacts, including legislators and government authorities. The foreign civil servants who visited Taiwan might still be in office, but they came – ostensibly – in a private capacity. From January 1991 to June 1993, over 20 European cabinet members paid a visit to Taiwan. Mengin generalised that Taipei uses a bargaining strategy to obtain political advantages through the allocation of important contracts. In other words, because

⁵⁶ David Shambaugh, ed., *Greater China: The Next Superpower?* Oxford: Oxford University Press, 1995; Tse-Kang Leng, *The Taiwan-China Connection: Democracy and Development Across the Taiwan Strait*, Boulder, Colo., 1996; Ralph N. Clough, *Reaching Across the Taiwan Strait: People-to-People Diplomacy*, Boulder, Colo., 1993; Jane Khanna, ed., *Southern China, Hong Kong, and Taiwan: Evolution of a Subregional Economy*, Washington, D.C., 1995.

⁵⁷ Françoise Mengin, "Taiwan's Non-Official Diplomacy", *Diplomacy and Statecraft*, Vol. 8, No. 1, March 1997, pp. 227-248.

the bargain exists, some members of the government will come into the picture, extending the political effects of economic ties. However, Taiwan's dream of dual recognition cannot be realised. Even consular relations with Latvia were severed in 1994 under pressure from the PRC. Mengin concludes that Taiwan's status remains that of a non-state. It is excluded from the interstate community. However, she states that presently, Taiwan is an entity that has authority to belong to this community. It is a pity that in her work, Mengin completely ignores the roles of Taiwanese business people in the non-official diplomacy.

2.2.3 The Existing Studies of Taiwan's Economic Diplomacy

Not many studies of Taiwan's economic diplomacy exist in English, although cross-Straits political ties and Taiwan's pragmatic diplomacy have been well documented. There is relatively little work in the English literature on Taiwan's recent foreign trade, foreign investment, and foreign aid. Only a handful of English language articles have addressed Taiwan's economic diplomacy in the 1990s. Chiao Chiao Hsieh, a pioneer on Taiwan's strategy of foreign aid, 'economics- and trade-first diplomacy', in her book *Strategy for Survival*, analyses foreign policy and external relations of the Republic of China on Taiwan from 1949 to 1979. Her perspectives also include Taiwan's state ideology, strategy of military counterattack and strategy of political counterattack.⁵⁸ She also expatiates on Taiwan's foreign policy and external relations from the perspective of 'pragmatic diplomacy'.⁵⁹ This

⁵⁸ Chiao Chiao Hsieh, *Strategy for Survival*. London: The Sherwood Press Ltd, 1985.

⁵⁹ Chiao Chiao Hsieh, "Pragmatic Diplomacy: Foreign Policy and External Relations" in Peter Ferdinand, ed., *Take-off for Taiwan*. London: Pinter for Loyal Institute of International Affairs, 1996, pp. 66-106.

expounds Taiwan's international relations in the shadow of the PRC and the USA. Peter Ferdinand comments on Taiwan's foreign trade and investment abroad while analysing the Taiwanese economy. His work also contains some limited material on Taiwan's economic diplomacy.⁶⁰

Linjun Wu was the first author who evaluated Taiwan's economic diplomacy in the 1990s.⁶¹ Her two articles examine not only factors that affect Taiwan's efforts but also how Taiwan employs economic-related techniques to achieve international space. She also contends that the ROC's government has been facing different challenges since President Lee's visit to Cornell University in 1995. According to Wu, Taiwan's economic diplomacy is both provocative to China and constructive to cross-Straits relations. This is a good start to assessing Taiwan's economic diplomacy in the 1990s, but she ignores the roles of business people and foreign aid, which are also important to Taiwan's economic diplomacy. She has not evaluated widely the effectiveness of economic diplomacy because of insufficient data collection.

Tse-Kang Leng fills the gap left by Wu to a certain degree.⁶² He argues that the business community has adopted various strategies to bargain with states (including

⁶⁰ Peter Ferdinand, "The Taiwan's Economy", in Peter Ferdinand, ed., *Take-off for Taiwan*. London: Pinter for Loyal Institute of International Affairs, 1996, pp. 37-65.

⁶¹ Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", *Issues & Studies*, December 1995, pp. 22-35. Also The ROC's Economic Diplomacy After the March Crisis: Can Money Talk Again?" *Issues & Studies*, December 1996, pp. 51-66.

⁶² Tse-Kang Leng, "States, Business, and Economic Interaction Across the Taiwan Strait", *Issues & Studies*, November 1995, pp. 40-58. Also, "Dynamic of Taiwan-Mainland China Economic Relations - The Role of Private Firms", *Asian Survey*, Vol. XXXVIII, No. 5, May 1998, pp. 494-509.

the ROC and the PRC); and the Realist perspective on economic statecraft cannot fully explain the current political economy across the Taiwan Straits. The Realist school argues that the sole meaningful players are states, excluding any other non-state actors. In the anarchic international society, the states pursue relative gains in wealth and power. Accordingly, foreign trade and investment policies can be used as tools to obtain national interests. The role of Taiwanese firms has been interpreted to some extent to fill the gap of Realists. The author demonstrates that it would benefit 'state and market' as a whole if Taiwan's government boosted the internationalisation of Taiwan and its firms, because this would simultaneously enhance economic efficiency and national security. In another article published later,⁶³ he again questions whether Taiwan's dependence on the Mainland is asymmetric or mutually beneficial. If China's government intends to impose economic sanctions on Taiwan, the costs and benefits should be calculated in advance, since they might hurt other international partners and Taiwan itself. Because of economic globalisation, internationally oriented firms have increasingly possessed bargaining chips while they negotiate with both host and home countries. The Mainland China market serves as a major attraction for businesses across the world. The Taiwanese business community thus presses the government to further open up economic interactions with the profitable Mainland China market. Leng also places cross-Straits economic relations on the wider spectrum of the international division of labour and cross-national cooperation. Then he concludes that the best policy for

⁶³ Tse-Kang Leng, "A Political Analysis of Taiwan's Economic Dependence on Mainland China", *Issues & Studies*, August 1998, pp. 132-154.

Taiwan's government is to improve its infrastructure and introduce more international factors into its future development rather than to constrain and guide business people. However, none of this has assessed Taiwan's economic diplomacy towards foreign countries, whether ASEAN or the countries beyond Asia.

Nancy Yuh-Jiun Lin examines the trade relations across the Taiwan Straits,⁶⁴ arguing that cross-Straits economic relations do not depend on just the two sides but also on international political and international economic environments. She also indicates that high intra-industry trade (IIT) levels are correlated with low tariff rates and similar market sizes (the tariff protection effect). Although there are substantial market and institutional differences between Mainland China and Taiwan's other trading partners, Taiwan's IIT with the Mainland has not deviated from the general pattern. If there is a great difference in terms of the relative sizes of Taiwan's market and those of its trading partners, and there is a high degree of tariff protection, as with the Mainland, Taiwan has a low degree of external IIT. She also examines the development of cross-Straits trade relations since 1978. It was not until the mid-1980s that Taiwan took a more active role in trade across the Straits, because the internal and external economic conditions both changed. Before this, China largely initiated the relations. Lin urges Taiwanese business people to cooperate with those from other countries who invest in Mainland China, thus obtaining the protection of the agreement between those countries and China. This argument sounds like that of

⁶⁴ Nancy Yuh-Jiun Lin, "Does Taiwan's Intra-Industry trade with Mainland China Deviate from the General Pattern?" *Issues & Studies*, March 1997, pp. 86-97. Also Nancy Yuh-Jiun Lin, "A Review of Cross-Strait Trade Development", *Issues & Studies*, April 1996, pp. 46-59.

Leng, who maintains that Taiwanese business people would increasingly invest in the Mainland without worrying about their security because of internationalisation and globalisation. In view of this, it is gradually becoming more difficult for China to discriminate against Taiwanese business people, since the boundaries between Chinese, Taiwanese and other countries are becoming blurred.⁶⁵

Xiangming Chen, using a systematic comparative approach, wrote an article on Taiwanese firms in China and Southeast Asia to examine the features and determinants of Taiwanese companies in China and Southeast Asian countries, setting up an extensive empirical basis and an integrated explanatory framework to guide further comparative research. Initially, a general statistical comparison of Taiwanese investment trends in the Mainland and Southeast Asia is displayed. Afterwards, the prominent characteristics of Taiwanese firms in both of the two areas are shown at the levels of region, industry and firm. Furthermore, the author examines how and why Taiwanese firms 'go both West and South', thus producing cross-border economic relations between China and Southeast Asia. He also evaluates varying opinions on the possibility of success of Taiwanese firms 'going both West and South'. In the following section, levels of analysis are developed and major determinants of Taiwanese investments in China and/or Southeast Asia are discussed. The arguments also include economic comparative advantage and complementary advantage, the internationalisation of state-business ties, the historic legacy, cultural and ethnic relations, sub-regional integration, and locational advantages that shape Taiwanese

⁶⁵ Leng, *op. cit.*

investments at the same time from the mid-1980s through the mid-1990s.⁶⁶ However, within the confines of this article, Taiwan's Southward policy is not fully analysed. Although the role of firms is introduced to a certain extent in this article, updated developments still need to be assessed. The author does not evaluate the consequences of Taiwanese investments on the Mainland and in Southeast Asia, either for the states concerned or for the regional and global economies.

In 1995, Kuo-hsiung Lee wrote an article on Taiwan's Southward Policy,⁶⁷ arguing that Taiwan adopted a policy of 'orthodox diplomacy' before 13 January 1988 when President Lee Teng-hui came to power. However, to break through the diplomatic isolation imposed by the PRC, Taiwan re-orientated its foreign policy and adopted the principle of 'flexible pragmatism' in 1988. According to Professor Lee, this has also been termed 'substantive diplomacy' and has proven effective in achieving ROC diplomatic goals because Taiwan has abandoned ideological barriers and has become a major capital exporter. In September 1993, Pin-kung Chiang,⁶⁸ the Minister of Economic Affairs, proclaimed that Taiwan intended to promote its relationship with countries of Southeast Asia and encourage investment in this area, an initiative known as the 'Look South Policy' or 'Southward Policy'. This was the first time in about four decades that Taiwan had formulated a Southeast Asian Policy. Lee also describes the relationships between Taiwan and Southeast Asia in retrospect by

⁶⁶ Xiangming Chen, "Taiwan Investments in China and Southeast Asia", *Asian Survey*, Vol. XXXVI, No. 5, May 1996.

⁶⁷ Kuo-hsiung Lee, "The Republic of China's 'Flexible Diplomacy' and Its 'Look South' Policy", in David Tawei Lee and Robert L. Pfaltzgraff, Jr., ed., *Taiwan in a Transformed World*. London: Brassey's, 1995.

⁶⁸ The name was spelled wrongly as "Bin-Jun Chiang" in the original publication.

dividing the history into three periods: the period of close relationship: 1949-1975; the period of growing economic ties: 1975-1987; the period of Taipei's 'Pragmatic Diplomacy', from 1987 onwards. Under the principle of 'flexible pragmatism', Taiwan's 'economic statecraft' has been perceived as the crucial element of its pragmatic diplomacy. Since 1987 Taiwan has allowed citizens to transfer overseas a maximum of \$3 million per person every year. At the same time, Taiwan has accumulated foreign reserves up to US\$80 billion in the 1990s. EIU has estimated Taiwan's reserves to be US\$179.8 billion in 2003. *The Economist* gives a figure of US\$227.7 billion in 2004.⁶⁹ In consequence, Taiwan has become Asia's second largest foreign investor by opening the flow of foreign exchange. *The Economist* said, 'The island has become too rich to remain insular'.⁷⁰ In 1988, Taiwan investments in ASEAN countries topped \$2.1 billion, and trade with these countries reached \$7 billion, thus resulting in closer relations between Taiwan and ASEAN. The statistics supplied by the ASEAN countries indicate that Taiwan invested \$8.57 billion in these nations between 1986 and 1990. Taiwan has also revealed that from 1986 to 1994, it invested over \$16 billion in Southeast Asia. By 1992, Taiwan had become the third most powerful economy in Asia, after Hong Kong and Japan. Taiwan's substantive diplomacy has reaped its reward, and the ASEAN countries have granted Taiwan's personnel diplomatic privileges and immunities. In 1994 when Premier Lien Chan and President Lee Teng-hui paid a visit to five of the six ASEAN member states, the ASEAN countries risked potentially adverse retaliation from the

⁶⁹ *The Economist*, 15-21 May 2004, p. 114.

⁷⁰ http://economist.com/displaystory.cfm?story_id=186680 20 August 2003

PRC, which had categorically warned against the extension of hospitality to ROC officials regarding all the countries involved in hosting the visits. Lee concluded that after the US defeat in Vietnam, the Southeast Asian countries severed official relations with Taiwan, but substantive relations still continued to grow. From 1987 onwards, both the increasing amount of intra-regional trade and the outflow of Taiwan's capital into Southeast Asia have greatly improved the relationships into some form of quasi-diplomatic relations. However, Lee has neither analysed how Taiwanese business people have contributed to the Southward Policy nor assessed how the ROC government has helped them to invest in Southeast Asia.

Ralph Clough, in an article in 1995 on cross-Straits economic relations,⁷¹ explains that during the 1970s and early 1980s, the policy of 'three noes'⁷² by Taiwan was not completely effective in terms of cross-Straits relations. The lifting of the ban in 1987, entirely approved by the people of Taiwan and welcomed by the people and government in the PRC, thoroughly changed the cross-Straits ties by opening the door to a flood of visitors from Taiwan to the Mainland. Moreover, there was a smaller, but increasing, number of visitors from the Mainland to Taiwan. These visitors have contributed to a constantly broadening network of economic interdependence between both sides of the Taiwan Straits. Gradually the risk of armed conflict has greatly dwindled. In 1992, Kao Chang, an economist, calculated that the Mainland received almost 14 percent of Taiwan's exports, making China the ROC's second-largest

⁷¹ Ralph N. Clough, "Cross-Strait Economic Ties: How Trade, Investment and Economic Development Are Fundamentally Altering PRC-ROC Relations" in David Tawei Lee and Robert L. Pfaltzgraff, Jr., ed., *Taiwan in a Transformed World*. London: Brassey's, 1995.

⁷² This includes no contacts, no negotiations, and no compromises.

market after the US, which received 29 percent of Taiwan's exports. Taiwan's investment in China also reached at least US\$9 billion in 1992, and US\$13.6 billion by the end of June 1993, respectively. The rapid and steady rise in trade and investment between Taiwan and the Mainland reflects the complementarity of the two societies. The Mainland offers abundant resources, as well as cheaper land and labour to Taiwanese business people. Mainland China is also more advanced than Taiwan in some aspects of technology and basic scientific research. The PRC has also offered Taiwanese business people both preferential treatment and special economic zones exclusively for them. Investment and trade have proceeded together. Most of the machinery of Taiwan-owned factories on the Mainland was transferred from Taiwan. Taiwan also continues to provide materials, parts, and semi-manufactured goods to these factories. On the other hand, Taiwan imports semi-manufactured products from the Mainland, thereby diminishing the cost of finished products sold in or exported from Taiwan. However, Taiwan prohibits large enterprises from investing in Mainland China, fearing a 'hollowing out' of Taiwan's industrial structure. In the case of Wang Yung-ching, who proposed to set up a US\$7 billion naphtha cracker and an associated petrochemical complex in Xiamen, the Taipei government turned down the proposal, fearing that too significant an investment would attract many downstream producers. Many more restrictions on Taiwan's Mainland trade and investment are aimed largely at avoiding political disaster induced by economic factors. The 'Look South' strategy by the Taiwanese government was raised to divert Mainland fever. While the ties between people on both sides were improving, government-to-government relations remained mainly

unchanged. Afterwards, the two governments established unofficial and quasi-official channels for handling the increasingly difficult problems caused by the variety of contacts between the people of both sides. In terms of dealing with foreign affairs, Taiwan has been more flexible, devising unorthodox methods of conducting international relations, while the PRC has taken a rigid stance. For example, the PRC compelled Liberia and Lesotho to sever their relations with Taipei after Taiwan established relations with Grenada, Belize, Liberia, Lesotho, Nicaragua, the Central African Republic, and Burkina Faso. The PRC also forced France to close its Consulate General in Guangzhou in retaliation for the sale of *Mirage* fighter aircraft to Taiwan. In this article, although the author expatiates on the roles of different people in strengthening the ties across the Straits, the roles of business people in the 'Southward Policy' remain unexamined.

Rong-yung King reviews Taiwan's economic interaction with ASEAN during the past fifteen years and discusses the impact of the Asian Financial Crisis, emphasising the lessons which East Asian countries can learn from it.⁷³ The Southward Policy adopted by the Taiwanese government urges Taiwanese business people to invest in Southeast Asia. This has been challenged by the financial crisis and transformed into helping them to tide over the crisis. The original win-win economic interaction between Taiwan and ASEAN becomes a lose-lose plight for both sides. Taiwan has been trying to upgrade the diplomatic and political relations between Taiwan and the

⁷³ Rong-yung King, "Taiwan and ASEAN: Another Approach to Economic Cooperation", *Issues & Studies*, November/December 1998, pp.181-201.

Southeast Asian countries, thus exasperating them and China. In view of this, political manoeuvring is not beneficial for the PRC, ASEAN or Taiwan. The author then proposes ways in which Taiwan and the ASEAN countries can cooperate economically in the future. The theme is that if China, Taiwan and the ASEAN countries want to set up a win-win-win relationship, it is imperative that each side give up political moves and adopt economic measures to solve common predicaments. Nevertheless, this article hardly mentions the relationship between state and businesses.

Tain-Jy Chen edited a book in 1998 on Taiwanese firms in Southeast Asia. The approach is networking across borders, which provides a comprehensive review of Taiwan's direct investment in Southeast Asia, including Indonesia, Malaysia, Thailand, the Philippines and Vietnam.⁷⁴ This book is a result of joint research efforts by Taiwanese, American and Southeast Asian scholars. Empirical evidence usually indicates that foreign direct investment (FDI) is dominated by large firms. The incidence of FDI is also positively correlated with firm size. However, Taiwan's FDI is excluded from this pattern. Small- and medium-sized firms play an important role in Taiwan's overseas ventures. From the mid-1980s to the early 1990s, there were 2526 approved Taiwan firms in Southeast Asia, including Thailand, Malaysia, Indonesia, Vietnam and the Philippines, with a proposed capital investment totalling US\$13.8 billion. Among these investment projects, no more than 200 cases can be

⁷⁴ Tain-Jy Chen, ed., Taiwanese Firms in Southeast Asia – Networking Across Borders. Cheltenham: Edward Elgar Publishing Limited, 1998.

identified as having been proposed by Taiwan's large firms with sales over NT\$500 million (Taiwanese currency) in 1986 (approximately US\$14 million at that time). The others were undoubtedly undertaken by small- and medium-sized firms. According to Chen, the only country that has a pattern similar to that of Taiwan in the history of FDI is Japan. The book examines the reasons for this and evaluates the difference in practice between small and large firms conducting FDI, focusing on the manufacturing sector. The authors conclude that networking is crucial for the competitiveness of Taiwan's overseas firms. These subsidiaries in host countries also try to maintain a close correlation with the networks in Taiwan to support competitiveness and elasticity. Nevertheless, due to lack of managerial resources that are very important to long-term development, Taiwanese firms will have difficulty maintaining competitiveness and flexibility. Therefore, they have to localise and integrate themselves into the local networks. However, this book mainly discusses the role of firms, and hardly mentions the role of states and factors in the international system. Therefore, the Southward Policy of Taiwan's government has never been mentioned, let alone its effects on Taiwanese firms.

Gerald Chan has an article on Taiwan's Southward Policy. According to Chan, Taiwan's trade and aid are beginning to intertwine; Taiwan's diplomacy is largely economically or commercially led; Taiwan has achieved some positive results in improving its relations with Southeast Asian countries; and Taiwan has reached a new stage in its economic development whereby it needs to invest overseas in order to

sustain its economic growth.⁷⁵ However, the research is only limited to the early stage. In terms of foreign aid, Taiwan has been described as an emerging foreign aid donor.⁷⁶ Chan points out that Taiwan is financially rich but diplomatically poor. Although Taiwan performs very well from the perspective of the economy, it is diplomatically isolated, with only thirty countries recognising it as a sovereign state in September 1996.⁷⁷ It is a member of only about ten intergovernmental organisations, the most notable one being the Asian Development bank. Some Taiwanese leaders have perceived that it might be useful to win friendship and support in the international community by extending foreign aid. The Overseas (renamed 'International' in 1991) Economic Cooperation and Development Fund, set up in 1988, marked a watershed in Taiwan's aid policy. Chan develops his article by addressing the following questions: Why does Taiwan give aid? To whom does it give aid, and why? What is its aid mechanism? How does Taiwan's aid compare in quantity and quality with that donated by other countries? What are the problems and prospects of Taiwan's aid policy? He concludes that Taiwan has the ability to enhance its aid capacity, thus ensuring that assistance can remain a useful, if limited, diplomatic instrument and a probably essential economic tool, because development aid has been a scarce resource in the world. However, the role of Taiwanese business people in

⁷⁵ Chan, Gerald, "Sudpolitik: the Political Economy of Taiwan's Trade with Southeast Asia", *The Pacific Review*, Vol. 9, No. 1, 1996, pp.96-113.

⁷⁶ Gerald Chan, "Taiwan as an Emerging Foreign Aid Donor: Developments, Problems, and Prospects", *Pacific Affairs*, Vol. 70, No. 1, spring 1997.

⁷⁷ In June 2003, Taiwan maintained full diplomatic relations with 27 countries while maintaining 90 representative offices or branches offices in the capitals and major cities of 58 countries. These offices carried different titles, such as Taipei Representative Office, Taipei Economic and Cultural Office, or Trade Mission of the Republic of China, but all of them performed most of the functions of embassies and consulates general. See <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/chpt08.htm> 30/3/2004

the Southward Policy has not been analysed in depth.

Teh-chang Lin has employed foreign aid to analyse Taiwan's Southward Policy, focusing on Vietnam, the Philippines and Indonesia.⁷⁸ The combination of political and economic motivations in the IECDF's aid-giving to the three Southeast Asian countries has also exemplified Taiwan's domestic and external predicaments in recent years. To avoid economic over-dependence on Mainland China, which might cause political disaster, Taiwan has encouraged its enterprises to invest in the Southeast Asian countries by giving aid in this area, thus creating a fitting environment. To a certain extent, Lin is correct to mention that Taiwan's Southward Policy and its aid to the Southeast Asian countries demonstrate the first concrete step in its involvement in the process of economic integration in the Asia-Pacific region. However, he fails to point out that Taiwan has also suffered a setback owing to the changing situations of individual states and international environment, such as the Asian Financial Crisis. The role of enterprises and their relationships with states also need to be elaborated.

Another observer in the Chinese-language literature on this subject evaluates Taiwan's bilateral relations with other countries by functionalism.⁷⁹ The institutions under different designations and functions are analysed. The functional behaviours to achieve bilateral diplomacy are also analysed in terms of economic and trading

⁷⁸ Teh-chang Lin, "The ROC's Foreign Aid and the Southward Policy", *Issues & Studies*, October 1995. Also Teh-chang Lin, *A Comparative Study of the Foreign Aid Policies across the Taiwan Strait*, Taipei, 1999, pp. 319-33.

⁷⁹ Wei, Ming, *The Bilateral diplomacy of the Republic of China*. Taipei: Institute for National Policy Research, 1991. (衛民, *中華民國的雙邊外交*, 台北: 國策中心, 1991)

contacts, airline connections, technical cooperation and economic aid. The period covers only the period up to 1991. Before this, most of the scholars in Taiwan did not recognise or analyse any type of diplomatic relations other than formal official relations.⁸⁰ Most of the present literature in Chinese assesses Taiwan's foreign policy by traditional approaches.⁸¹

Hsin-hsing Wu employs integration theory to analyse the ties across the Taiwan Straits. He examines six factors – the economic and political systems of Taiwan and Mainland China, public opinion in Taiwan, the transactions between the PRC and the ROC, Taiwan's politics, and the Taiwan Independence Movement – to determine the possibility of peaceful unification.⁸² In this work, economic and cultural exchanges have been shown to improve significantly since 1987, when the cross-Straits relations began to ease, but the author suggests these do not indicate that political reunification will be achieved in the near future. One year later, Wu also published a revised book in Chinese. He again uses established integration theory as a means of analysis, but with a broader perspective – international factors.⁸³ Although Wu has discussed the political economy of the two Chinas, he does not touch the sub-national level – firms.

⁸⁰ Ibid. p. 46.

⁸¹ This includes Tsai, Cheng-wen, Rong-Yi Wu, Bih-jaw Lin, Chia-Cheng Lin, The Foreign Policy and Behavioural Orientation of Our Country, Taipei: Institute for National Policy Research, 1991. (蔡正文, 吳榮誠, 林碧召, 林嘉誠, 我國對外政策及行動取向, 台北: 國策中心, 1991.) The four authors evaluate Taiwan's foreign relations by the levels of international system and domestic politics. Again the focus is short of companies and elite although the perspective from the public opinion is incorporated.

⁸² Hsin-hsing Wu, Bridging the Strait – Taiwan, China, and the Prospects for Reunification, Hong Kong, Oxford University Press, 1994.

⁸³ Wu, Hsin-hsing, Integration Theory and the Research of Cross-Strait Relations, Taipei: Wunan, 1995. (吳新興, 整合理論與兩岸關係之研究, 台北: 五南, 1995)

Teh-chang Lin completed a 400,000 Chinese-character book on a comparative study of the foreign aid policies across the Taiwan Strait.⁸⁴ From the perspective of political economy, this book attempts to determine how a donor-state seeks its diplomatic goal by means of foreign aid commitment. On the other hand, from the same perspective, it also examines how a recipient-state investigates the motives of the donor-state that is willing to provide aid. In addition, the author analyses the linkage between foreign policy and foreign aid, improving on traditional studies on foreign policy and exploring the interaction between the donor and the recipient. This is quite successful in terms of using foreign aid as an independent variable to interpret the foreign policies of the PRC and Taiwan. For example, all the countries that supported Taiwan's entry into the United Nations (UN) have received foreign assistance from Taiwan. Moreover, all the other countries, which opposed Taiwan's attempts to enter the UN, have received aid from the PRC. Notwithstanding, it only probes into the relationship among governments at the level of state, overlooking analysis of the sub-national level.

However, Lin also wrote an article on Taiwan's investment in Guangdong.⁸⁵ Largely because Guangdong province is located near the Hong Kong gateway, Taiwanese businesses cluster around it. Most of the investments are by small- and medium-sized firms. For instance, the average amount of capital stock of Taiwan

⁸⁴ Lin, Te-chang. A Comparative Study of the Foreign Aid Policies across the Taiwan Strait. Taipei: Zhengwen, 1999. (林德昌, 海峽兩岸援外政策之比較研究, 台北: 成文, 1999)

⁸⁵ Te-chang Lin, "An Analysis of Taiwan's Investment in Guangdong", Issues & Studies, March 1998, pp. 71-87.

enterprises is under US\$1 million. The structure of manufactured industries of Taiwan investment focuses on electronics, shoemaking, plastic production, etc. Most investment in Guangdong has been concentrated in the cities of the Pearl River Delta (Zhujiang Delta) – Guangzhou, Shenzhen and Dongguan. Nevertheless, due to the increasing prices of factory sites and labour recently in these areas, many Taiwanese business people are forced to move to inner areas. This is also because the cities in the Pearl River Delta, with their swift economic development, have in recent years begun to readjust their industrial structure by offering more preferential inducements to large-scale investment and high-tech industries, thereby replacing *sanlai yibu* (三來一補) industries (meaning those industries oriented to the processing of supplied materials, processing according to supplied designs, assembling of supplied component parts, and compensation trade). With the trend of economic development in China, when large-scale Taiwan enterprises set up a factory on the Mainland, its partners in the middle and lower reaches have also had to move to Mainland China for survival. Lin concludes that the Taipei government must make a great effort to ameliorate Taiwan's investment environment, upgrade Taiwan's industries, and make Taiwan an Asia-Pacific Transshipment Centre as soon as possible. Otherwise, Taiwan's industrial structure will be hollowed out. This article is good in analysing the relationship between China and Taiwan's enterprises in a sense, but it is confined to Guangdong province.

2.3 Conclusion

Why is it essential to follow Hollis and Smith by proposing 'levels of analysis' as a

tool in order to interpret Taiwan's economic diplomacy in the 1990s? On one hand, Holists like Kenneth Waltz emphasises the 'top-down' force from international system to every individual state. On the other hand, Individualists (Reductionists) stress the 'bottom-up' forces from every individual state to the international system. However, the 'levels of analysis' can reconcile the two. Furthermore, the nation-state is not the smallest unit in the international society. To open the box of the nation-state is also necessary. National leaders within the state are sometimes influential. Therefore, 'levels of analysis' chosen by this thesis has been the most effective approach so far.

However, Hollis and Smith are not perfect in addressing Taiwan's economic diplomacy. In this thesis, the author also asserts that Taiwanese business people are significant in promoting regionalisation and globalisation in East Asia and in propping up Taiwan's international standing. In addition, Taiwanese business people serve as avant-gardes, middlemen and surrogates in Taiwan's economic diplomacy when they invest in China, Vietnam and other countries in Southeast Asia.

Most of the present authors focus on either traditional or Realist accounts of Taiwan's foreign policy. In general, this omits analysis of economic changes between Taiwan and Mainland China or Taiwan and Southeast Asia. People like Susan Strange and Françoise Mengin have identified the drawbacks of this perspective. Therefore, non-official diplomacy has been noticed and nationalist mercantilism would be abandoned. Taiwan has thus become a typical case of this trend. Constructivists assess more Taiwan's economic diplomacy but generally ignore the roles of

entrepreneurs. Usually the relationships between state and businesses are rarely evaluated. In the 1990s, realism can no longer explain the politico-economic relations between Taiwan and other countries. The role of entrepreneurs (or companies) in Taiwan's foreign relations cannot be ignored, yet the current literature has not fully explored this perspective. Nor has Taiwan's economic-related statesmanship to achieve international space been fully discussed. The purpose of this thesis is to fill the gap. The Realist perspective holds that states are the only meaningful actors in the international system. Foreign trade and investment policies can be used as instruments to pursue national interests. Other actors, such as multi-national corporations, or non-governmental organisations, are subordinate to states. Therefore, if the state can effectively control the pace and tendency of economic interaction, trade and investment can be highly diminished or augmented according to the decision makers' will and political judgement. In terms of Taiwan's economic diplomacy, this perspective cannot fully stand. At least the economic relations across the Taiwan's Straits are not completely subordinate to the political purposes of Taiwan or the PRC.

Small- and medium-sized businesses are the most important actors in Taiwan's economic development. Taiwanese business people are in the vanguard of exploring Greater China. Although for many years Taiwan's small- and medium-sized businesses have not been protected, as large businesses have been, by the government of Taiwan, they have received a great acclamation. However, Taiwanese business people may be regarded as myopic, *arriviste*-oriented and risk-taking. Thus,

Taiwanese business people face difficult predicaments. They might both violate Taiwanese regulations and meet local misfortunes while investing in Mainland China. Fortunately, some of Taiwan's leaders understand that it is mutually beneficial for Taiwanese business people to invest in the Mainland, although the Policy of 'No Haste, Be Patient' (*Jieji Yungren*, 戒急用忍) is used to curb large enterprises from investing in China. In the 1990s, Lee Teng-hui stated that the economies across the Taiwan Straits are complementary to each other. Lien Chan reiterated that the cross-Straits relations should be win-win ties. Hence, the importance of Taiwanese business people cannot be overemphasised in the relations across the Taiwan's Straits. In addition, the Southward Policy is used to check Mainland fever, given that Southeast Asia is geographically, culturally and ethnically proximate to Taiwan and that the PRC is Taiwan's political adversary, and Taiwan's over-dependence on China might lead to political disaster. Therefore, Taiwanese business people are encouraged to 'Go South' and invest in Southeast Asia. Foreign aid to Southeast Asia is also used to match the government's policy and bolster Taiwanese business people.

Since Taiwan's foreign relations are mainly unofficial and informal, usually without diplomatic and/or consular ties, Taiwan has employed an informal and nonofficial diplomacy to take the place of a more orthodox one. Besides, Taiwan as a *de facto* independent state wields its economic influence in order to survive, integrating itself in international exchanges. In the 1990s, Taiwan started to reap its reward to a certain degree. Although other countries are still reluctant to change their attitude on

formal and diplomatic relations, they have increasingly permitted political extensions to commercial ties, such as upgrading unofficial ROC trade offices, allowing ministerial level visits, opening air links, and supporting Taiwan's membership in GATT/WTO, United Nations and other international organisations. Though this may be an instance of the important role of government, the economic power the state wields most often needs the backing of Taiwanese business people. Since Taiwan itself lacks raw materials or a large enough internal market, and the businesses are the key actors in Taiwan's commercial ties, the roles of Taiwan's business people in economic diplomacy cannot be ignored.

Most Taiwanese business people are conscientious and hard-working in assessing investment, producing products, elevating quality, enlarging scale, managing legally, and making money to the best of their ability. During the processes of 'Go West' and 'Go South', in fact, Taiwanese business people have played varying roles: risk-takers, business-founders, and crisis-managers. They also unwittingly become the translators of Taiwan experiences, propagators of the market-economy and promoters of private businesses.

What other roles do Taiwanese business people play in Taiwan's economic diplomacy? To what extent are Taiwanese businesses intertwined with those in China and in other countries? To what extent are Taiwanese business people acting on behalf of the Taiwanese state? Are they acting as independent agents? In other words, are they proactive or are they reacting to government initiatives? The Southward Policy has

been the policy of Taiwan's government for years, so is it institutionalised? What level has the policy reached? Due to the absence of official relations between Taiwan and the Southeast Asian countries, it is worthwhile to explore these issues.

Definitions of Key Terms

Taiwan's economic diplomacy: This thesis analyses Taiwan's diplomacy from an economic perspective, thereby making up for the insufficiencies of those conventional approaches which have tended to focus exclusively on the political and military dimensions. Looked at from the bottom up, explanations in terms of the decisions and actions of Taiwanese business people seek to understand their influence on the international political economy beyond Taiwan *per se*. Taiwan's economic diplomacy means not only economic statecraft but also all the resources used by Taiwanese business people, either as rewards or sanctions, which aim to improving Taiwan's international standing or a particular foreign policy objective.

Taiwanese business people indicate the owners, CEOs, and management cadres of all Taiwanese small, medium and large-sized enterprises (factories). They can also belong to Taiwanese coordination companies and trading companies and liaison offices. They are usually the first people to make friends with foreign government officials. They are proactive and independent rather than at the beck and call of the government, thereby seeking profits. They also serve as pioneers, surrogates and intermediaries of Taiwan's economic diplomacy. In addition, they promote regionalisation and globalisation in East Asia, especially Vietnam and China.

Coordination companies (factories) are satellite companies, which supply components to their core companies.

Chapter 3

The International System and the PRC

3.0 Introduction

Any study of a nation's diplomacy must be considered in the larger context of the international system and local, influential neighbours. To help provide the appropriate context for my investigation into Taiwan's economic diplomacy, I review relevant aspects of the international system and of Taiwan's closest and most powerful neighbour, the People's Republic of China (PRC). I start by reviewing the changing international system, in particular the impact of the end of the Cold War, the subsequent Tiananmen incident, and the relations across the Taiwan straits. I conclude this chapter by reviewing the pragmatism and obstructionism of the PRC and scholars' contributions after the end of the Cold War.

3.1 The International System

3.1.1 The Changing International Environment at a System level

Taiwan has practised economic diplomacy, including trade, international investment and economic assistance, for over 35 years. For example, Taipei has operated aid diplomacy since the early 1960s and trade diplomacy since the end of the 1970s. However, it was not until the end of the Cold War, when economic issues began to assume greater prominence, that Taiwan began to reap any appreciable benefit from these diplomatic initiatives; and even though Taipei took advantage of the new

international system to re-double its efforts in the field of economic diplomacy, the benefit was evanescent because the strategy was not soundly based.

3.1.2 End of the Cold War

The period after the Korean War can be roughly classified into three phases as follows:

(1). The First Period of the Cold War (1950 – 1970)

In the wake of the Korean War, the Soviet Union and the United States launched their confrontation. Since Taiwan was situated at the crucial location between Northeast and Southeast Asia, the Western countries could not ignore Taiwan's position when they tried to contain the Communist world. Therefore, Taiwan and the US concluded an agreement for mutual defence, followed by US foreign aid to Taiwan. Even though Taiwan's strategic status made the US help and protect it, Taiwan lacked full autonomy in its foreign policy due to its authoritarian government and economic inferiority. These led to its deficiency in national influence.

(2). The Second Period of the Cold War (1970 – 1990)

After President Nixon came to power, he tried to withdraw from the Vietnam War and started to normalise US relations with the PRC, thereby checking the USSR. At the expense of Taiwan, the US did not uphold the ROC's (Taiwan's) seat in the UN, followed by the US severance of official relations with Taiwan in 1979. In this period, Taiwan's economy took off, but its democracy was still far behind the standard of the Western countries. Therefore, Taiwan's foreign relations and national image were in an

extremely bad situation.

(3). The Post-Cold War Period (1990 -)

After the breakdown of the USSR, Russia lost its status as a superpower and became a quasi-democratic country. The US no longer needed to check the USSR, so the 'China card' became obsolete. However, the rise of China and the fall of the Soviet Union became the most destabilising factor in the Asia Pacific. The PRC had the fastest economic growth rate in the world, substantially contributing to the build-up in its military expansion. The US began to focus its concerns on China instead of on the former Soviet Union. The debate over containment and engagement towards China thus became a hot point. Taiwan's status became crucial, no matter what side one took in the debate. For those who wanted engagement, Taiwan could be an intermediary between China and the Western countries because Taiwan shared the same language, ethnicity and culture with China. For those who wanted containment, Taiwan recovered the strategic status it had enjoyed during the first period of the Cold War. Internally, Taiwan became liberalised and developed vigorously in its political economy. For a while, Taiwan seemed to be on the point of increasing its leverage in foreign relations, but in reality it enjoyed its new influence for a very short time. This is what I describe in Chapter 4 as 'bubble diplomacy'.

Su Chi, later the Chairman of Taiwan's Mainland Affairs Council, indicated that the *détente* between the PRC and the Soviet Union had diminished the value of the 'China Card' and had indirectly elevated the international standing of Taiwan. In the past, the

US had had a strategic notion of uniting with the PRC and checking the Soviet Union, so the US had constantly had to yield to the PRC. At the end of the 1980s and the beginning of the 1990s, both the détente between the US and the USSR and the normalisation of relations between the PRC and the Soviet Union had made this strategic notion decline. In other words, the relations between the US and the PRC had also normalised. Cooperation, conflict, confrontation and compromise between the US and the PRC had become common. Therefore, the ties between Taiwan and the US had become stable.¹ In addition, the Tiananmen Square event helped to make the PRC's relations with the West in general more difficult in the early 1990s. The Western countries usually follow the steps of one another's policy towards Taiwan. Therefore, the international environment became generally favourable for Taiwan. But of course this has to be qualified by the increasing fascination with the Chinese market on the part of Western companies after 1992.

The rapprochement between the PRC and the USSR was also favourable for the easing of tension in Asia and the world as a whole, thus fortifying the effect of economic strength on international relations and lessening the practical function of military power.² Therefore, Taiwan could use its economic leverage in the international diplomatic arena. In the past, Taiwan had always been under pressure from the PRC, which had besieged Taiwan in international space. Once the environment changed,

¹ Su Chi. On the Normalisation of the Relations Between the PRC and the Soviet Union from 1979 to 1989. Taipei: Sanmin Bookshop, 1992. (論中蘇共關係正常化 1979-1989, 台北:三民書店, 1992), pp. 227-29.

² Ibid.,

Taiwan could also change its thinking and become more flexible, and it began to reap its reward.

During the Cold War, ideology and security issues dominated all others. In the post-war era, they dwindled. Although politics and military alliances remain one of the major topics in foreign affairs, economic issues become prominent and even prevail over ideology, security and politics. Power or national leverage is no longer measured thoroughly in terms of military strength, and economic viability always has been a cardinal factor that shapes foreign relations. Regionalism and economic integration have become the organising principles of international affairs.

In connection with the United States as the only superpower responsible for providing worldwide security as a public good, the world was kind to America in the 1990s, according to Robert Kagan. With only the momentum preserved from the previous decade, when the Cold War was won, and in 1991, when Iraqi leader Saddam Hussein was expelled from Kuwait, the US could still fare well and keep rich. Even though he predicts that the next decade will not be so accommodating, the US spent very little on its military capabilities in the 1990s. The US successes since the end of the Cold War – in Panama in 1989, in the Persian Gulf in 1991, and most recently in the air war over Kosovo – owed their achievement to a force built during the Reagan administration.³

President Clinton, regarding the PRC as a strategic partner, adopted a policy of

³ Robert Kagan, "The World and President Bush", *Survival*, Vol. 43, No. 1, Spring 2001, pp. 7-16.

engagement towards China. In the 1990s the rise of China did not cause much trouble for the US despite the debate about the alleged 'China threat'.⁴

In the late 1990s the nature of the international system was multi-faceted.⁵ No longer was security the supreme factor. According to people like Samuel Huntington, culture, the major factor in the emerging world order, would lead to a 'clash of civilisations'; and with the fading of the ideological power of Communism, economic issues became more salient in the 1990s. These cultural and economic developments would supply new reasons for security rivalry and competition.

Taiwan's bilateral relations with most foreign countries were dominated by security-related considerations before the mid-1980s, especially with Western countries. There were apprehensions about the PRC and the Soviet Union, as well as the need to consider how US policy shaped the foreign policies of America's allies. Before the late 1980s, both the ROC and the PRC stuck to a 'one China' policy, so other countries had to choose between them. Therefore, although Taiwan had excellent economic competence before the end of 1980s, it was still tangential to the interests of most Western countries. Taiwan had been expelled from the United Nations in 1971. The

⁴ For the debate of 'China threat' see Denny Roy, "The 'China Threat' Issue: Major Arguments", *Asian Survey*, Vol. 36, No. 8, August 1996, pp. 758-71; David Shambaugh, "Containment or Engagement of China: Calculating Beijing's Responses", *International Security*, Vol. 21, No. 2, Fall 1996, pp. 180-209; Gideon Rachman, "Containing China", *Washington Quarterly*, Vol. 19, No. 1, Winter 1996, pp. 129-40; Andrew D. Marble, "The PRC at the Dawn of the Twenty-first Century: Why the 'China Threat' Debate?" *Issues & Studies*, Vol. 36, No. 1, January/February 2000, pp. 1-18.

⁵ Akira Iriye, "The End of the Century: Emerging Themes, Disappearing Themes", *Issues & Studies*, Vol. 34, No. 10, October 1998, pp. 10-24; Andrew D. Marble, "The PRC at the Dawn of the Twenty-first Century: Why the 'China Threat' Debate?" *Issues & Studies*, Vol. 36, No. 1, January/February 2000, pp. 1-18.

ensuing switch of recognition from Taipei to Beijing by many Western countries made them very sensitive to the PRC's policies. They also aimed at intensifying political, economic, scientific, technological and educational relations with the PRC. Other countries under the influence of Beijing were also pressured to sever official relations with Taipei. Nevertheless, after the collapse of communism, economic issues have become more prominent. The political leaders of every country regard economic development as essential to their legitimacy, including the US and the PRC themselves. In a nutshell, they pay more attention to their own citizens who vote for them, than to foreign states. Economic issues become the top priority on the global agenda. This transformation did a great favour to the growth of Taiwan's economic diplomacy. Even Taiwan's trade disputes with the US from the mid-1980s proved to be a boost for Taiwan to upgrade its industrial structure, thus improving Taiwan's GNP.⁶

Many countries thus seek for ways to promote exports to Taiwan under the pressure of their own domestic economic predicaments. The prospects of economic profits prompt countries to court Taiwan and disregard China's political coercion. At the same time, Taiwan started to transform its defence-oriented national security policy by balancing the dimensions of diplomacy, defence, trade, and cross-Straits relations. Hence, Taipei tried to procure a formidable and balanced self-defence capability in order to oppose any rash drive by Beijing to enforce reunification.⁷ The French government decided to

⁶ Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", op. cit.

⁷ Although the DPP, the opposition party at that time, continually criticised government arms procurement scandals, and wanted transparency in the management of defence programmes, the DPP, as well as the KMT, the ruling party then, believed that Taiwan should maintain a strong traditional defence capability. See Cheng-yi Lin, "ROC Defence Programs and Priorities", in David Tawei Lee and Robert L. Pfaltzgraff, Jr., ed., *Taiwan in a Transformed World*. London: Brassey's, Inc., 1995, pp. 55-75.

sell 60 advanced Mirage 2000-5 fighter aircraft to Taiwan for which the Taipei government was willing to pay US\$4 billion. Again, this was because the sale met with French economic interests and also because it followed fairly recently the Tiananmen Square events.⁸ Consequently, during the 1992 presidential election campaign in the US, President George Bush agreed to sell 150 advanced F-16 A/B fighter aircraft to Taiwan because the sale could help the US economy.⁹ Such deals were impossible during the 1970s and 1980s. Meanwhile, in general, the Western countries adopted a new policy of sending higher-ranking ministers on official visits to Taiwan, although this made the PRC worry that earlier agreements, which were meant to isolate Taiwan in the international diplomatic arena, were being undone.¹⁰ Indeed, Taiwan did break through the diplomatic isolation to a certain extent because economic prominence prevailed over political/security issues, even though the French government professed it would not sell fighter aircraft to Taiwan again in the future, under the pressure from the PRC.

3.1.3 The Tiananmen Incident

The gunfire on 4 June 1989 gave a tragic turn to the Chinese pursuit of democracy at the turn of the century. The PRC suffered from the aftermath of this incident. At the same time it created an unfavourable change for Chinese diplomacy. After the Tiananmen

⁸ United Daily News (*Lianhe bao* 聯合報), Taipei, June 27, 1995, p. 2.

⁹ On the other hand, President Bush resisted congressional efforts to link the renewal of China's Most Favoured Nation trading status to a more acceptable human rights record. This made the PRC regard President Bush as a 'friend'.

¹⁰ This is also partly because the Western countries perceived that they could get tough with the PRC in the post-Cold War era. See The International Institute for Strategic Studies, *Strategic Survey 1992-1993*. London: Brassey's, 1993, p. 134.

Incident, a few countries became more amicable towards Taiwan, whereby Taipei's diplomacy accomplished some minor breakthroughs.

Less than one month after the Chinese massacre, at a summit meeting in Madrid on 27 June, the EC leaders announced joint sanctions against the Chinese government. Despite Chinese diplomatic threats, the French government even acted as host to prominent Chinese dissidents, permitting them to establish a formal organisation of their own which denounced the Chinese government. Together with the collapse of Eastern Europe and the USSR, and German reunification, the incident made China more tangential. China became less important to West Europeans. The Chinese market, still a lure to European interest, was now not very exhilarating.¹¹ Because of the massacre the relations between Beijing and Paris even deteriorated with the row over the sale of French sixty Mirage 2000-5 fighters (ordered in 1993) to Taiwan in the early 1990s. Taiwan obviously took advantage of Beijing's predicament. Consequently, the French consulate in Guangzhou was closed, and French companies were forbidden from bidding on the construction of Guangzhou subway system.¹² In addition, France also sold Lafayette-class frigates and Mistral portable surface-to-air guided missiles. The Lafayettes contain sophisticated radars, sonars and ASW detection equipment, together with 40mm guns and surface-to-surface missiles (a naval version of the French

¹¹Michael B. Yahuda, "China and Europe: The Significance of a Secondary Relationship", in Thomas Robinson and David Shambaugh, ed., *Chinese Foreign Policy - Theory and Practice*. Oxford: Clarendon Press, 1994, pp. 269-73.

¹²Peter T.Y. Cheung and James T.H. Tang, "The External Relations of China's Provinces", in David M. Lampton, *The Making of Chinese Foreign and Security Policy*. Stanford: Stanford University Press, p. 106.

Crotale).¹³

With the normalisation of Sino-Soviet relations, the 'strategic triangle' no longer existed.¹⁴ President George Bush asserted that he "deplore[d] the decision to use force against Chinese citizens who were making a peaceful statement in favour of democracy". Consequently, he suspended military sales to the PRC and stated that the US and the PRC could not resume normal relations until the PRC's leaders "recognise the validity of the pro-democracy movement". The Bush Administration immediately imposed a ban on military sales to Beijing and on high-level military exchanges. On 20 June, the US also suspended high-level exchanges between US officials (above the level of assistant secretary) and the PRC government, and advised that all financial lending by international institutions also be suspended. In addition, the US extended the visas of Chinese students and offered human and medical aid to the injured students. Besides, Washington withdrew the families of its diplomats in Beijing, cancelled the bilateral technology exchanges and the planned visit of Chinese foreign minister, Qian Qichen, suspended China's MFN status, and truncated its export of computers, arms, satellites and loans to China. The US Congress passed an overwhelming resolution denouncing China.

The Asian Development Bank and the World Bank ceased new lending. Negotiations

¹³ David Shambaugh, "Taiwan's Security: Maintaining Deterrence amid Political Accountability", in David Shambaugh, *Contemporary Taiwan*. Oxford: Clarendon Press, 1998, p. 254.

¹⁴ David Shambaugh, "Patterns of Interaction in Sino-American Relations", in Thomas Robinson and David Shambaugh, ed., *Chinese Foreign Policy – Theory and Practice*. Oxford: Clarendon Press, 1994, p. 205.

over China's application for entry into the GATT also ended. The technical assistance projects of the IMF to China were also halted. All these were regarded as essential by the Chinese reformers.¹⁵ The PRC criticised the Western countries for imposing on China a peaceful evolution towards democracy and economic liberalism. Normal diplomatic activities between China and the Western countries, especially France, nearly ceased.

Japan, a major pillar of Chinese economy and diplomacy, terminated its medical aid, extended Chinese students' visas, withdrew Japanese in China, and allowed foreigners in China to enter Japan unconditionally. Moreover, Japan also abolished a loan of 810 billion Japanese yen to the PRC. Even the USSR joined the verbal assault against China, though it had recently normalised relations with the PRC. Because the Soviet Union was lenient towards the eastern European reform and the secession movements in three Baltic republics, the ideological split resulted in a diplomatic standoff.

Furthermore, the eastern European countries with ideologies similar to those of China also criticised China to different degrees. Since the democratic reforms in these countries were rolling on with full force, the Communist governments of Czechoslovakia, East Germany, Bulgaria and Rumania all collapsed. In connection with this, China decided to let its ties with these countries stagnate. In the past, China had broken out of its diplomatic isolation by establishing good relations with

¹⁵ Rosemary Foot, "China's Foreign Policy in the Post-1989 Era", in Robert Benewick & Paul Wingrove, *China in the 1990s*. London: Macmillan Press Ltd., 1999, pp. 237-38.

developing countries. Nevertheless, these countries also thought China was despicable for its ruthless behaviour in suppressing dissent. Mexico and Argentina cancelled the imminent visit of Yang Shangkun. Countries like Grenada severed their relations with China.

In this diplomatic quandary the PRC reiterated its independent diplomacy. Immediately, the Beijing government convened a working meeting for all its overseas diplomatic officials, in order to bolster their loyalty to the government line and carry out a re-shuffle of diplomatic appointments. Even so, in the autumn of the same year, Qian Qichen was unsuccessful when he attended the UN assembly in the US, proposing four ideas for improving bilateral relations. Therefore, Taiwan took advantage of Beijing's problems, establishing diplomatic relations with several developing countries and ameliorating its non-official ties with Western countries by inviting their cabinet-level officials to visit Taipei, concluding bilateral agreements and upgrading representative offices. The Taipei government could thus pick and choose friends, depending on its own agenda. In addition, the Taipei government was sometimes able to shift the political policies of other countries. For some years after the Tiananmen Incident, Taiwan was occasionally able to upgrade its foreign representative offices. Politically, therefore, the PRC suffered greatly as a result of the Tiananmen Incident, but economic considerations soon re-asserted themselves in Beijing's favour to a certain extent.

On the other hand, within weeks, Bush secretly sent his national security adviser, Brent Scowcroft, to Mainland China to converse with the PRC's leaders. The tension

between the US and the PRC soon declined in a sense, although domestically, both Democrats and Republicans roared in discontent. In December 1989, Bush overrode a congressional prohibition on loans to companies doing business in Mainland China, and he also agreed to resume the export of satellites to China.¹⁶ This was because Americans had great economic interests in China and, under this pressure, Bush was forced to appease the PRC.

In terms of Asia, particularly ASEAN, most countries sided with China against the US on the human rights issue. The reaction of Southeast Asian countries was more reserved than that of western countries. The ASEAN countries and China also exchanged high-ranking official visits and economic activities after the massacre. They even invited the PRC to attend the ASEAN Post-Ministerial Conference in 1991. This was partly because most of the ASEAN countries had separatist problems of their own and accepted the claim of the PRC that the Taiwan problem is a Chinese internal affair. They sided with China by agreeing that internal incidents should not become international issues that might lead to intervention by foreign countries in the affairs they regarded as internal.¹⁷

To escape from the diplomatic quandary, Deng drastically widened the scope for freedom in the economy. During the Gulf crisis, China was very dexterous in manipulating its status as one of the five permanent members of the Security Council in

¹⁶ Stephen E. Ambrose and Douglas G. Brinkley, ed., Rise to Globalism. London: Penguin Group, 1997, pp. 55-56.

¹⁷ Denny Roy, China's Foreign Relations. Lanham: Rowman & Littlefield Publishers, Inc., 1998, p. 178.

the United Nations.¹⁸ In January 1990, China abolished martial law in Beijing and released hundreds of political prisoners. Consequently, several sanctions were lifted by the Western countries. At the end of 1990, the European Community resumed political, economic and cultural ties with China. In early November, Japan resumed its development aid to China with US\$ 240 million. Therefore, there was only a minor reverse in the international environment against China's economic growth.

Taiwanese business people enjoyed advantages before the Western countries resumed their engagement. The economic exchanges across the Taiwan Straits marched on. The Incident had not only a minor negative effect (Western countries' short-period sanctions against China) but also a major positive effect (the Chinese government's encouragement for investment by Taiwanese business people) on Taiwan-China economic connections.

3.1.4 Regionalism

Both the ASEAN Regional Forum (ARF) and the Council for Security and Cooperation in the Asia-Pacific (CSCAP) are multilateral security dialogues in the Asia-Pacific, the former official and the latter unofficial. However, it is difficult for Taiwan to join the ARF, given the PRC's opposition. Most countries believe that the PRC's participation is indispensable in terms of security in the Asia-Pacific. Beijing's strict sovereign claim towards Taiwan forbids Taipei from participating directly in ARF, although the design

¹⁸ The day after China's abstention on resolution 678 that allowed the use of force to compel Iraq to withdraw from Kuwait, President Bush decided to end the ban on high-level diplomatic exchange; in December the World Bank extended 'non-basic-needs' loans to China.

of ARF aims to offer the Southeast Asian countries and the PRC an approach to sort out problems like the South China Sea issue, and the Taiwan issue as well. It is possible for Taipei to play a role, since CSCAP could provide a non-governmental dialogue to advise and help ARF in the way that PECC did for APEC by supporting seminars and reports.¹⁹ The PRC has been very sensitive since Taiwan became politically involved with this area. The Taipei government can make only a very limited contribution in East Asia in terms of security, except in the Taiwan Straits. The significance of economic diplomacy is increasingly important, and the roles of business people are essential on the whole. This will be discussed in Chapter 5 and Chapter 6.

3.1.5 Relations Across the Taiwan Straits

After Taiwan's lifting of the ban on Mainland visits, the PRC government tried to encourage more Taiwanese business people to invest in Mainland China by means of preferential measures. In 1992, there was the so-called '92 consensus' between Taiwan and China. The consensus indicated that there was only one China. However, Taipei claimed the one China was the Republic of China (ROC), while Beijing professed that the one China was the People's Republic of China (PRC). Each one was permitted to verbally and separately express its views on the meaning of 'one China'. At this time the atmosphere across the Taiwan Straits was favourable to many kinds of activities.

¹⁹ Glenn Hook, "Japan and the Construction of Asia-Pacific" in Andrew Gamble and Anthony Payne (ed.), *Regionalism & World Order*. London: Macmillan Press Ltd., 1996, pp. 169-206. Prasert Chittiwatanapong, "Challenges of and Responses to Globalization: the Case of South-east Asia", in Yoshinobu Yamamoto (ed.), *Globalism, Regionalism & Nationalism*. Oxford: Blackwell Publishers Ltd., 1999, pp. 70-92. Also, see James A. Kelly, "Breaking the Walls of Separation: Taiwan's Growing Ties to Multilateral Institutions", in David Tawei Lee and Robert L. Pfaltzgraff, Jr. (ed.), *Taiwan in a Transformed World*. London: Brassey's, Inc., 1995, pp. 133-40.

Throughout 1992 the Straits Exchange Foundation (SEF), on behalf of the Taipei government and the Association for Relations Across the Taiwan Strait (ARATS) on behalf of the Beijing government, discussed the concept of 'one China' in preparation for a meeting of their own leaders to conclude agreements dealing with matters such as repatriation of illegal migrants, cracking down on crimes, settlement of maritime disputes, protection of intellectual property rights, verification of documents, and compensation for lost mail.²⁰ This led to the Koo-Wang Talks in 1993. Especially after Deng Xiaoping's walk-about in southern China in 1992, Taiwanese business people poured a large amount of money into China. Therefore, there was no significant curb on Taiwanese business people investing in the PRC, but a boost at that time.

Throughout the 1990s, the PRC focused on its economic development, encouraging foreign direct investment and strengthening its foreign economic engagement with Western countries. The enormous domestic market also became the bait and bargaining chips in augmenting its international space. Even though internal social problems emerged one after another, the whole world could not ignore the rise of China in the Asia Pacific, and this rise gave China an increasingly important standing in the world. Taiwan serves as an intermediary between China and the wider world. This is so partly because China and Taiwan share the same culture. When other countries try to engage China economically through investment, Taiwan is often the first go-between they

²⁰ John W. Garver, *Face Off – China, the United States, and Taiwan's Democratisation*. London: University of Washington Press, 1997, p.28.

think of because Taiwan used to be the partner of the Western countries. For example, Pou-Chen had been the partner of Nike, Adidas and Adidas for many decades before it invested in China. These famous western brands hesitated to invest in China by themselves initially. Yu-Yuan, the branch factory of Taiwan's Pou-Chen shoes in China, enjoys the Original Equipment Manufacturing (OEM) of Nike, Adidas, Reebok; Timberland is the most recent and the best example of international cooperation between Taiwan, China and the Western countries. The importance of Taiwanese business people as a gateway to China has increased in step with the growth of Taiwanese investment in the Mainland. Taiwan's capital, management, techniques and even antiquated machinery, combined with China's cheap labour and land, and Western countries' world-renowned brand and marketing have come together. This is a state-of-the-art combination.

3.2 The Pragmatism & Obstructionism of the People's Republic of China (PRC)

Does Beijing government's policy towards Taiwan mainly support the status quo? Several scholars on China studies assert "yes". Andrew Nathan and Robert Ross opine that "since its 1979 attack on Vietnam, China has been a reactive power, striving not to alter but to maintain regional patterns of power. Its diplomacy has been in support of the status quo, aiming not to undermine but to join international regimes.....Its military threats against Taiwan were aimed at deterring Taiwan from changing the status quo rather than at compelling it to accelerate the pace of reunification".²¹ Zhao

²¹ Andrew J. Nathan & Robert S. Ross, The Great Wall and the Empty Fortress – China's Search for Security. New York: W. W. Norton & Company, 1998, p. 230.

Gancheng added that: "Taipei rebukes Beijing's calls for one country, two systems. Beijing never says whether, if Taipei does not accept it, Beijing will use force to intimidate Taipei into submission. In other words, Beijing can accept the status quo as long as both sides maintain a one-China principle. Beijing does not like the status quo, but it does not make unilateral moves to pressure the other side. It is Taiwan that tries to break the status quo and, unfortunately, on the basis of denying the one-China principle, a common stance that has been accepted by both sides for a long time".²²

However, the relations across Taiwan Straits cannot be analysed simply from the perspective of the sides. We have to assess the international environment, too. Even though Beijing can be interpreted superficially as having tried to maintain status quo, it has been trying to relegate Taiwan's status quo in the international community and has achieved success to a substantial extent. For example, the major states that recognised the ROC on Taiwan have all shifted their recognition to the PRC, including Saudi Arabia, South Korea and South Africa. Taiwan's move to re-enter the United Nations has been futile because none of the western countries have supported it. After President Lee's visit to Cornell and the Taiwan Straits Crisis, President Clinton promised that the United States 1) would oppose or resist efforts by Taiwan to gain independence; 2) would not support the creation of 'two Chinas', or one China and a separate Taiwan; 3) would not support Taiwan's admission to the United Nations. These assurances afterwards became the new 'three noes'.²³ Hong Kong and Macao were both returned

²² Zhao Gancheng, "The Two-State Theory: Myth or Reality?", in Gerrit W. Gong, ed., Taiwan Strait Dilemmas: China-Taiwan-US Policies in the New Century. Washington D.C.: The CSIS Press, 2000, pp. 65-66.

²³ James Mann, About Face. New York: Vintage Books, 2000, p. 330.

to the PRC at the end of the twentieth century. On the other hand, the Beijing authorities have been trying to promote politics through economics (*yi jingji cu zhengzhi*, 以經濟促政治) or promote reunification through businesses (*yi shang cu tong*, 以商促統) and pressure the government with popular demands (*yi min bi guan*, 以民逼官). Most of Taiwan's tycoons, including Wang Yung-ching, Chang Yung-fa and Kao Chin-yen, all demanded that the Taipei government lift the limit on investing in Mainland China – 'No Haste, Be Patient' (*jieji yungren*, 戒急用忍). By offering incentives to business interests, the PRC government had been quite successful in exerting leverage in courting Taiwanese business people against the Taipei government in the 1990s. Eventually, the Policy of 'No Haste, Be Patient' of Taiwan was abolished by the new DPP (Democratic Progressive Party) government in 2001. On top of this, the PRC also employed missile diplomacy to intimidate and foreign aid to isolate Taiwan. In this section, the author is going to analyse the strategy of the PRC government against Taiwan.

Beijing has never renounced use of force vis-à-vis Taiwan, a threat not conducive to cross-Straits relations or the reunification of China. During the 1995-96 Taiwan Straits Crisis, the PRC used missile tests to intimidate Taiwan. A US former Ambassador to China, Winston Lord, recalled that Xiong Guangkai asserted, "Look, we're not worried if we get into some tension and potential conflict with the United States. By the way, we have nuclear weapons, too. In the event of a real confrontation we don't think that the Americans are going to give up Los Angeles in exchange for Taiwan". Although the US and Taiwan had no intelligence to indicate that the PRC was going to use force

at that time against Taiwan, there was no doubt that the PRC wanted to engage in psychological and political warfare to bully Taiwan, and it expressed its views on its sensitivity to Taiwan's move. However, the PRC might make an irrevocable mistake. The US judging that its choices after the Chinese had done something would be much more difficult, decided to deter the PRC from the beginning. The US intervened, so the crisis abated. This would have been the biggest conflict in the Western Pacific since the Vietnam War, and it probably drew the biggest concentration of US naval power there.²⁴

It is said that during his visit to Beijing, Charles W. Freeman Jr. – the former State and Defence Department specialist on China – was told by Xiong Guangkai, the deputy chief of general staff of the PLA and its chief of military intelligence, that China was ready to sacrifice millions of people, even whole cities, in a nuclear exchange to defend Chinese interests in stopping Taiwan's independence.²⁵ The PRC was thus determined to use force against Taiwan if Taiwan crossed the line the PRC had set.

3.3 Scholars' Contributions after the End of Cold War

In Chapter 2, the influence of Fukuyama's work has been analysed. In the 1990s, not only Fukuyama but also other scholars advised US and Western countries to engage with China, although the emphasis was somehow different from Fukuyama's. In general, they believed that making China obey international norms and consult with the

²⁴ Nancy Bernkopf Tucker, *China Confidential – American Diplomats and Sino-American relations, 1945-1996*, New York: Columbia University Press, 2001, pp. 484-86.

²⁵ James Mann, *About Face*, New York: Vintage Books, 2000, p. 334.

Western countries on international affairs would mitigate military tension and settle disputes. Gerald Segal suggests that a sophisticated strategy for tying China into the international system will become necessary if, in 2020, the world faces a united, authoritarian China with the world's largest GDP, perhaps the world's largest budget, and a boulder rather than a chip on its shoulder. Then it would be too late to deal with the challenges. According to Segal, given that China's nineteenth-century attitude to sovereignty is especially anachronistic, the more China perceives the benefits from genuinely multilateral diplomacy, the less paranoid it will feel about the world and the less paranoid the world will feel about it. The conditions are very different, if only because of China's greater importance for international trade and the absence of clear divisions into East and West. The more interdependent China is with the global market, the more means there are of tying China in (and down). The strategy aims to create a China that is more used to multilateralism, engaging in substantial dialogues, and real interdependence in social as well as economic terms. Although this might be adversarial in some minor aspects, military tension and major adversarial behaviour can be avoided.²⁶

David Shambaugh also argues that that the US and China should engage each other constructively on all different levels (including the People's Liberation Army) and in a range of forums in order to sort out the (address the panoply of) difficult issues between both sides. Otherwise, the US and China might misperceive each other and find

²⁶ Gerald Segal, "Tying China into the International System", *Survival*, Vol. 37, No. 2, Summer 1995, pp. 60-73.

themselves embroiled in an adversarial relationship which neither seeks, needs nor can afford. Both wishful thinking about a benign China and exaggerated fears of a threatening China are distorting and destabilising. It is necessary to analyse China carefully and rationally. According to Shambaugh, to date it is more artificial than real when Chinese military modernisation is assessed and the discussion of 'China threat' is both incorrect and untrustworthy. The Chinese military does not have the capability to directly challenge the US national security now or in the foreseeable future, despite modernisation and the streamlining of the People's Liberation Army. This might potentially menace the national interests of China's 'neighbours' and the US, including Taiwan's security and integrity, freedom of navigation in the Pacific and Indian Oceans, and the security of US staunch allies and partners in East, Southeast, and South Asia. In terms of China's intentions, Shambaugh believes that China does not mean to confront the US, but it is ready to retaliate if the US treats China as an enemy.²⁷ Therefore, the US had better deal with the PRC cautiously and scrupulously, without provocation. In addition, it is also essential that China preserve its integrity and its effective and humane governance because China's stability and security are vital to Asian stability and security. China's prosperity is thus parallel to US national interests.

It is also emphasised that bilaterally, the US must engage the People's Liberation Army (PLA) at all levels – seeking through dialogue to augment transparency in Chinese defence expenditure, doctrine, deployments, and security perspectives; exchanging

²⁷ David Shambaugh, "China's Military: Real or Paper Tiger?" *Washington Quarterly*, Vol. 19, No. 1, Spring 1996, pp. 19-36.

personnel between national military units, service academies, and staff colleges; undertaking, in time, joint manoeuvres and other confidence-building and transparency-enhancing measures; and keeping an ongoing dialogue on international security tendencies and bilateral defence interests at the highest level of the two military establishments. In the end, the US should consider limited and defence weapon sales and technology transfers to China, disabusing the fears of US containment policy. Multilaterally, the US must work with Asian and Western countries to integrate the Chinese government and the PLA into global and regional cooperative (as distinct from collective) security regimes. Cooperation with China is the means of access, since a confrontational approach will lead to the PRC becoming a ferocious competitor at best and an adversary at worst. If China is not fully integrated into the International system, it has the potential and capacity to become a rebellious non-status quo power. The PRC is afraid of being trapped and manipulated by other countries, because international regimes will permeate China, limiting China's sovereignty and freedom of manoeuvre outwardly. Therefore, China avoids alliances and close binding relationships with other nations, or abiding international norms and conventions, including the World Trade Organisation (WTO) and the Missile Technology Control Regime (MTCR) in the 1990s.²⁸ Even though Shambaugh focuses mainly on security issues, the engaging approaches are conducive to the economic field and all other realms. The policy of engaging China is inevitably favourable to Sino-American economic relations and cross-Straits economic exchange, although the US did not adopt the policy of cooperating with China comprehensively in the 1990s,

²⁸ Ibid. pp. 31-32.

especially in the field of military exchange.

Audrey Kurth Cronin and Patrick M. Cronin also assert that since 1978 Chinese economic liberalisation, together with the decline of Soviet threat, the PRC has been able to modernise its military, which worries China's neighbours. As the relative strength of the US in Asia dwindles, the potential influence of China will expand. Permitting Sino-American relations to drift without guidance would be wrong: the US must engage China within a realistic framework. Eight reasons are also enumerated to show the defects of containing China – including that containment could precipitate Chinese military intervention in Taiwan or the South China Sea. The prediction of Shambaugh is also cited to the effect that “we can expect a lack of Chinese cooperation on a range of issues of importance to the United States. You’re just going to find a very stubborn and reluctant partner in Beijing”. Like Shambaugh, they also advise the US to institutionalise military-to-military contacts with the PRC at all levels. Even though China will be regarded as a reluctant partner in trade, human rights, territorial disputes and arms sales, the US still must adopt a policy of realistic engagement.²⁹

3.4 Conclusion

In the international system, the salience of economic issues has replaced security, ideology and politics in the wake of the Cold War. This, together with the Tiananmen Incident, offered Taiwan with an opportunity to wield its economic strength to achieve

²⁹ Audrey Kurth Cronin and Patrick M. Cronin, “The Realistic Engagement of China”, *The Washington Quarterly*, Vol. 19, No. 1, Winter 1996, pp. 141-169.

international space. However, Taiwan has not really had enormous muscle to exercise in the international arena. For some time, Taiwan has seemed to break out of international isolation. However, this may not be long-term.

By contrast, Deng Xiaoping had ostentatiously opened China at the beginning of 1980s, attracting American firms to move into China. Business people jostled one another in the rush to provide consumer goods to China's multitudes of potential customers. Hence, they formed an interest group to urge the US government to widen the scope of trade with China, no matter how the PRC's government violated human rights in defiance of American/international principles. Despite the nearly overwhelming repugnance of the American TV audience towards the Chinese government, which had been responsible for the Tiananmen Incident, American business people again united to support a new 'open door' policy in handling the PRC. On the other hand, the PRC government endeavoured to break out of the diplomatic predicament caused by the Tiananmen Incident. Beijing has since become more accommodating in its diplomacy and adopted a more realistic foreign policy, primarily based on economic and security interests and no longer on ideology.³⁰ Therefore, the Beijing government did change its attitude after the Cold War and the Tiananmen Incident. Although the Taipei government improved its ties with the Western countries in the early 1990s to a certain extent, the Beijing government soon became proactive in its foreign policy towards the outside world.

³⁰ David Shambaugh, "Peking's Foreign Policy Conundrum Since Tiananmen: Peaceful Coexistence vs. Peaceful Evolution", *Issues & Studies*. Vol. 28, No. 11, November 1992, pp. 65-85.

In Asia Pacific, Taiwan could not contribute significantly to security except in the Taiwan Straits, although the Taiwan government could somehow provide foreign aid to some countries in this area. However, long-term commitment was not guaranteed. The euphoria between both governments of Taiwan and China in the early 1990s, especially the '1992 consensus', paved the way for the people-to-people diplomacy between the two sides. In the end, Taiwanese business people became prominent in Taiwan's economic diplomacy.

On the other hand, Beijing tried to relegate Taiwan's status to a provincial level. Some scholars mistakenly asserted that the Beijing government wanted to maintain the status quo. In fact, China employed a carrot-and-stick policy towards Taiwan. China nevertheless tried to isolate Taiwan by any means possible.

Many scholars have stressed the importance of China *per se* and its cooperation. Therefore, many Western countries began to draw attention to and engage China. Multinational corporations also focused attention on Mainland China. Together with Taiwanese business people, these firms and China make impeccable match. This chapter tells us that the governments of China and Taiwan have competed with each other in the wake of the Cold War. However, it was the salient economic issues of the international system and Taiwanese business people that have played a major role in Taiwan's economic diplomacy. The role of Taiwanese business people will be discussed in Chapters 5, 6 and 7.

Chapter 4

Taiwan's Diplomacy at the State Level

4.0 Introduction

Although Waltz's theory is very convincing, his theory is also too narrow, focusing merely above the unit level of analysis (the system level is above the state level). His prominent definition of structure effectively encompassed both the holist version, and the meaning of the 'system level'. Waltz defined everything that is not structure as part of the unit (i.e. reductionist) level: 'structure includes only what is required to show how the units of the system are positioned or arranged. Everything else is omitted'.¹ Because he defined structure in very limited terms (and confined its use to the system level), he could not avoid making the unit level a dumping ground of a lot of causal relationships. The unit level thus contains some other levels of analysis and some other sources of explanation. Among the debates of levels of analysis, it has been focused on how to distinguish between the (collective) unit and the system level. Neither Waltz nor Singer stated clearly about this in their early works.² The individual and state levels were regarded as mainly self-evident. This does not mean that we can thus abandon the analysis of the state level. The unit level of analysis is also very important in addition to Waltz's analysis.

¹ Kenneth N Waltz, Theory of Political Politics. London: McGraw-Hill, 1979, p. 82.

² Barry Buzan, "The level of Analysis Problem Reconsidered", in Ken Booth and Steve Smith, ed., International relations Theory Today. Cambridge: Polity Press, p. 206.

All these are the reasons why we turn to the state level. In addition, the Taipei government has launched a series of successive policies, consistent or contradictory, since the late 1980s, thereby attempting to direct Taiwan's diplomatic and economic activities. These policies no doubt more or less influenced Taiwan and its diplomacy, including Pragmatic diplomacy, the Six-Year National Development Plan, the APROC Plan, the Southward Policy and the Policy of 'No Haste, Be Patient'. Even though in practice, Taiwanese business people ignored these policies to a certain extent, they still on the one hand promoted, and on the other hand curbed what Taiwanese businesses have done since the late 1980s. In order to understand Taiwan's economic diplomacy since the late 1980s, we need to review the policies of the state.

I proceed with my analysis by first considering Taiwan's pragmatic approach to diplomacy. Next I review the 'Two-states' theory and then consider the impact of the Six-Year National Development Plan. Finally, I consider the westward trend and its conflict with the Southward Policy.

4.1 Pragmatic Diplomacy

Until the mid-1980s, Taiwan had still stuck to a sort of Hallstein Doctrine in dealing with its foreign affairs.³ That is, Taiwan stuck with the Policy of "Han and the

³ The Hallstein Doctrine – named after Walter Hallstein, German Foreign Minister and close advisor to Chancellor Konrad Adenauer – was set forth in December 1955. It declared that (other than the Soviet Union), West Germany would sever its diplomatic relations with any state that extended recognition to East Germany, thereby claiming that the Federal Republic of Germany was the sole representative of all Germans. When Yugoslavia recognised East Germany in 1957, Bonn withdrew its diplomatic recognition from Belgrade. See Kuo-hsiung Lee, "The Republic of China's 'Flexible Diplomacy' and Its 'Look South' Policy", in David Tawei Lee and Robert L. Pfaltzgraff, Jr., ed., *Taiwan in a Transformed World*. London: Brassey's, 1995.

bandits do not co-exist" (*Hanzei bu liangli*, 漢賊不兩立). Taiwan had always severed its official relations with every country that set up diplomatic ties with the PRC. The relations between Taiwan and the PRC were thus a zero-sum game. After Taiwan was expelled from the United Nations (UN) in 1971, the number of countries that recognised Taiwan dwindled to around twenty. By 1988, merely 22 countries maintained official relations with Taiwan. Forty countries that hosted Taiwanese representative offices and treated them as ersatz embassies but did not officially recognise Taiwan as an independent country. By the end of the 1980s, President Lee Teng-hui had urged Taiwan to adopt a more flexible, more pragmatic and more forward-looking approach to upgrade Taiwan's foreign relations,⁴ whereas the PRC remained dogmatic. While the PRC claimed, "There is only one China, and Taiwan is part of China", Taiwan asserted, "There is only one China, and both Taiwan and the Mainland are part of China". Afterwards, in view of China's diplomatic blockade, Taiwan modified its claim that "China is divided and separately governed" by the two entities across the Taiwan Straits, thus no longer emphasising Taiwan as part of China.⁵

To engage with the international community in all dimensions, Taiwan does not struggle to represent 'China' against the PRC. Therefore, Taiwan respects international cooperation and avoids conflict, strengthens its relations with other countries, and tries to co-exist with the PRC, thus developing Taiwan's international

⁴ *China Times* (中國時報), 8 July 1988.

⁵ Telephone interview with JJ, former Section Chief, Foreign Service Institute, MOFA, Taiwan, 21 July 2003.

'space' and hoping to achieve a win-win game with the PRC.⁶

In theory, the concept of rationality borrowed from neo-classical economics is often used in decision-making. Given the theory that governments act rationally, they would have consistent priorities and calculate the costs and benefits of all alternative policies in order to maximise their utility by considering both the priority and their perceptions of the nature of reality. However, the assumption of rationality is not always descriptively correct, though it still serves a useful function. Herbert Simon therefore introduced into the study of decision-making the concept of bounded rationality. Actors under bounded rationality usually fail to maximise their utilities because they are not always able to use all available information to calculate the costs and benefits of every alternative course of action. Therefore, the actors employ shortcuts as a quick way of doing something, learnt by practical experience (rules of thumb), thereby realising a satisfactory level of performance rather than the best one.⁷ Accordingly, after President Lee Teng-hui visited Singapore and was called 'the President from Taiwan' in March 1989, he responded that the title was 'not satisfactory but acceptable'. Obviously, this title was neither optimal nor too bad.

A book by Su Chi, later the Chairman of Mainland Affairs Council, asserts that since the PRC and Soviet Union arrived at a détente based on realism, Taiwan should neither underestimate nor exaggerate its own freedom of action and power. Taiwan

⁶ Tien Hung-Mao, "The Implications of Head-of-State Diplomacy of the ROC", in Government Information Office, *Peaceful Journey*. Taipei: Government Information Office, 1997, pp.4-5.

⁷ Robert O. Keohane, "Realism, Neorealism and the Study of World Politics", in Robert O. Keohane, ed., *Neorealism and Its Critics*, New York, Columbia University Press, 1986, pp. 11-12.

should attack what could be attacked and defend what should be defended. To be more precise, for attacking, Taiwan could use diplomatic guerrilla warfare. In classic guerrilla warfare, as expounded by Mao Zedong, the guerrillas control the rural areas and carry out opportunistic raids on their enemy. According to the analogy, Taiwan had lost the 'town' (official recognition) and should concentrate on informal or economic relations where it could (the 'countryside'). According to Su, only if Taiwan could make friends where the PRC could not penetrate should it seize the chance and not insist on formal recognition from its new partners. To defend its position, Taiwan still has had to stick with its 'one China' policy so that Taiwan would not provoke the PRC or overreach itself. In addition, to be pragmatic, Taiwan should continue to promote people-to-people diplomacy with the Mainland and lessen the tension between the two sides. Meanwhile, Su claimed that Taiwan could develop trading relations with the Soviet Union and other communist countries little by little. Even though, because of pragmatism, there would be a limit in the relations between the Soviet Union and Taiwan, the Soviet Union would be willing to develop trading ties with Taiwan to a certain extent. Vladimir Ivanov, an official from the Soviet Union, had visited Taipei in May 1989 and had said that if the economic relations between Taiwan and the Soviet Union could reach only half the level of those between Taiwan and the US, the Soviet Union would find a model or concept to accommodate the ties. This, said Su Chi, was the best way to express pragmatic diplomacy—by developing first relations and then a model. In this newly transformed world, Taiwan should bring pragmatism into full play and develop a larger sphere of

diplomatic influence.⁸

In October 1998, the Koo-Wang talks were going to resume; Koo Chen-fu, head of the Straits Exchange Foundation, travelled to the Mainland to meet with his counterpart and talk with President Jiang Zemin. The meetings were warm and seemingly fruitful.⁹ However, at the turn of the century, Lee even proposed the theory of 'special state-to-state relations' ('two-states' theory) to counter the diplomatic predicament imposed by the PRC,¹⁰ although this alienated the support of US President Clinton.

4.2 The 'Two-States' Theory

The 'two-states' theory was not only a downturn in the relations across the Taiwan Straits, it also alienated Taiwan from the US. Therefore, Taiwan's economic diplomacy has become more important. In the past, Taiwan wanted to re-enter the United Nations (UN) by asking for a repeal of UN Resolution No 2758 of 1971, by which Taiwan had been replaced by the PRC. However, by the 'two-states' theory, Taiwan would ask for permission to join the UN as a new, separate state, citing the so-called German model to support its policy. The German model was embodied in the 'Grundlagenvertrag', or Fundamental Treaty of 1972, between the two Germanies. It did not set any specific future scenario, with one side recognising the other as an

⁸ Su Chi, *On the Normalisation of the Relations Between the PRC and the Soviet Union from 1979 to 1989*, Taipei: Sanmin Bookshop, 1992, pp. 229-31. (論中蘇關係正常化 1979-1989, 台北:三民書店, 1992), pp. 229-31.

⁹ Copper, John F., *Taiwan: Nation-State or Province?* Boulder: Westview Press, 2003, p. 212.

¹⁰ According to Copper, the 'two-states' theory was Lee's response to President Clinton's "three no's" statement in China in 1998. See *ibid.*

equal entity and neither side claiming itself as the sole legal government of Germany.¹¹

President Lee Teng-hui's announcement of a 'two-states' theory in July 1999 may have come as a shock to many. But to the policy's mastermind, it had been a long time coming, following a decade of deliberate, painstaking preparations. This theory involved all the three levels of analysis. Almost a decade later, Lee finally admitted to a German press delegation that the 1991 and 1992 Constitution revisions were aimed at giving Taiwan 'separate-state' status, thus confirming the New Party's fears that the revisions would endanger the status of the Republic of China.¹² The process of diminishing the ROC continued with another constitutional amendment that scrapped the province in the administrative hierarchy, which was completed in 1998. All these too place at the level of the state. With these processes completed, Lee attempted to turn Taiwan's de facto independence into a de jure one at the level of individual. In 1993, Lee, a Christian, told the late Japanese author Ryotaro Shiba that he saw himself as the Moses of Taiwan. This meant the splitting of Taiwan from China, since Moses had led his Jewish people out of Egypt.¹³

At the level of the international system, American pressure might be a factor. Lee Teng-hui's speech at Cornell in 1995 was regarded by the US as inflammatory. The US told Taiwan in advance this should be a non-political speech, but the speech itself

¹¹ Ching Cheong, Will Taiwan Break Away. Singapore: World Scientific, 2001, p. 164.

¹² Ching Cheong, Will Taiwan Break Away. Singapore: World Scientific, 2001, p. 170.

¹³ Ibid. p. 170.

clearly was political, and the US believed it had been blindsided by Taiwan, although Beijing's objection was not to Lee's reunion speech but to the trip itself. China's retaliatory campaign included a series of diplomatic annoyances to the US. The PRC postponed a series of high-ranking meetings, such as a trip to the US by Defence Minister Chi Haotian and a visit to Beijing by John Holum, the director of the US Arms Control and Disarmament Agency. China also cancelled scheduled talks between the two governments regarding nuclear energy and the control of missile technology. The PRC also ordered a Chinese air force delegation visiting Washington to return to China. In addition, China recalled its ambassador from Washington on 17 June 1995, and delayed granting the formal acceptance necessary for President Clinton's appointee, former US Senator James Sasser, to take his post as the next American ambassador to China. Consequently, the US and the PRC found themselves in the summer of 1995 with no ambassadorial representation on each other's territory for the first time since the establishment of relations in 1979. The events of the summer of 1995 made the US determined to pay closer attention to China. Clinton also promised the PRC that the US 1) would oppose or resist efforts by Taiwan to gain independence; 2) would not support the creation of 'two Chinas', or one China and a separate Taiwan; and 3) would not support Taiwan's admission to the United Nations (UN). These promises were afterwards called the "three no's".¹⁴ All this made the international environment unfavourable to Taiwan.

¹⁴ James Mann, About Face – A History of America's Curious Relationship with China, from Nixon to Clinton. New York: Vintage Books, 1998, pp. 327-30.

The missile crisis in 1996 strengthened the differences between the people on Taiwan and the people on the Mainland and shows how little the PRC leaders understood about democracy. Although all they did was to increase Lee's margin of victory in the Taiwan presidential elections and make many people on Taiwan furious,¹⁵ the US was not going to change its policy on one China, urging Taiwan to cool it and encouraging Beijing and Taiwan to have direct talks across the Taiwan Straits (talks that had been suspended in 1995 because of the Lee visit to Cornell). The US, not wanting Taiwan to think it had a blank cheque from the US, told Taiwan not to be provocative. The deployment of carriers to the Taiwan Straits helped to cool tension down. From then on US relationships with Beijing began to improve.¹⁶ Since the missile crisis in 1996, the US had departed subtly from its previous non-mediatory role to one advocating an 'interim agreement' between Beijing and Taipei. Under such an agreement, which is supposed to last 50 years, Taipei would not declare independence, while Beijing would renounce the use of force. This proposal has developed progressively from an academic suggestion to one followed by the US government.¹⁷ At the level of the international system, Taiwan was facing the pressure to enter into political talks with China. In order to solve the problem once and for all, Lee Teng-hui declared Taiwan a bona fide state, thus abandoning the one-China concept that had been Lee's longstanding nightmare.

¹⁵ Nancy Bernkopf Tucker, *China Confidential – American Diplomats and Sino-American Relations*. New York: Columbia University Press, 2001, pp. 486-87.

¹⁶ Nancy Bernkopf Tucker, *China Confidential – American Diplomats and Sino-American Relations*. New York: Columbia University Press, pp. 488-89.

¹⁷ Ching Cheong, *Will Taiwan Break Away*. Singapore: World Scientific, 2001, p. 171

At the state level, the theory also related to the presidential elections in 2000. According to opinion polls, former governor James Soong (35 percent) led all other candidates by a wide margin, including the DPP's Chen Shui-bian (26 percent) and Vice-President Lien Chan (14 percent). It was believed that Lee was unwilling to be replaced by Soong, who was a mainlander and whom he found too disobedient. Because Soong enjoyed the trans-party support, the 'two-states' theory could be a deadly blow to him.¹⁸ By throwing away the one-China principle, Soong would be put into a dilemma. If Soong opposed the new theory, he would lose the votes of native Taiwanese. And if Soong supported the theory, it would cost him the votes of mainlanders. Although Soong was hurt even more seriously by a scandal in the elections, it could be calculated that the 'two-states' theory was designed partly for him.¹⁹

In the end, the 'two-states' theory met with the strong negative pressure from the international system, including Beijing and Washington. A strong military threat from Beijing, open criticism from the US, together with plunging share prices in Taiwan all pushed Taipei to back down. Therefore, Su Chi, Taiwan's Mainland Affairs Council chairman, had to tone down Lee's theory by adding a 'one China' commitment and a 'no independence' promise to Lee's initial formulation.²⁰ Politically, Taipei suffered a setback, so Taiwan's economic diplomacy became increasingly more important. Taiwanese business people played a major role in

¹⁸ Ibid. 171.

¹⁹ In the end, Chen Shui-bian won the presidential election.

²⁰ Ching Cheong, *Will Taiwan Break Away*. Singapore: World Scientific, 2001, p. 152.

ameliorating relations across the Taiwan Straits. In addition, they also served as pioneers in cultivating relations with countries in Southeast Asia. Political leaders also strove to help and protect Taiwanese business people by improving Taiwan's international standing and concluding international agreements.

4.3 The Six-Year National Development Plan

In May 1990 Hau Pei-tsun was appointed Premier of Taiwan, and the Six-Year National Development Plan was introduced to lure global major nations, enhancing both economic and political relations between Taipei and them. The budget of the Plan over six years (1991-1996), which amounted to US\$313 billion, received a lot of publicity and attracted tremendous business interest worldwide. After Taipei threw the Plan into the international market, many countries without diplomatic relations upgraded their Taipei trade offices, sent high-ranking officials 'incognito' to Taiwan, and consented to exchange their air landing rights with Taiwan, even despite Beijing's objection.²¹

However, all these are only illusions of Taipei's 'bubble diplomacy,'²² and ultimately — and inevitably — the bubble burst. The failure was marked in late 1993: Premier Lien Chan had to cut the budget of the 'Six-Year National Development Plan' (1991-1996), which had been used to attract the major companies

²¹ Linjun Wu, "The ROC's Economic Diplomacy After the March Crisis: Can Money Talk Again?" p. 58.

²² The term is borrowed from 'bubble economy', which was used to describe the economy of some Asian countries, especially Japan. The 'bubble diplomacy' suggests that when Taiwan's economic diplomacy was booming like 'bubbles' in the early 1990s, the bubbles suddenly burst after the national budget was cut down in 1993.

and governments of the Western countries. For a short while, this strategy had been successful, because companies seeking contracts in Taiwan had lobbied their own governments in Taiwan's favour. However, this strategy lost its force when the development budget was cut. A sign of the failure is that, since this event, scarcely any high-ranking Western officials have visited Taiwan.

The potential big contracts offered by the Six-Year National Development Plan attracted visits by Western countries and promoted their relations with Taiwan. The Plan attracted tremendous interest worldwide from business people who wanted a chance to invest and make a profit. In January 1991, a substantial breakthrough in relations with Western Europe came about, when French Minister of Trade and Territorial Development Roger Fauroux led to Taiwan a delegation of 28 government officials and business leaders. Despite realising that the PRC would protest, the French government and enterprises still launched their move in order to win several contracts in nuclear power, subway construction, and a high-speed railroad. The PRC did assert that the French government's action "runs counter to the commitment made by France that it recognised only one China" and "is unacceptable to the Chinese side". Notwithstanding the Chinese government's accusation, French Secretary of State for Foreign Trade Jean-Noel Jeanneney led another delegation to Taiwan in January 1992. Those countries in Europe and North America which followed suit included Italy, Holland and Canada.²³ Consequently, visits of Taiwan

²³ Italian Minister of Public Construction Affairs Gianni Prandini visited Taiwan in April 1991; Dutch Trade Minister Yvonne Vanrooy called on Taiwan in April 1992; and Canadian International Trade Minister Michael Wilson also paid a visit to Taiwan in September 1992. See Ralph N. Clough, *Reaching Across Taiwan Strait: People-to-People Diplomacy*. Oxford: Westview Press, 1993, p.107.

cabinet-level officials to Western countries became increasingly frequent. Given the fulmination from the PRC, these countries' governments claimed the exchanges were unofficial and 'ignored' PRC opposition.²⁴

Britain, Japan, and New Zealand all permitted an upgrading of Taiwan's representative offices in their capitals in 1993. For example, Japan allowed the title of Taiwan's 'ersatz embassy' in Tokyo to be changed from the 'Association of East Asian Relations' to the 'Taipei Economic and Cultural Representative Office in Japan'. The other countries that wanted a share of the Six-Year National Development Plan sent high-level officials, such as former German chancellor Helmut Schmidt, former French President Valéry Giscard d'Estaing, former British Prime Minister Margaret Thatcher, German Vice Chancellor and Minister of Economic Affairs Juergen Moellenmann, Australian Minister for Resources and Tourism Alan Griffiths, and US Trade Representative Carla Hills, to 'show amity' and lobby for contracts. Japan, which had always been very scrupulous in keeping its distance from Taiwan, also had its minister for international trade and industry attend a meeting for bilateral economic cooperation between Japan and Taiwan.²⁵ Gradually, many countries became willing to develop substantial relations with Taiwan based on reciprocity. Countries without official relations with Taiwan began to remove various obstacles and vexations from the path of Taiwanese visitors. By taking advantage of all this, Taiwan's government

²⁴ Ralph N. Clough, *Cooperation or Conflict in the Taiwan Strait*. Oxford: Rowman & Littlefield Publishers, INC., 1999, p. 74.

²⁵ Laura Li, "Contracting Relations: Economic and Foreign Relations in the Six-Year Plan", *Sinorama* Vol. 18, No. 2, February 1993, p. 21. Also see Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", pp. 32-33.

tried to introduce high technology, upgrade its industry, improve its foreign relations and elevate its international standing.²⁶ At the same time, American enterprises were rushing into Taiwan to compete with European companies for contracts in a more than \$300 billion public works programme, since this, together with American exports to Taiwan of US\$16 billion in 1993, more than twice as much as to the PRC, meant that Taiwan offered the possibility of profits in a short time, whereas China offered glittering prospects for American firms in the future. American defence suppliers were anxiously probing whether President Bush's approval of F-16 warplanes to Taiwan opened the way for more arms sales. Therefore, the US business interest in Taiwan was growing stronger and stronger.²⁷ However, the Six-Year National Development Plan of over US\$300 billion investment in transportation, telecommunication, and other construction schemes launched in 1991 was truncated afterwards by problems with land acquisition, corruption and other policy commitments. These problems prevented Taiwan from achieving the Plan's aim.²⁸

The *Taiwan Yearbook 1994* admits that "National deficits have ballooned in the last three years due to the tremendous expansion in government outlays to finance the plan's large scale construction projects". It goes on to describe the fiscal strain of Taiwan in these terms:²⁹

²⁶ The MOFA of the ROC, *Foreign Relations and Diplomacy Administration*, 1993, p. 41. According to the MOFA report, other countries which sent high-ranking officials to Taiwan included Sweden, Czech, Indonesia, and Switzerland.

²⁷ James Mann, *About Face*, New York: Vintage Books, 2000, p. 318.

²⁸ David Shambaugh, ed., *The Modern Chinese State*, Cambridge: Cambridge University Press, 2000, pp. 98-99.

²⁹ Government Information Office, *The Republic of China Yearbook 1994*, Taipei: Government Information Office, 1994, p. 204.

Since 1991, the Taiwanese government's finances have been strained by the Six-Year National Development Plan. The annual increase rate of the national treasury expenditures increased from 18.2 percent in 1990 to 37.6 in 1992. To cover its budget shortfall, the central government issued bonds to cover the expenditures. The percentage of public bonds to annual national treasury expenditure increased from 3.9 percent in 1981 to 18.1 in Fiscal Year 1991 and 32.5 percent in FY 1992, the rate once rose to 37.7 percent at the end of 1992. The portion of government bonds in Taiwan's GNP also from 2.9 percent in 1990 to 8 percent during the same period of time.

According to the *Yearbook*, "For every US\$100 spent by the central government in FY 1992, US\$32.5 came from issuance of government bonds, and the amount will necessitate increased spending in the future. Only 2 to 3 percent of central government spending in FY 1991 went to pay for principal and interest on bonds; the ratio jumped to 6.17 percent in FY 1992 and is expected to soar to 10 percent in FY 1993".³⁰ The Plan has thus been regarded as a great burden and fiscal strain on the Taipei government.

In February 1993, Lien Chan replaced Hau Pei-tsun as Premier of the Republic of

³⁰ Ibid.

China on Taiwan. Given the criticism of the Six-Year National Development Plan largely by the opposition party, the Democratic Progressive Party (DPP), Lien decided to continue to carry out 12 construction projects, but to relinquish the others,³¹ reversing the policy of allowing the budget deficit to grow.³² On 5 August 1993, The Council for Economic Planning and Development reported that the number of projects under the Six-Year National Development Plan was to be reduced from 775 to 632, and the capital required from US\$313 billion to US\$239.2 billion.³³ Because the budget and projects were substantially slashed in late 1993, the bargaining chips of Taiwan naturally dwindled to fewer huge contracts. Therefore, very few high-level officials have visited Taipei since 1994, especially no cabinet-level ones from the Western nations, who turned out to have been fair weather friends.

4.4 Westward Trend, Southward Policy and Asia-Pacific Regional Operations Centre (APROC) Plan

There are both push factors and pull factors in the Westward Trend and Southward Policy of Taiwan. Partly due to the rise of its economic strength and accumulated capital, Taiwan tended to invest overseas – notably in Southeast Asia and China - after

³¹ On 2000, just after the DPP won the presidential election, a senior advisor to the new President Chen Shui-bian, Professor Yao Jia-wen, delivered a speech at the SOAS in London, revealing that one of the reasons why the KMT stepped down was that the Six-Year National Development Plan had led to the large amount of national debt, alienating Taiwanese people. No matter how correct this 'reason', the DPP was strongly opposed to the Plan, which caused great inefficiency and waste of national budget, although it had brought about some 'acclamation'.

³² Lin, Tai-Man. My Heart in Eternal Peace – The Road of Lien Chan to Holding Office. Taipei: Commonwealth Publishing Co., Ltd., 1996 (林黨雄, 我心永平—連戰從政之路, 台北: 天下, 1996), p. 168.

³³ Jason C. Hu, ed., Premier Lien: A Man of Pragmatism. Taipei: Government Information Office, 1995, p. 193-94.

the Taipei government lifted controls on foreign exchange in 1988. (See Table 6.1.) All these factors will be discussed in the following chapters.

Taiwan's overseas investment started to boom in November 1987, when Taiwan lifted the ban on visiting relatives on Mainland China, Taiwanese business people invested on the Mainland slightly more than before. Before 1987, Taiwan's investment in Southeast Asia was largely confined to Indonesia, Singapore and Thailand. It was not until 1990 that Taiwanese investment in China increased and began to overtake investment in Southeast Asia. Soon China, with its vast market and cheaper and abundant labour, absorbed a lot of Taiwanese capital. According to statistics, Taiwan's investment in Southeast Asia in 1993 abruptly declined, but the accumulated investment in China from 1988 to 1992 amounted to US\$8 billion, and US\$12.8 billion.³⁴ The reason why, in the early 1990s, Taiwanese investment declined in the Southeast Asian countries (including Thailand, Malaysia, the Philippines and Indonesia) was the opening of China to foreign capital and Deng Xiaoping's Southern Tour in 1992. Obviously, Taiwanese business people have a penchant to transfer their investment to China. In addition, Taiwan's indirect trade with China through Hong Kong was expanding.

As a result of these changes, Taiwan's economic dependence on China has a tendency to augment. In view of China's threats of use of force against Taiwan and the

³⁴ Board of Foreign Trade, Foreign Trade Development of the Republic of China 1995. Taipei: Ministry of Economic Affairs, ROC, 1996.

increasing economic dependence, an alert government of Taiwan tried to encourage its business people to look elsewhere for trade and investment. In August 1993, Economics Minister Chiang Pin-kung backed the policy of promoting the southward development of Taiwan industries (Southward Policy).

After 1993, the only country with a comparable growth of investment from Taiwanese sources was Vietnam, though the absolute total capital from Taiwan to Vietnam could not rival the sums going to China. Vietnam joined ASEAN in July 1995. In 1996, with the addition of Vietnam, ASEAN now consisted of seven member countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei and Vietnam. While Burma and Laos subsequently entered in July 1997, Cambodia's membership was delayed until April 1999. All these developments were expected to happen in the near future when the Taipei government pushed for the Southward Policy from 1993. Taiwan expected that ASEAN would expand to form an area of over 500 million people, with each member's economy growing over 10% per year, making it a potentially great market. Moreover, ASEAN has gradually reduced tariff and non-tariff barriers, strengthened political and economic cooperation, and has already decided to establish a free trade area in 2003 with an internal tariff rate between from 0 to 5% for all of the ASEAN countries. The future effect of these trends could be to render ASEAN similar to the EU and the NAFTA, making ASEAN one of the world's major regional economic organisations. Therefore, in order to overcome these increasing pressures, the Taipei government decided to reinforce its international competitiveness and complete the Asia-Pacific Regional Operations Centre (APROC)

Plan as soon as possible.³⁵

³⁵ Board of Foreign Trade, Foreign Trade Development of the Republic of China 1995. Taipei: Ministry of Economic Affairs, ROC, 1996, pp. 34-35.

Chapter 5

Taiwan and Taiwanese Business People

5.0 Introduction

In Chapter 4, we explained the good reasons why we should examine the state level. Similarly, we have found reasons to doubt whether 'national interest' is defined well enough to serve as a plausible and compelling goal for the units of international relations. However, Waltz's restriction of the levels of analysis debate to the confines of reductionist/holist one had a very distorting effect. It rammed the whole debate about levels into an inappropriate dyad, confining it to merely two levels, and importing into the relationship between those two levels the oppositional qualities associated with reductionism versus holism.¹ Therefore, we should open the box. Debate on this layer of the problem cannot proceed without also taking into considering the **individuals** who engage in the actual process of decision-making.

At this level, we will examine both Taiwan's national leaders and Taiwanese business people. Taiwan's national leaders made every effort to explore Taiwan's international space by hook or crook, especially by overseas visits. Taiwanese business people have followed their own steps in pursuing profits, largely ignoring policies made by the Taipei government. Although sometimes they are shy and timid in disguise, they

¹ Buzan, Barry, "The level of Analysis Problem Reconsidered", in Ken Booth and Steve Smith, ed., International relations Theory Today. Cambridge: Polity Press, p. 208.

are always firm in practice. In order to examine Taiwan's economic diplomacy in depth, we therefore should examine Taiwan's national leaders and Taiwanese business people.

I proceed with my analysis by first considering several political leaders and entrepreneurs, then turn attention to the Taipei government's view of the bargaining efforts of the political leaders, which includes a review of criticism levelled at head-of-state diplomacy. Next I investigate the complementary nature of Taiwan's economic relations and diplomatic ties. Finally, I consider how entrepreneurs can fill the role of middlemen, surrogates and hindrances.

5.1 Political leaders and Entrepreneurs at the Third Level – Sub-National

In addition to analysis at the international system level and the state level, we have also to consider these developments at the level of the individual, which means that we must examine the personality and thought of state leaders. Chiang Ching-kuo became the defence minister of Taiwan in 1965. In addition to national defence, he was also responsible for visiting friendly countries like the US, Japan, South Korea, Thailand, Vietnam, etc. In 1969, he served as vice premier. Then he came to power as premier in 1972, when Chiang Kai-shek was ill. In 1975, when Chiang Kai-shek died, he became the Kuomintang leader. From 1978 to 1988, when he passed away, Chiang Ching-kuo was the president of Taiwan. After Chiang Kai-shek's Kuomintang forces fled to Taiwan in 1949, in the wake of the communist takeover of the Chinese mainland, Chiang Ching-kuo worked to fortify the security and

intelligence forces and established a youth wing for the ruling Kuomintang. He introduced modernising reform, and during his tenure Taiwan enjoyed rapid economic development as an export-led country, one of the 'four tigers'. Gradual democratisation was allowed, together with 'Taiwanisation' of the Kuomintang, which had hitherto been dominated by Chinese 'mainlanders', who had followed Chiang Kai-shek to Taiwan in 1949. An opposition party, the Democratic Progressive Party (DPP), was allowed for the first time to participate in legislative elections in 1986; martial law, which had been in force since 1949, was lifted in 1987. Under internal pressure within Taiwan, influence from the US, and the threat of the PRC, he decided in 1987 to relax cross-Straits relations, permitting travel to the communist-controlled mainland for family reunions. Chiang Ching-kuo revealed that he thought of himself as a Taiwanese because he had spent most of his life in Taiwan. He also recruited many native elites.²

Lee Teng-hui, successor to Chiang Ching-kuo, has been a right-wing politician, vice-president 1984-88, president and Kuomintang party leader 1988-2001. He is also a native Taiwanese leader without historic baggage. He was regarded as a reforming technocrat. He was directly elected president in March 1996, defying Chinese opposition to the democratic contest. Lee had taught for two decades as a professor of economics at National Taiwan University before becoming mayor of Taipei in 1979.

² The Hutchinson Encyclopaedia of Modern Political Biography. Oxford: Helicon Publishing Ltd, 1999, p. 218. Also see Zhen Peng-Ren, translated, The Biography of Mr. Chiang Ching-kuo. Taipei, Central daily, 1990, pp. 235-96. (小谷豪治郎著, 陳國仁譯, 蔣經國先生傳, 台北: 中央日報出版, 1990, pp. 235-96.)

He substantially accelerated the pace of liberalisation and Taiwanisation in the political economy.³ He pushed for pragmatic diplomacy to seek international space, no longer stressed eventual reunification with Mainland China, and recognised the PRC as a political entity.

This practical approach by a politician partly echoed what the business community had been saying and doing for years. Business people were the pioneers of Taiwan's economic diplomacy. They had invested in Mainland China long before the easing of political tension across the Taiwan Straits, and in Southeast Asia long before the proclamation of the Taipei government's Southward Policy.

In 1983, the PRC already promulgated the 'Special preferential measures regarding investment of Taiwanese compatriots in special economic zone' (關於台灣同胞到經濟特區投資的特別優惠辦法). Many Taiwanese business people also invested in China according to the 'Temporary preferential regulations regarding investment of overseas Chinese' (關於華僑投資優惠的暫行規定), April 1985, and the 'Regulations regarding encouraging foreign business people's investment in enterprises' (關於鼓勵外商投資企業的規定), 1986. Southeast Asia used to be the popular area for Taiwanese overseas investment. Before the 1970s, due to lack of foreign exchanges, the capital stock of investment was usually from their primary materials, semi-components and old machinery. The investment items are focused on

³ The Hutchinson Encyclopaedia of Modern Political Biography. Oxford: Helicon Publishing Ltd, 1999, p. 255.

food processing, textiles, plastics, rubber, non-metal and mineral products and electronics. In the 1970s, the favourable international payment Taiwan enjoyed boosted its overseas investment, especially in Indonesia and the Philippines. The investment items are mainly chemicals and bamboo products. Meanwhile, investment in America also increased, focusing on electronics and international trade. In the 1980s, although investment in America greatly increased, investment in Thailand, the Philippines and Malaysia remained also very popular. Investment in Southeast Asia is the major means for Taiwanese businesses to obtain primary materials, to look for production posts of cheap cost, and to avoid international trade with industrialised countries. Therefore, investment in Southeast Asia became the main stream of overseas investment.⁴

5.2 Political Leaders' Bargaining Efforts – A View from the Taipei Government

Pragmatic diplomacy was the initiative taken by Lee Teng-hui, who came to power after the death of Chiang Ching-Kuo. After Lee became the Chairman of KMT and the President of the ROC, he delivered a speech at the 13th Party Congress in July 1988, calling for the party to strive with a greater determination, pragmatism, flexibility, and vision in order to upgrade foreign policy and break out of a position of isolation.⁵

⁴ <http://192.192.200.10/87kai23.html> 3 June 2004

⁵ The Masses Daily (*Minzhong Ribao* 民眾日報), 4 June 1989, p. 3.

By hook or crook, Taipei's leaders have often been able to change craftily the political policy of other nations. Thanks to an enormous anonymous donation, the Lee Teng-hui Chair at the University of Cornell was set up, and both the Senate and the House of Representatives in America approved President Lee's holiday diplomacy. To make sure that the US Congress backed President Lee's trip, Taiwan's government paid US\$4.5 million to a lobbying firm with a large bonus, payable on receipt of the visa.⁶

The contract signed between the Taiwan Research Institute (TRI) and Cassidy in 1994 for US\$1.5 million a year stirred things up in Washington and the Taiwan Straits, following successful lobbying in Congress to force the Clinton Administration to grant a visa to Lee Teng-hui. It is said that during the KMT era, Taipei paid US\$1.5 million for Cassidy Co per year for six consecutive years with each term of three years. In 2001, Chen Shui-bian's government renewed the agreement with its successor company, whose subsidiary, Cassidy & Associates, is now responsible for lobbying in the administration and the assembly, thus paying US\$2 million per year. The goals in 2001 for Cassidy were to promote the attendance of President Chen at APEC,⁷ to improve the US preferential treatment towards Taiwan's leaders when they

⁶ *International Herald Tribune*, 21 July 1995, p. 6. Taiwan has around thirty Washington lobbying firms. 38 states and 107 cities have links with Taiwan; 18 states established trade offices in Taipei during the 1990s, given constant lobbying in the US since 1979. Also see Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", *Issues & Studies*, December 1995, p. 33; and Ministry of Foreign Affairs, *Diplomacy Report*. Taipei: MOFA, 1992, p. 189. (外交部, *Waijiao Baogaoshu* 外交報告書, 台北:外交部, 1992) p. 189.

⁷ The APEC meeting was held in Shanghai, China, so the Beijing government had not invited President Chen. What was worse, President Chen appointed the former Vice President Li Yuan-Zu to attend the meeting, but the PRC government rejected Li. Generally, the Beijing government does not approve people who have served as president, vice president, premier, current foreign minister, defence minister in the Taiwanese government to participate in international diplomatic gatherings. In the end, Taiwan forfeited its right to attend the meeting.

pass through the US, to encourage Taiwan's entry into international organisations, such as the WTO and the WHO, and to promote US arms sales to Taiwan. In July 2000 Cassidy also lobbied for the Taiwan Security Enhancement Act (TSEA), which had been opposed by the Clinton Administration but had already been passed by the House. To make this lobbying mission low-key, these contracts were signed by two nominally private institutes, the Taiwan Research Institute (TRI) and the Taiwan Political and Economic Research Institute (TPERI), whose chairmen are Liu Tai-ying and Lin Chen-yi, good friends to President Lee and President Chen respectively.⁸ The TRI was contracted by Liu Tai-ying, then chairman of the KMT Financial Committee, who hired Cassidy without notifying the Ministry of Foreign Affairs (MOFA).

In addition, it is revealed that Bergner Bockorny Inc received a grand total of US\$40,000 in 1999 from the Taipei Economic and Cultural Representative Office (TECRO) for lobbying in favour of legislation to authorise foreign assistance. This lobbying has been successful in that an amendment was passed to mandate the Secretary of State to submit a report to Congress regarding Taiwan's participation in the World Health Organisation. Bergner Bockorny Inc also lobbied for legislation relating to Taiwan's participation in international organisations and Taiwan's security.

⁸ http://content.sina.com/news/67/31/673108_1_b5.gif.html 29 July 2001. All foreign lobbyists are required by law to register either with the US Department of Justice or the lobby Disclosure Act office on Capitol Hill. Afterwards, Cassidy & Associates merged with Sandwick Public Affairs, Boland Madigan Inc and Cassidy & Associates, Inc. *The Washington Post* first reported in early July 2000 that Cassidy & Associates had ended its lucrative, six-year-long contract with the Taiwan Research Institute (TRI).

Cassidy is obviously making much more profit compared with competitors dealing with Taiwan. Diplomatic sources said that Liu Tai-ying was very pleased with Cassidy's performance and even intended to extend the contract after the March 2000 presidential election. The Chen administration followed suit. However, response from Capitol Hill was not as warm as Liu had hoped for. Jim Dorn and Mark Tison, aids of Senator Jesse Helms – the original sponsor of TSEA in the Senate – said that the influence of Cassidy has been exaggerated. An assistant to Representative Ben Gilman, chairman of the International Relations Committee in the House, pointed out that people associated with Cassidy had no idea about the real situation when TSEA was voted for in the subcommittee and the full committee. Congressman David Wu's office confirmed it had received a phone call from Cassidy on behalf of TSEA, yet it got more from the Formosa Association for Public Affairs (FAPA), a lobby group close to the DPP, which claimed the credit. Publicity surrounding TSEA may have complicated the situation in Congress. The FAPA and lawmakers like Tsai Tong-rong have been promoting TSEA, and people who are long-time supporters, such as the Taiwan Independence Movement, have even campaigned in *The Washington Post* for passage of TSEA.⁹

Besides, China Airlines and EVA Airways, the two largest airlines in Taiwan, declared their plans to purchase twelve Boeing 777s just before President Lee came back from his visit to the US. Even though the two airlines professed that the

⁹ <http://www.taipetimes.com/news/2000/07/10/story/0000043189> 10 July 2000, In April 1999 DPP Legislator Tsai Tong-rong led a delegation from Taiwan to lobby for TSEA on Capitol Hill, meeting people like Carl Ford, a former Defence Department Asia specialist.

proposed deal was irrelevant to the President's visit, observers were convinced that the declaration was probably not a coincidence.¹⁰ By the same token, Minister of Economic Affairs Chiang Pin-kung told the Legislative Yuan that the state-run Chinese Petroleum Corporation might buy crude oil from Alaska.¹¹

It is normal for a head of state to visit abroad, but sabre-rattling by the PRC reached a culmination after President Lee Teng-hui visited Cornell University in 1995 and before the presidential election in 1996. All this was to overshadow Lee as a head of state because the PRC asserted that Taiwan was a renegade province and that Taiwanese were internal affairs. Thus, the President of Taiwan could not be regarded as a head of state. Lee's overseas visit as a head of state would naturally 'provoke' the PRC, especially when this involved the sole great power, the US, because its symbolism was so clear that other countries might follow suit. Chinese officials were adherents of a 'domino theory', fearing that Taiwan could become a de facto state, which the PRC would find intolerable.¹²

The PRC always professes its sovereignty over Taiwan, never renounces use of force towards Taiwan, and tries to isolate Taiwan in the international diplomatic arena in order to relegate Taiwan's status to the same as Hong Kong's. The PRC refuses to recognise the fact that Taiwan is a political entity. Therefore, Taiwanese leaders

¹⁰ Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", p. 33.

¹¹ *International Herald Tribune*, 13 June 1995, p. 4. Ibid. p.33.

¹² Compared to the US visit, Lee's visit to the Philippines, Indonesia and Thailand in 1994 was also protested but not so drastically. It was rumoured that after Lee's visit to the US, Japan or Britain might be the next target for Lee's 'schedule'. However, Lee was not able to do so.

believe that Taiwan's existence and security must depend on diplomatic activities with political implications rather than solely on economic and trade-related, cultural, sports, and art activities. Lien Chan stated that Taiwan should make known that Taiwan is a state with absolute sovereignty by participating in all the frequent legitimate activities of the global community, because Taiwan is too big to ignore. He thus claimed that all the people and the leaders of Taiwan have the responsibility to pursue those rights available to them as members of the law-governed international community.¹³

Lee Teng-hui took his presidential office in 1988. Lien Chan, as foreign minister, paid a low-key visit to Singapore in December 1988, paving the way for Lee to take the unprecedented step of visiting Singapore in March 1989. In 1994 Lee again made other visits to the Philippines, Indonesia and Thailand, where his reception by Thailand's King Phumibol implied a state visit. While he was in the Philippines in February 1994, the heads of both states met with each other at the Manila airport and discussed Taiwan's investment in the redevelopment of the former US naval base of Subic Bay. Such a meeting nearly amounted to tacit recognition without formalities. Lien Chan, Premier of Taiwan, also made visits to Malaysia and Singapore.¹⁴

The culmination of these visits was Lee's at Cornell University. This caused uproar from the PRC. The PRC described Lee as merely the latest in a line of Chinese rebels

¹³ Lien Chan, "The Republic of China & the United Nations", *Strategic Review*, Vol. 22, No. 3, summer 1994, pp.7-13.

¹⁴ See Table 5.1.

who had betrayed their motherland, China. The US government, under great pressure, promised not to issue visas for Lee in the near future. In the wake of his visit to the US, Lee announced he would take a break from international travel for a while, staying in his home country, Taiwan. The PRC claimed that even if Lee stepped down in the future, he would still have to stay put without going abroad. Actually, after his term was over, Lee visited Britain in spite of the PRC's protests. However, when he arranged to visit Japan afterwards, the PRC strongly protested to Japan's government. Lee had to state that he would go to Japan only for his heart operation. Indeed, he returned home as soon as he had received the treatment. Lee later wanted to revisit Japan for further treatment, but the Japanese government vetoed the trip under pressure from Beijing.

It was very clear that from 1995 to 1997, when he visited Central America, President Lee was confined to his own country because of the PRC's objection to his going abroad again. Lien Chan could not visit great powers like the US, Britain, Japan, France, Canada or Germany. These countries could be visited only by Taiwan's ministerial level officials. Even Taiwan's foreign minister or defence minister, involved with highly political implications, was also banned from visiting those countries. Therefore, Premier Siew's visits abroad became more important in the late 1990s, even though his visits were again restricted mainly to developing countries.

However, Siew's role was very subtle because he had been mainly an economic-related official, which had made him more acceptable to the Beijing government.

Before he took office as Premier of Taiwan in 1997, he had been Vice Consul in Kuala Lumpur, Malaysia 1966-1969; Consul 1969-1972; Section Chief, MOFA in 1972; Deputy Director & Director of 4th Department, Board of Foreign Trade, MOEA 1972-1977; Deputy Director General 1977-1982; Director General 1982-1988; Vice Chairman of CEPD 1988-1989; Director General, Department of Organisation Affairs, CC. KMT 1989-90; Minister of Economic Affairs 1990-93; Chairman, CEPD 1993-1994; Chairman, MAC 1994-1995, Member of Legislation Yuan 1996-1997.¹⁵ Because of his economic profile, he was able to attend the APEC four times, thus even meeting Jiang Zemin in the international diplomatic arena.

After Taiwan had been expelled from the UN in 1971, Taipei was driven to the corner of the international diplomatic arena. Taiwan's international trade was booming, so flexible diplomacy and pragmatic diplomacy were adopted and trade was the bargaining chip when the Taipei government dealt with other countries, especially after the Cold War. The APEC and the GATT (afterwards WTO) were the most important institutions to Taiwan. When the APEC held a meeting in Seoul, the US was very keen to bring Taipei to attend the meeting. Because this was the first time for Taipei to 'come' after being expelled from the UN, America was very wary that Taipei's performance would cause controversy. This would induce more difficulty in bringing Taipei to participate in international occasions from then on.¹⁶

¹⁵ Government Information Office, *1999 The Republic of China Year Book*, p. 572. Also see Central News Agency, *Who's Who in the Republic of China 2001*, p. 340.

¹⁶ <http://www.cw.com.tw/Files/article/frontend/Sub.asp?page=1&SubjectId=1003&key=1954>
2001/11/6

In 1991 Taipei's stance was that its trade had been globalised and exchanges across the Taiwan Straits were under way, so Taiwan needed equality and parity rather than direct dialogue. Siew asserted that Taiwan demanded its speaking space under the international framework. Taiwan did not want to discuss the problems across the Taiwan Straits, but regional problems, in the broader Asia-Pacific area. Therefore, in the end, Taipei accepted the title 'Chinese Taipei', and was consequently permitted to attend the meeting.¹⁷ Vincent Siew, as a minister in charge of an economic-related department, was also an appropriate candidate to be present at the APEC gathering on behalf of Lee Teng-hui because Taiwan was striving largely for virtual economic interests at this stage. Hence, Taiwan was able to promote its trading relations under a multi-lateral framework, thereby carrying out its grand strategy and breaking out of the isolation which Beijing was attempting to impose.

In addition, members of the APEC are responsible for 70 percent of Taiwan's trading volume. If Taiwan were prevented from attending APEC meetings, it could greatly damage the country's interests.

In 2001 the APEC meeting was going to take place in China. President Chen Shui-bian of Taiwan wanted to attend the meeting himself, but China objected. He then chose former Vice President Li Yuan-zu to attend on his behalf, but China objected again. All this was because Chen and Li were all politically distinctive figures. Even though the Foreign Minister advised that Taiwan should send some other

¹⁷ Ibid.

distinguished person to the talks, Chen vetoed the idea; so eventually, Taiwan was absent from this meeting. Many scholars, like Su Chi, have concluded that this failure to attend the APEC meeting marked the failure of the pragmatic diplomacy which had been practised for many years by the former president Lee. We can recall that Shirley Kuo, the former Minister of Finance, even sat in on the assembly of Asian Development Bank in Beijing in 1989, aiming at proposing 'one country, two governments'. The action was aimed to allow Taiwan to re-enter the international diplomatic arena by raising Taipei's international standing. Chen's decision not to send any representative to the APEC meeting amounted to a reversion to Chiang Kai-shek's policy that Han does not coexist with the bandit (*Hanzei Bu Liangli*, 漢賊不兩立).

In September 1997, Lee visited Panama, attending an international conference on the Panama Canal and participating in a summit meeting of national leaders from all the six countries of Central America. As part of the same trip, he also paid a visit to Honduras and Paraguay.

To sum up, Taiwan's head-of-state diplomacy under Lee's leadership has developed a great deal, broadening the international profile of Taiwan. However, the powerful protests by the PRC have both curbed Taiwan's head-of-state diplomacy in a sense, and have also widened Taiwan's celebrity worldwide. Ironically, by making an excessive protest about Lee's visit to his alma mater, Cornell University, China gave the visit some welcomed publicity and prompted CNN to broadcast Lee's entire

speech at the occasion. But for the PRC's vehement protests, this visit would have attracted far less attention. It could be said that the PRC government had shot itself in the foot. The PRC asked those countries to forbid Taiwan's president, premier, or foreign minister to visit them because these visits elevated the international image of Taiwan as an international entity. Very often, influenced by the fact of Taiwan's economic power, these countries classified these visits as 'private'. They were even confused by the PRC because when the PRC tried to prevent these visits and eliminate the Republic of China on Taiwan as another China, it seemed to create another 'Republic of Taiwan'. Also, the emotional and widely acclaimed speech at Cornell, entitled 'Always in My Heart', was carefully prepared by Lee himself and carefully revised by Jason Hu, later the foreign minister of Taiwan. By hook or by crook, Taiwan's leaders' efforts have greatly elevated Taiwan's international standing.

Very frequently, Lee, Lien or Siew visited other countries in the company of Taiwanese business people and the foreign minister, economic minister, financial minister and chairman of Council of Economic and Planning Development.¹⁸ They brought loans or projects for the developing countries, thereby improving their infrastructure and encouraging Taiwanese business people to invest in these countries. For example, the Subic Bay Project in the Philippines was supported by Taiwan's loan. Acer, a computer manufacturing company, has built its overseas branch in Subic Bay. Aid and investment can quite often complement each other. The

¹⁸ In addition to the table, on 18 August, Vice President Li Yuan-zu, together with Foreign Minister Fredrick F Chien and some other officials, visited Costa Rica, Honduras and Nicaragua by way of the US, which greeted them with etiquette becoming of national guests.

improvement of the local infrastructure bolsters the investment of Taiwanese business people. When Taiwanese business people make their profits and contribute to the host country, they help the country to reimburse the loans and make more job opportunities, bringing prosperity for local community. On the other hand, when leaders of Taiwan meet their counterparts, it is easier to sign an investment guarantee agreement and hedging double taxation agreement, thereby protecting the business people. We can say that economy and politics intertwine intricately. Even though these visits were defined as 'symbolism' rather than substantial diplomacy by Ralph N Clough, he also admitted that Taiwan could not accomplish extensive economic, cultural and other international relationships without any official contact and Taiwan's public also demanded that their leaders seek greater dignity and respect from international community.¹⁹ When this has happened, they have sometimes been re-designated as 'Taipei Representative Office', or even, although rarely, given a title which included the words 'Republic of China'. With their enhanced status, they have been able to improve the country's international standing.

To analyse in depth the way that the president, vice president, and premier, together with other ministers and officials, visited foreign countries, we find that these countries include those not only with but also without official relations. They meticulously chose the timing and avoided advance publicity in order to make the visit a *fait accompli* before the PRC could protest. Taiwan has tried, with mixed

¹⁹ Ralph N. Clough, *Cooperation or Conflict in the Taiwan Strait*. Oxford: Rowman & Littlefield Publishers, Inc., 1999, pp. 91. Clough criticises that Taiwan's media boasted Lee's visits as a gigantic victory over the PRC and it was regarded by the PRC as a move towards international recognition of Taiwan as an independent state, greatly provoking the PRC.

success, to follow a policy of doing well by doing good. Very often, people paid attention to these visits, though some of them doubted if they were worthwhile. This is because the PRC always thwarted these efforts. When they were criticised by the PRC and the countries they visited, they were again under PRC pressure, and the legitimacy of their visits abroad was questioned. Internal critics also cited the opposition from the PRC and counter-currents from other countries as reasons why Taiwan should abandon diplomatic efforts to promote economic relations.²⁰

5.2.1 Criticism of Head-of-State Diplomacy

Criticism also comes from domestic scholars and the mass media, which claim that the Southward Policy is only an instrument of head-of-state diplomacy. According to *Xingxingwen Journal* (新新聞), Lee Teng-hui and Lien Chan forgot everything about how to help Taiwanese business people to invest in Southeast Asia after they came back from their head-of-state diplomacy.²¹ Even though Chiang Pin-kung, the chairman of CEPD, professed that the Southward Policy was still under way, the US\$225 million of the IECDF set aside for this had been used up. Therefore, the Southward Policy is only a slogan for Taiwanese business people and an instrument for head-of-state diplomacy used by Lee and Lien.

²⁰ For example, Wang Chien-shien, former financial minister and later essential member of New Party, proposed that Pragmatic Diplomacy had to be changed back to Flexible Diplomacy, with which economic relations could be gradually transformed into political ties without intentional diplomatic manoeuvres, which might cause strong adverse effects from the PRC and the targeted countries.

²¹ <http://www.new7.com.tw/weekly/old/494/article085.html> 2003/11/3

In 1993 the Taipei government started to push for the Southward Policy, paving the way for the head-of-state diplomacy for Lee Teng-hui. Mainland China became the competitor of the Southeast Asian countries for Taiwanese business people's investment, after the economic reform of the PRC. After Taiwan became one of the four tigers in East Asia and accumulated the largest amount of foreign reserves in the world, Taiwan's capital became the target of many developing countries, especially those in the Southeast Asia. These countries all have diplomatic relations with the PRC and accept the policy of 'one China' but 'keep in touch' with the Taipei government. In order to absorb Taiwan's investment, they even sent delegations to visit Taipei secretly at the risk of provoking the Beijing government.

In early 1994, Lee and Lien visited Southeast Asia separately, promoting officially the Southward Policy. Following their visits, several state enterprises and KMT enterprises sought commercial opportunities. Subic Bay became the first project of the Southward Policy signed by Chiang Pin-kung, then economics minister. Chiang also gathered around one hundred entrepreneurs to attend the opening ceremony. At the same time, in the academic field, many scholars backed the policy and urged Taiwanese business people to invest in these countries. Even Taiwan magnate Kao Chin-yen promised at one stage to invest in Subic Bay.²²

²² A few years later, Kao, together with some other business people, regretted his decision and decided to transfer their investment to Mainland China.

Table 5.1**Lee Teng-hui, Lien Chan & Vincent Siew's Visits Abroad**

Date of Visit	Destinations
3-9 March 1989	President Lee visited Singapore.
30 December 1993 - 5 January 1994	Premier Lien visited Malaysia & Singapore.
9-16 February 1994	President Lee visited the Philippines, Indonesia & Thailand.
4-16 May 1994	President Lee visited Nicaragua, Costa Rica, South Africa & Swaziland.
29 May - 11 June 1994	Premier Lien visited El Salvador, Guatemala & Mexico.
1-4 April 1995	President Lee visited the United Arab Emirates.
7-12 June 1995	President Lee visited the US and delivered a speech at Cornell University.
15-22 June 1995	Premier Lien visited Austria, Hungary & the Czech Republic.
12-22 August 1996	Vice President & Premier Lien visited the Dominican Republic & Ukraine.
7-18 January 1997	Vice President & Premier Lien visited Nicaragua, the Vatican & Ireland.
7-17 September 1997	President Lee visited Central America,

	participating in the International Conference of Panama Canal and the summit meeting of the presidents and prime ministers of Taiwan and Central America
1-4 January 1998	Vice President Lien visited Singapore.
12 January 1998	Premier Siew visited the Philippines.
19 January 1998	Premier Siew visited Indonesia.
23 February 1998	Vice President Lien visited Jordan, Bahrain & the United Arab Emirates.
2-10 July 1998	Premier Siew visited Tonga, Fiji & the Solomon Islands.
(6 July 1998)	While in the Solomon Islands, Premier Siew signed an agreement of giving a loan of \$2 million for developing its agricultural economy.
5 December 1998	Vice President Lien visited Honduras, Guatemala, El Salvador & Nicaragua and consoled typhoon-afflicted people in the states above.

5.3 Complementarity Between Economic Relations and Diplomatic Ties

On the one hand, economic relations can promote diplomatic ties, a process that is analysed above. On the other hand, diplomatic connections can also assist economic relations. At the beginning of the 1970s, Taiwan gradually lost its relations with other countries after it was expelled from the United Nations. Without any embassy or consulate, the costs in the exchange of people and trade between two countries naturally increased. At this stage, if Taiwan people wanted to visit European countries, it took much more time to obtain a visa. It was also more difficult to change visas in case of emergency. Therefore, Taiwan's government made a great effort to improve the virtual relations with those countries without diplomatic relations since the 1970s.

Taiwan's basic strategy was to negotiate with the local country and restore some sort of institute to represent Taiwan, thereby avoiding the interruption of bilateral relations. There were 41 embassies and 12 representative offices representing Taiwan in 1972. In 1982, the number of embassies representing Taiwan had decreased to 23 but the number of representative offices had expanded to 38. In 1992, the number of embassies grew slightly to 28 and the number of representative offices rose to 58. In 1996, the number of embassies went up to 30 and the number of representative offices to 65. According to the statistics, when Taiwan had to close an embassy, its government strove to establish some other body to act as an ersatz embassy. Even when Taiwan was in its worst diplomatic plight, it still preserved relations of some kind with 35% of the countries in the world. After President Lee Teng-hui had

pushed for pragmatic diplomacy and set up representative offices more aggressively, Taiwan had relations with up to 46 % of the countries in the world.²³

With embassies and representatives' offices, Taiwan's government can directly communicate with its counterparts in other countries, thus preserving the legal rights of Taiwan's overseas citizens, exchanging economic-related information more easily and developing commerce more efficiently. For instance, the Taipei Economic and Cultural Representative Office in the United States replaced the former ROC embassy in the US.²⁴ The Taipei government also set up Taipei Economic and Cultural Offices in its former consulates in the US.²⁵ These moves contributed to Taiwan's economic relations with the US, which did not diminish but grew in the 1980s, compared to those in 1978. Until the mid-1990s, the US remained the biggest trading partner of Taiwan.²⁶

²³ Gao, Lang, The Evolution of Foreign relations of the ROC 1972-1992. Taipei: Wunan, 1993, pp. 117-119. (高朗, 中華民國外交關係之演變 1972-1992, 台北:五南, 1993), pp. 117-119. Also see Gao, Lang, "On Economic-Related Diplomacy of Our Country", Theory and Policy, vol. 11, no. 1, winter 1996, p. 29. (高朗, "論我國經貿外交", 理論與政策, 第 11 卷, 第 1 期, 12 月, 冬季刊, 1996, p. 29.

²⁴ Initially, the Taipei government could only employ the title 'Coordination Council for North American Affairs Office in the United States of America' after the US switched its recognition from Taiwan to the PRC in 1979.

²⁵ In the United States, the Taipei government maintains several Taipei Economic and Cultural Offices, including those in Atlanta, Boston, Chicago, Guam, Honolulu, Houston, Kansas City, Missouri, Los Angeles, Miami, New York, San Francisco, and Seattle. See The Foreign Relations Yearbook 1998, Republic of China, pp. 665-666. Also see The Foreign Relations Yearbook 1999, Republic of China.

²⁶ Even though Taiwan's trade surplus with the US dwindled after the mid-1990s, this was as a result of Taiwanese business people taking the initiative to concentrate more on other markets in Europe, Southeast Asia and Latin America. Also, to a lesser extent, because the serious trading surplus between Taiwan and the US, favourable to Taiwan, caused the US great concern, Taiwan's government implemented the 'five-year plan of spreading market'. See International Trade Yearbook of the ROC, 1996, p. 85. Also see International Trade Yearbook of the ROC, 1997, p. 87.

In Mainland China, by contrast, this array of representative offices was, of course, impossible, and Taiwanese business people were consequently more vulnerable. For example, they had to negotiate with local and central government by means of networking (*guanxi*, 關係) on their own, even though—on the surface—the Chinese government provided many preferential measures for them.²⁷

It is noteworthy that when some Taiwanese business people went to Southeast Asia, they were not protected by the Taiwanese government and were mistreated by the local officials because there no international agreements had been concluded by the governments of both sides. For example, in the 1980s Indonesian customs officials knew that Taiwanese business people were rich, so they extorted money from them (around US\$20 a time) whenever they passed through customs. After 1990, when the Taipei government signed with the Indonesian government a memorandum promoting investment and economic cooperation, and investment guarantee treaty, Taiwanese business people began to be less molested by the corrupt local officials.²⁸ Therefore, we can see that government's role in coordinating Taiwan's foreign economic ties can sometimes assist and protect Taiwanese business people. Diplomatic ties can help to ameliorate economic relations.

²⁷ According to author's interview with a Taiwanese businessperson in Jiangsu Province, they would like to become Vietnamese rather than Taiwanese (or a citizen of any country with official relations with the PRC) because they cannot enjoy the protection of any government. Even though the Vietnamese government can protect Vietnamese in China, Taiwan's government still cannot fully provide legal protection for Taiwanese business people in the Mainland. For example, *Tanpai* (攤派) is an enforced contribution, nominally to help pay for some public construction, extorted from Taiwanese business people by local officials. Interview with K on 20 February 1996.

²⁸ Interview with KK on 1 December 2001 at Heathrow Airport, UK.

5.4 Entrepreneurs As Middlemen, Surrogates and Hindrances

In fact, business people have no motherland: they pursue profits everywhere. Taiwan's enterprises (mainly small-and-medium size) had invested in Southeast Asia long before the proclamation of the Southward Policy by the Taiwanese government. The push factors include the worsening of public security, high labour costs at home, the rise of environmentalism, the difficulties experienced in acquiring land in Taiwan and the high rents which had to be paid. The pull factors include geographic proximity and the relatively low price of labour and land in Southeast Asia, which had become the alternative of Taiwanese business people. For example, by the end of 1991 Taiwan had become the leading foreign investing country in Vietnam. From the perspective of Taiwanese business people, the policy was merely hindsight.²⁹ At this time, the PRC allowed this to happen to a certain extent without severe protest, but a boundary was crossed in 1993 when China Airlines, Taiwan's passenger aircraft company, introduced a non-stop service to Ho Chi Minh City with Taiwan's flag on the tail of its airplane. The Beijing government objected, and the service had to be abandoned. In 1994, Eva Air, Taiwan's private carrier with only Taiwan's national plum blossom motif on the tail, resumed the flight.³⁰

Another example is that of Fu-Xing Clothing Manufacturing Company, which started its investment in the Philippines in 1988 when the US set a quota limit on imports

²⁹ Actually, Taiwan's first trade mission had been to Hanoi, Vietnam's capital, receiving Vietnam's hospitality in 1988. In addition, the vice minister of economic affairs of Taiwan also made a visit in September 1993.

³⁰ This means that Beijing can put up with economic exchanges between Taiwan and the countries with official relations with Beijing, but conspicuous official symbolism is still not allowed.

from Taiwan. Taiwan's labour costs were rising when those of the Philippines were only one-fifth as high. The Philippines is also near Taiwan. Initially, Fu-Xing had only 100 workers in the Philippines. Now, Fu-Xing has 2,200 workers there. Fu-Xing mainly exports clothing to the US. According to Fu-Xing, the Philippine people speak English, which is easier for Taiwan management. In contrast, people in other Southeast Asian countries speak their distinctive languages, which are not so convenient for Taiwanese business people. The language barrier was thus conquered. The Philippines is a former colony of America, which had three military bases in the Philippines. Thus, the Philippines has very good links with America. Also, the clothing market has not been saturated, and its quota to export to America is easier to obtain. In addition, to get a larger quota, it is easy to set up companies, which are nominally independent but are really just extensions of the original company. Thus the Philippines are more profitable than Taiwan.³¹

Another firm that successfully pursued profits in Southeast Asia was Liang-Ji, which erected cooling towers in Thailand and captured 50% of the Thailand domestic market.³²

After being successful in Southeast Asia, some firms can also transfer to other countries, such as Mainland China.³³

³¹ *Xinxiwen* (新新聞), No. 567, "Taiwanese Business People's Story", (*Taishang de gushi* 台商的故事).

³² *Ibid.*

³³ *Ibid.*

However, things for Taiwanese business people are not always without a hitch. Because Taiwan has no investment guarantee agreement with all the countries in Southeast Asia, Taiwanese business people do not know who to go to when they meet difficulties or suffer loss. The democratic level in Southeast Asia is not as good as in America. Its political leaders might change their policy, with the result that the new political environment cannot protect the existing investment. In addition, the representative of Taiwan does not normally provide appropriate assistance to business people. Even years after the promulgation of the Southward Policy, most of Taiwan's diplomats were not aware of the existence of the Policy.³⁴ Although the Taipei government encouraged business people to invest in Southeast Asia with several measures after the Southward Policy, the business people hardly benefited at all.

For example, the Thai government sets a limit on the ratio of foreign capital to local in any company. Therefore, Taiwanese business people find some figurehead from local people to be the investor. As a result, they cannot obtain loans from the Taiwanese government. Besides, the preferential procedure is so complicated that a lot of related documents are required before the loans can be agreed, of which some are too

³⁴ Dr Lee Deng-Ker found this situation when he did his fieldwork in Southeast Asia in the initial stage of the Southward Policy. The Taiwanese diplomats in Southeast Asia were not familiar with the Southward Policy. When the author conducted fieldwork in 2002 in Taipei, many officials thought the Southward Policy had failed. Some of them did not even believe the existence of the Policy. Nor did the government have any practical measures to implement this Policy. All the foreign aid to Southeast Asia had also ceased. This was because the Policy suffered a serious setback in the 1990s, and very rarely had people mentioned the Policy until President Chen Shui-bian reiterated it in 2002. However, the Policy had never stopped officially. This occurred during the third wave of the Southward Policy.

confidential to publicise. Therefore, most Taiwanese business people would rather find their own source of money than contact the Taipei government.

On the whole, the Taipei government is helpful when it builds local industrial parks for Taiwanese business people. Because Taiwanese business people are foreigners and are not allowed to buy land or factory buildings, it is difficult to build a factory. It is a great favour to Taiwanese business people if the Taiwanese government develops an industrial park, and can let it cheaply, and sets up a bank branch, lending at a low interest rate to Taiwanese business people. However, the Taipei government has not always been so helpful. The resources of the Taiwanese government cannot reach many places. Therefore, the Southward Policy does not work very well from the perspective of the small-and medium sized enterprises. However, they will invest in Southeast Asia if they can earn money there and would have done so even if the government had not proclaimed the Southward Policy.

In 1994, the Taipei government set the Southward Policy, which was based on the new trend of economic integration in Southeast Asia and the over-heating of investing in Mainland China. Even though the Policy of 'No Haste, Be Patient' was still not proclaimed initially, the political implications were significant because they spread Taiwanese business people's capital and diverted it from China to Southeast Asia. The purpose is to avoid over-dependence on and being absorbed by Mainland China, thereby mitigating the Chinese government's bargaining chips if it tried to dictate to Taiwan.

For the first wave of the Southward Policy in 1994, Taiwan took the initiative to favour Southeast Asia, so the host countries were rather arrogant and overbearing. In fact, Thailand and Malaysia were sometimes against Taiwanese business people. After the Asian Financial Crisis, Taiwanese business people were welcomed in order to maintain economic development and to prevent worsening depreciation, like the case in Malaysia. The political leaders were also invited to visit Taipei, in order to ask for assistance. The second wave of Southward Policy in 1997 achieved little success, too. In the riots in Indonesia, ethnic Chinese were attacked on a large scale. Taiwanese business people withdrew to other countries nearby or back to Taiwan. The Philippine government abolished unilaterally the airline agreement with Taiwan, which took a long time to resume and convoluted negotiations. However, Taiwanese business people continue to act as diplomatic pioneers in Southeast Asia after all these unstable and changeable situations.

Chapter 6

Economic Diplomacy at Subnational Level

6.0 Introduction

Chapters 4 and 5 considered Taiwan's diplomacy at the level of the state and at the level of individuals (both political leaders and business leaders) within the state. In this chapter I turn my attention to the interaction of individuals and the state, in particular with respect to the formation of different government policies and the business communities' adherence or lack of adherence to such policies. To help set this discussion in its proper context, consider that in the late nineteen-eighties, Taiwanese businesses increased their investment both in Southeast Asia and in China. The Taiwanese government encouraged investment in the former by promulgating the so-called Southward Policy and provided material assistance. It was much more cautious about investment in Mainland China and urged the Policy of 'No Haste, Be Patient' in order to restrain what it saw as the irresponsibility of the business community.

I proceed with my analysis by first considering Taiwan's response to China's economic reforms, which lead to the relatively ineffective 'No Haste, Be Patient' Policy. Next I explore the Taiwan government's 'Southward Policy', including its origins, its interaction with the APROC Plan (which demonstrates the 'double-track' decision-making of the Taiwan government), the opportunities presented by this policy

in Southeast Asia, and the ultimate failure of the 'Southward Policy'. Next I turn to a review of the independent and proactive role of Taiwanese business people; this review includes a summary of different viewpoints from the business community, illustrations of how the government viewed proactive business activities, and documentation of the uncontrollable flow of Taiwanese money into Mainland China. Next I explore the dynamics that surrounded Taiwanese businesses expanding overseas; in particular I consider the difficulties faced by Taiwanese businesses that do business overseas, how Taiwanese business people interact with Chinese officialdom, issues surrounding dealing with corrupt officials, getting established in Southeast Asia, and the strategy of using local Chinese to help the expansion efforts. I conclude with a brief summary of main findings from the chapter.

6.1 China's Economic Reform: Taiwanese Responses

Since 1978, when China started its economic reform, its economic growth has boomed, and its economy has become, potentially, the most dynamic in East Asia. In the same period, China proposed very beneficial conditions for foreign direct investment, thus attracting Taiwanese business people. In response to pressure from Taiwanese business people, the government of Taiwan permitted cross-straits trade with effect from 5 August 1987. Meanwhile, Taiwanese overseas investment flooded into the ASEAN countries. In 1991, Taiwanese businesses started to invest in Vietnam on a significant scale. Up to 1992, the accumulated investment of Taiwanese business people in Southeast Asia totalled US\$ 13 billion. From 1988 to 1992, Taiwanese investment in

China totalled US\$ 8 billion.¹

The flow of investment into China was encouraged by a consolidation of Chinese economic policy. Deng Xiaoping used his 'southern tour' in 1992 to advocate renewed reform and hastened growth. The impact of this tour dominated Chinese economic development in the first half of the 1990s.² Taiwanese business people also saw the Mainland as a great field of opportunity. In 1993, Taiwanese investment decreased in Southeast Asia but increased sharply in China, totalling nearly US\$ 12.8 billion. Obviously, China was becoming a more attractive prospect than Southeast Asia. In addition, Taiwanese indirect trade with China through Hong Kong grew at the same time. However, the Taiwanese government, always cautious, favoured a philosophy of 'No Haste, Be Patient', fearing Taiwan's deepening dependency on China. The government realised that China's military threat to Taiwan had not lessened. The aim of the Taiwanese government was to keep the interdependent economic links with China while opposing China on a political level. In August 1993, Taiwan's economic minister, Chiang Pin-Kung, announced the Southward Policy, encouraging Taiwanese business people to 'Go South' rather than 'Go West'. The Policy of 'No Haste, Be Patient' was formally announced on 14 September 1996, in the wake of growing tension between Taiwan and China.³ The policy led to a decline in the amount of new

¹ *Central Daily*, 15 February 1994, p. 2; *Taiwan Public Forum*, 9 February 1994, p. 16.

² Robert F. Ash & Y.Y. Kueh, ed., *The Chinese Economy Under Deng Xiaoping*. Oxford: Oxford University Press, 1997.

³ The 1995-1996 Taiwan Straits Crisis launched by the People's Republic of China with missile exercises astonished the world, including the United States. Some scholars regarded the exercises as motivated by the PRC government's desire to influence Taiwan's 1996 presidential elections. Others viewed the exercises as aimed to strengthen the US commitment to acknowledge Taiwan as part of China because the US had recently upgraded Taiwan's protocol status and sold advanced weapons to Taiwan. Still others interpreted the Crisis as largely the outcome of the PRC internal factional and bureaucratic

Taiwanese investment in China but did not end this investment altogether.

At much the same time, Taiwan was developing its APROC Plan, designed to cope with Taiwan's own economic challenges. Manufacturing industry's relocation offshore due to rising costs had led the government to realise the importance of taking care of those operations which its companies had chosen to keep in Taiwan, such as administration, research and planning. As a result, the government had come to understand the need to improve manufacturing industry and services such as transportation, telecommunications, finance and media so that its companies should be able to grow more efficiently and be better able to compete in the rapidly expanding global economy.⁴ This plan to make Taiwan more economically competitive was described as 'omni-dimensional'.

6.1.1 The Relative Irrelevance of the 'No Haste, Be Patient' Policy

Taiwanese business people have been investing in the Mainland for many years. Even before the Taipei government called for the Policy of 'No Haste, Be Patient', when the Mainland Policy was still obscure, many Taiwanese businesses had invested heavily. For example, some small and medium-sized enterprises from Taiwan had invested and set up factories. In addition, some large-sized textile enterprises had contacted and cooperated with PRC high-ranking officials through their local personal relations.

struggle in Beijing. This was because President Jiang Zemin had tended to adopt a softer stance towards Taiwan, while the hardliners were adamant that the only way to deal with Taiwan was to make a show of strength. See Zhao, Suisheng, ed., Across the Taiwan Strait, Mainland China, Taiwan, and the 1995-1996 Crisis. London: Routledge, 1999.

⁴ Chiang Pin-kung, "Pillars of Economic Success", Taiwan Opens Up - a Regional Business Centre in the Making. Taipei, 1998, pp. 7-8.

Given Taiwanese accumulated textile techniques and copious cheap local labour, the country obtained overseas orders and exported directly from China. Further they sold their goods in the PRC domestic market. Now that Taiwan and China are both in the WTO, their exports are largely free of tariff barriers.⁵ According to Lee Xin-hong, the lifting of the Policy of 'No Haste, Be Patient' would not affect the textile industry because it had already developed and used a network of international contacts to enhance its business beforehand.⁶

6.1.2 A Defence of the 'No Haste, Be Patient' Policy – Reasons for Caution of Taiwanese Government

The former Chairman of the Council for Economic Planning and Development (CEPD), Executive Yuan, Dr Chen Pochih asserted in an article which appeared in 2002 that the reason the Taipei government wanted to regulate the Mainland investment was the failure of market mechanism in the Mainland and a conflict between the interests of individuals and those of the country (Taiwan) as a whole. Some Taiwanese business people lost money in the Chinese market. Although they abided by the official regulations, other business people who owed them money refused to pay them back and violated the regulations and norms, which should be observed. In addition, although sometimes the judicial departments in China reached a verdict after a lawsuit had occurred, the decision could still not be implemented because of weak executive

⁵ Robert Ash & Heike Holbig, ed., China's Accession to the World Trade Organization – National and International Perspectives. London: RoutledgeCurzon, 2002. This book includes not only the economic impact, but also the political, social and legal implications of Chinese membership of the WTO.

⁶ Lee Xin-hong (李信宏), "The effect of lifting the Policy of 'No Haste, Be Patient'", Textile Quick. Taipei: Chinese Textile Industry Research Centre, 2001, pp.19-21

resources. Dr Chen Pochih went on to say that those who criticised the government for ignorant meddling in business decisions misunderstood and misrepresented the government's reasons for intervening. It had never been the government's argument that those who invested in the Mainland would 'lose money'. On the contrary, individuals might make profits, but a large increase in 'westward' investment might be to the detriment of Taiwan as a whole.⁷

Chen's reason is based on the theory of externalities. For example, an upstream pulp mill which discharges effluent into a river, thus reducing the scope for fishing downstream, is said to impose an externality on the fishermen. The owners of the mill benefit, while the fishing community suffers. Sometimes individuals pursuing their own interests ignore the interests of the society they live in. Someone who stands up in a theatre in order to see better will make other people see worse.

According to Chen, if Taiwan increased its investment in China, this would lead to externalities for Taiwan. Profit-making by Taiwanese business people might endanger Taiwan's security if their activities made the country over-dependent on the Mainland market. The Chinese government might penalise those of its Taiwan trading partners who favoured parties in Taiwan which opposed Chinese policy. It might also put

⁷ Actually, President Lee did employ the reason of 'losing money' to call for people not to invest in the China. Tong Zhen-yuan supports the argument that enterprises are more vulnerable than the society (state) but argues that the government should help them to invest in the Mainland. See Chen-Yuan Tung, "Economic Relations between Taiwan and Mainland China – The Tradeoff between Economics and Security", *Journal of Yuan-Ling*, Vol. 1, No. 2, 2000, pp.31-81. (童振源, "台灣與中國經貿關係經濟與安全的交易", *遠景期刊*, Vol.1, No. 2, 2000, pp. 31-81).

pressure on the Taiwanese government via Taiwanese business people to follow policies favoured by China.

In addition, outward investment might lead to the relocation of industries and jobs from Taiwan to China. Taiwanese enterprises in the Mainland would compete with Taiwanese enterprises at home. There would be a brain drain and a flight of both capital and know-how. The risks to Taiwan's economy and politics would be considerable.⁸ This is 'hollowing out'.⁹

6.2 The 'Southward Policy'

6.2.1 Origins of the 'Southward Policy': the Government Follows the Entrepreneurs

In January 1994, the incumbent Premier, Lien Chan, visited Malaysia and Singapore in Southeast Asia. In February 1994, Lee Teng-Hui also visited the Philippines, Indonesia and Thailand. Afterwards, on 19 March 1994, the Executive Yuan passed the 'Guideline for Strengthening Economic and trade Ties with Southeast Asia'. The Taiwanese government thus officially launched the so-called 'Southward Policy'. According to the plan of the Executive Yuan, the duration of the 'Southward Policy' was to be three years (from 1994 to 1997). The Policy was directed mainly by the

⁸ Chen Pochih, "The Integral Strategy towards the Mainland Investment", *Taiwan Economic Research Monthly*, No. 4, Vol. 25, April 2002, pp. 137-145.

⁹ In Hong Kong, the term 'hollowing out' is used. For example, see Phar Kim Beng (2002) "Is Hong Kong irrelevant?" in *Asia Times*, 28 November 2002; Richard Hornik (2002) "Who Needs Hong Kong?" in *Fortune*, 2 May 2002. The Japanese have also recently been concerned about hollowing out. See Takeo Hiranuma (2002) *Sugu soko ni aru kiki, shitsugyo maneku kudoka wa koshite kaihi suru* (How to avoid a Hollowed Out Industry That Will Lead to Unemployment) in *Toyo Keizai*, January 5, 2002.

Ministry of Economic Affairs (MOEA). Three years later, the Taiwanese government expanded the Policy to include Australia and New Zealand and re-named it to reflect this change. At this time, Australia and New Zealand were newly incorporated. An inter-agency task force established jointly by the Ministry of Economic Affairs and other relevant agencies was responsible for enforcing the Guidelines. According to the nature of the business, senior officials from related governmental and private agencies were co-opted to be members of the Task Force. This Plan involved most departments of the Executive Yuan, including the Ministry of Economic Affairs, the Ministry of Foreign Affairs, the Ministry of the Interior, the Ministry of Finance, the Ministry of Education, the Ministry of Transportation and Communications, the Council for Economic Planning and Development and the Overseas Chinese Affairs Commission, the Central Bank of China, the National Science Council, the Council of Agriculture, the Council for Labour Affairs, and the Government Information Office, as well as a variety of major industrial and commercial associations. The Board of Foreign Trade of the MOEA acted as Secretariat of the Task Force. With this new title and operational structure, the Policy was renewed for another period of three years from 1 January 1997 to 31 December 1999.¹⁰

6.2.2 The 'Southward Policy' and the APROC Plan: Agreement and Contradiction

From the perspective of macro-policy, to establish the Asia-Pacific Regional

¹⁰ Board of Foreign Trade, Guideline for Strengthening Economic and trade Ties with Southeast Asia, Australia and New Zealand. Taipei: Board of Foreign trade, MOEA, 1997, p. 4.

Operations Centre (APROC) is the all-dimensional development plan of Lien Chan's cabinet under the international situation. What the APROC is to Lien Chan's cabinet is just like what the Six-Year National Development Plan is to Hau Pei-tun's.¹¹ Some scholars, like Chen Hurng-yu, have argued that the Southward Policy was a part of the APROC Plan because the policies were formulated very close in time.¹²

It is paradoxical for Chen Hurng-yu to assert that the Southward Policy is only a part of the APROC Plan. According to him, Taiwan's grand strategy is aimed at the whole Asia Pacific, which includes the strategy towards Southeast Asia. Chen argues:¹³

In July 1993 the Taiwan government promulgated an economy-boosting project, revealing the Asia-Pacific Regional Operations Centre (APROC) Plan as its long-term target. In August 1993 Chiang Pin-Kung, Economic Minister, proposed the policy of strengthening investment in Southeast Asia. In February 1994, the Council for Economic Planning and Development (CEPD) put forward the Draft Guideline for Strengthening Economic and Trade Ties with Southeast Asia. In September 1994, the Executive Yuan

¹¹ See Lin Dai-Man, *My Heart in Eternal Peace – The Road of Lien Chan to Holding Office*, Taipei: Commonwealth Publishing Co., Ltd., 1996, 168. (林黛嫻, *我心永平—連戰從政之路*, 台北:天下, 1996, p.168.) Also see Xu Jie-lin et al., *Taiwan's Strategy towards Asia-Pacific*, Taipei: Institute for National Policy Research, 1991, p. 9. (許介顯等著, *台灣的亞太戰略*, 台北:國策中心, 1991, p. 9.)

¹² Chen Hurng-yu, "Analysis on the Relations between Taiwan and Southeast Asia in terms of Southward Policy", *Southeast Asia Quarterly*, Vol. 3, No. 1, January 1998, pp. 1-19. (陳鴻璣, "從南向政策論台灣與東南亞之係", *東南亞季刊*, Vol. 3, No. 1, January 1998, pp. 1-19)

¹³ *Ibid.*

set up a special group to push for related planning convened by Premier Lien Chan. Meanwhile, the CEPD was appointed to undertake the administrative work. After the planning of more than one year, 'The Plan for Developing Taiwan into an Asia-Pacific Regional Operations Centre' was briefed to President Lee Teng-hui by the CEPD on 4 January 1995. On 5 January 1995 the Plan was officially passed by the Executive Yuan Committee. The Plan was proposed earlier than the Southward Policy, which was, therefore, not an isolated policy but was developed as a part of the whole Asia-Pacific strategy of investment and development. The Southward Policy is for entering Southeast Asia and the Westward Strategy is for entering the Mainland China. These two were conceived as linking Japan in the north and North American Free Trade Agreement (NAFTA) area in the east, thereby promoting Taiwan's economic strength. Furthermore, Taiwan will become the APROC with omni-dimensional development. Therefore, whether Taiwan can be successful in developing its political economy in the long run depends on the practice of the Southward Policy.

However, this is not true; the Southward Policy was made by the Presidency and the APROC Plan was made by the Executive Yuan, mainly the CEPD,¹⁴ and the two were in fact contradictory, a situation that arose as a result of the 'double-track'

¹⁴ Interview with BB on 26 April 2002.

decision-making of the Taiwanese government. The Presidency and the Executive Yuan (cabinet level) can both make decisions, but only the Executive Yuan should be responsible for the Legislative Yuan (Parliament). In addition, the Premier (Prime Minister) of the Executive Yuan is appointed by the President and approved by the legislative Yuan. Therefore, the Executive Yuan is very often blamed for the policy failure of the Presidency.

The logical and causal relations of the two policies were problematic. The Southward Policy was related less to the APROC Plan than to the Policy of 'No Haste, Be Patient', thereby aiming at diverting the Mainland fever from 'West' to 'South' rather than 'Omni-dimensional'. Furthermore, the term 'omni-dimensional' refers to Taiwan's need to become an important player not only in the manufacturing industry, but also in the service industries of sea transportation, air transportation, finance, telecommunications and the media. It does not refer to the literal directions of east, south, west and north.¹⁵

The reason that the Southward Policy can accurately be described as parallel to the Policy of 'No Haste, Be Patient' is that it diverted 'Go West' to 'Go South' and prompted investment in Southeast Asia rather than Mainland China. The APROC Plan, on the other hand, was incompatible with the Policy of 'No Haste, Be Patient' because realisation of the Plan would be incomplete if it did not include greater economic engagement with China, even though President Lee Teng-hui asserted that Taiwan

¹⁵ Interview with F on 30 April 2002.

could employ Southeast Asia as its hinterland, and it was not so imperative that Taiwan should be able to use China to achieve the APROC Plan.

Ohmae Kenichi (大前研一), a Japanese scholar, expressed the view that the APROC Plan would be delayed in its schedule without three direct links of transportation, postal services and trade between Taiwan and China. This was proven correct in the early 21st century.¹⁶ Logically, the absence of the 'three links' was also parallel to the Policy of 'No Haste, Be Patient'. Therefore, the Policy of 'No Haste, Be Patient' was against the APROC Plan. Thus, it was true to say that the Southward Policy was also against the APROC Plan. To sum up, the Policy of 'No Haste, Be Patient', the absence of the 'three links', and the Southward Policy conformed to one another logically, but all these three policies contradicted to the APROC Plan logically because they omitted an essential element of the APROC, namely closer relations with Mainland China. Hence, scholars like Chen Hung-Yu were wrong to argue that the Southward Policy was a part of the APROC Plan simply because of close timing.

Scholars like Lee Deng-Ker were also wrong when they argued that the major stages of the Southward Policy were that the Taipei government initiated the Policy, state enterprises and party enterprises were the pioneers, and other businesses followed.¹⁷ In

¹⁶ Ibid.

¹⁷ Lee Deng-Ker, "The Research of the Southward Policy and Pragmatic Diplomacy", *The Journal of International Relations*, No. 12, 10 October 1997, p. 124. (李登科, "南向政策與務實外交之研究", 國際關係學報, No. 12 10 October 1997, p. 114. Also see Samuel C.Y. Ku, *The Relations of Political Economy Between Taiwan and Southeast Asia*, Taipei: Feng-Yun Forum, 1998. (顧長永, 台灣與東南亞的政治經濟關係, 台北: 風雲論壇, 1998)

fact, Taiwanese businesses had gone to invest in Southeast Asia as pioneers. After the government had called for the Policy, some state enterprises and party enterprises did follow the government's bidding. This was true, but some of the state enterprises, like the Taiwan Sugar Corporation, which were more successful, had gone to Southeast Asia before the advent of the Policy.¹⁸ In addition, the 'Go South' campaign had little effect outside some state and party enterprises doing the bidding of the Taipei government. These state enterprises include the Taiwan Sugar Corporation, the Taiwan Salt Corporation, the Chinese Petroleum Corporation, China Steel, and Taipower. These Kuomintang Party enterprises include the CT&D Group and the Chien Tai Cement Corporation.¹⁹

6.2.3 The Southward Policy and Opportunities Presented by Southeast Asia

In 1997 the Asian Financial Crisis broke out in Southeast Asia. The economies of Thailand, Indonesia and Malaysia were seriously damaged: currencies depreciated; the stock markets plunged; factories closed down; workers were out of jobs. Even finances were in crisis. When the countries in Southeast Asia were faced with this unprecedented crisis, the US and Japan and international organisations like International Monetary Fund all tried to help. In January 1998 the then Vice President Lien Chan and Premier Vincent Siew visited Singapore, the Philippines and Indonesia in turn. Lien even visited Malaysia by way of the Middle East in March 1998. High-ranking officials of Taiwan visited Southeast Asia in a very short period, meeting

¹⁸ Interview with AA on 6 June 2002.

¹⁹ Lee Deng-Ker, "The Research of the Southward Policy and Pragmatic Diplomacy", p. 114.

their national leaders and discussing how to help these neighbouring countries. In March 1998, some solid measures were passed to promote the economic and trade relations with Southeast Asia. However, at this time the leading role in implementing the Policy passed from the Ministry of Economic Affairs to the Council for Economic Planning and Development (CEPD).²⁰

It was stated in 1997 that the Plan was to meet the trend of economic and trade integration in Southeast Asia, Australia and New Zealand. The Southeast Asia region had been undergoing a process of integration since the 1950s, and the process was still developing strongly in the 1990s. Since 1 January 1993, ASEAN had been promoting the ASEAN Free Trade Area (AFTA) with the implementation of a 'Common Effective Preferential Tariff' (CEPT). This scheme aimed to reduce tariffs between member states to below 5% on certain industrial and processed agricultural products within ten years. The CEPT Scheme was expected to create greater intra-regional trade and investment opportunities and to transform the industrial structure of each member country. By 1997, Australia and New Zealand were seen to be logical extensions of the ASEAN market. Both countries, while acting as dialogue partners with ASEAN, were developed and rich in abundant natural resources, and both possessed strong purchasing power. In light of these circumstances, it was held that Taiwan should formulate suitable measures to take advantage of these conditions. However, the major reason stated afterwards was that it was necessary for the Taipei government to adopt an

²⁰ Samuel C.Y. Ku, *The Relations of Political Economy Between Taiwan and Southeast Asia*. Taipei: Debating Forum, 1998, pp.265-66. (顧長永, *台灣與東南亞的政治經濟關係*, 台北:風雲論壇, 1998, pp.265-66.

outward investment strategy to direct overseas investment by domestic enterprises in order to lessen the risk of concentration on Mainland China for investment and trade.²¹

In addition, geographically, Southeast Asia countries were in close proximity to Taiwan. The abundant manpower and extensive natural resources of these countries, combined with Taiwan's geographic advantage and its experience in economic development, could not only help create prosperity in this region, but also serve as a reinforcement to Taiwan's economic and trade activities in other markets.

The Policy was also intended to facilitate the exploration of new economic and trade markets. In recent years, through the emergence of trade blocs such as the European Union and NAFTA, the trends of global regionalisation had gradually become more and more obvious. Although trade barriers among member countries had been removed by this process of regionalisation, protectionist barriers had been established against countries outside the blocs. The most effective way for non-member countries to take advantage of the preferential measures adopted by these regions was to engage in direct investment and to strengthen linkages. As intra-regional cooperation among ASEAN member countries continued to strengthen, so did the region's importance in the world. Therefore, the Taiwan government intended to explore the potential of this new regional market.²²

²¹ Board of Foreign Trade, Guideline for Strengthening Economic and trade Ties with Southeast Asia, Australia and New Zealand. Taipei: Board of Foreign trade, MOEA, 1997, pp. 1-2.

²² Ibid. pp. 2-3.

A Taiwan scholar from the Chung-Hua Institution for Economic Research, Chiou Yi (邱毅),²³ has claimed that the Southward Policy was a product of politics. According to Chiou's analysis, President Lee wanted to ensure that he would be able to participate in the APEC summit meeting (in spite of Chinese objections), and his method of winning support for his attendance was to court the ASEAN nations. To further this plan, Lee encouraged Taiwan enterprises to invest in Southeast Asia and used scholars to make many reports that depicted this area as a heaven for investment. This theory seems quite plausible.

6.2.4 Failure of the 'Southward Policy'

The reasons the Southward Policy failed to achieve its goals were manifold. There were too many institutions whose responsibilities overlapped and whose policies were inconsistent with each other. This situation was common in many institutions of the Taiwan government, for example, intelligence and propaganda.²⁴ In practice, the implementation of the Policy was dominated by certain strong personalities and not by clearly defined administrative procedures. This sometimes led to confusion. The Southward Policy was initiated by the presidency, but Chiang Pin-Kung was the promoter. Chiang was the Minister of Economic Affairs from 1993 to 1996 and the Chairman of the CEPD from 1996 to 2000. Therefore, Chiang was in charge of the two waves of Southward Policy (1994-1997 and 1997-2000). When Wang Chih-Kang

²³ Later, he was elected a legislator in Taiwan's congress.

²⁴ As Rawnsley puts it: The fundamental problem is that the ROC's (Taiwan's) propaganda organisation is badly constructed with a confusing division of labour. The organisation engages the services of far too many government ministries and organisation that all have overlapping responsibilities and lines of accountability. See Gary D. Rawnsley, "Selling Taiwan: Diplomacy and Propaganda", *Issues & Studies* 36, No. 3 (May/June 2000), pp. 1-25.

succeeded Chiang as the Minister of the Economic Affairs from 1996 to 2000, he stated in public that the Taipei government should re-evaluate the Southward Policy. This was because the Southward Policy had suffered a setback. In addition to the Asian Financial Crisis, the Philippines had unilaterally cut off direct flights between Taiwan and the Philippines. In 1997 unrest was happening in Cambodia, and Taiwanese business people were risking their lives. But at the same time, Chiang reiterated his belief that the Southward was a good policy and that the Taipei government should stick to it. Thus, the mix-up in the Taipei government was not only because of double-track decision-making but also because of bad communication within the cabinet. Multi-track policy-making led to inefficiency in the Taipei government. What was even worse was that many officials, including diplomats who were responsible for the Southward Policy, were not familiar with or even not aware of the existence of the Policy. This situation happened in the initial stage of the Southward Policy²⁵ and in the third wave of the Southward Policy in 2002 when the author was interviewing in Taiwan.

6.3 Independent and Proactive Role of Taiwanese Business People

On the other hand, the roles of Taiwanese business people became increasingly important in Taiwan's economic diplomacy. Comparing 2001 to 2000, when Taiwanese business people received their orders, the goods exported directly from Mainland China increased by 66.5%, which is more than the expected 50%. However,

²⁵ Lee Deng-Ker, "The Research of the Southward Policy and Pragmatic Diplomacy", *The Journal of International Relations*, No. 12, 10 October 1997, p. 124. (李登科, "南向政策與務實外交之研究", *國際關係學報*, No.12 10 October 1997, p. 124.

compared to the previous year, the increased percentage of goods exported from Taiwan and Southeast Asian both declined, especially from Taiwan. This indicated that Taiwanese business people tended to 'Go West', rather than 'Go South' or 'Root Enterprises in Taiwan'. However, it was very interesting that 'Root Enterprises in Taiwan' was met in a different way from what the government expected. 84.52% of research and development of overseas enterprises were supplied by parent companies in Taiwan. The overseas companies themselves did only 23.00% of their own research and development, and only 12.21% of their research and development was done by co-ordination companies. However, between 2001 and 2002, these two rose by 1.59% and 0.64% respectively, which is very little. The impacts of relocation of enterprises overseas on the domestic enterprises were all positive, except 'recruiting talented Taiwanese'. The impact on 'recruiting talented Taiwanese' for domestic enterprises was slightly negative. This meant that there was a minor 'brain drain' from Taiwan to China. However, the 'brain drain' possibly had a beneficial result for Taiwan because these talented Taiwanese usually came back to Taiwan from time to time. When they returned, they brought back the money they had made in China and spent it in Taiwan. In addition, the other impacts of relocation of enterprises overseas on domestic enterprises were all positive, including 'expansion of the scale of production of domestic products', 'improvement of domestic product quality', 'better financial control' and 'promotion of product diversification'. Among these, 'promotion of product diversification' was the most salient. Therefore, we can conclude that the Taiwanese business people had really rooted enterprises in Taiwan, thereby making

Taiwan move towards the goal of APROC.²⁶

Taiwanese business people were proactive rather than at the beck and call of the Taipei government. Although the Taipei government tried to divert Taiwanese business people from 'Go West' to 'Go South', all it could do to further this aim was to visit and sign investment guarantee agreements and double-taxation agreements with the governments of other countries. In China, Taiwanese business people could not be protected in this way because the Beijing government insisted that Taiwan was just a province of China and refused to recognise Taiwan's sovereignty. When Taiwanese business people were seeking their own profits, they had to face the risk of bankruptcy if things went badly.

Chen-Yuan Tung, a Taiwanese scholar, asserts that businesses are more vulnerable in China than Taiwan itself. He also establishes a generalised model of economic relations between Taiwan and Mainland China, by way of analysing the complicated economic interests, security considerations, and negotiating behaviour between Taiwan and Mainland China. From an economic perspective, he argues that cross-Straits economic exchanges have positive contributions to Taiwan's economic development. From a security perspective, he maintains that cross-Straits economic exchanges have brought little extra burden on Taiwan's security because of the transformation of Mainland China's internal political and economic structure and the formation of the

²⁶ The author has done the analysis. For data, see
<http://www.moea.gov.tw/~meco/stat/four/invest/inv91.htm> 24/02/03

'common-interest community of international labour-division' among Taiwan, Mainland China and the international community. In the end, he tries to combine economic and security dimensions with a view to construct a model for negotiation between Taiwan and Mainland China. Based on an economic and security analysis, he concludes that Taiwan should negotiate with Mainland China on cross-Straits economic cooperation in order to maximise Taiwan's overall interests.²⁷

However, if Taiwanese business people were successful rather than bankrupt, they could help the Taipei government promote economic diplomacy by being middlemen and surrogates. Although they might be regarded as hindrances when they chose to 'Go West' rather than 'Go South', they would also serve as surrogate diplomats in terms of people-to-people diplomacy in China.²⁸

The Southward Policy was not very successful in the 1990s in terms of the government's major objectives of discouraging investment in China.²⁹ However, the results were perfectly satisfactory from the point of view of Taiwanese business people, who had – for their own reasons – been investing heavily in Southeast Asia for some

²⁷ Chen-Yuan Tung, "Economic Relations between Taiwan and Mainland China – The Tradeoff between Economics and Security", *Journal of Yuan-Jing*, Vol. 1, No. 2, pp.31-81. (重振源, "台灣與中國經貿關係經濟與安全的交易", *遠景期刊*, Vol.1, No. 2, pp. 31-81)

²⁸ Ralph N. Clough, *Reaching Across the Taiwan Strait – People-to-People Diplomacy*, Oxford: Westview Press, 1993.

²⁹ The statistics of the MOEA of the Taipei government in 2002 showed that 72.90% of Taiwanese business people invested in Mainland China; 18.62% in ASEAN; 17.14% in the US. The 72.90% who invested overseas had invested in Mainland China mainly because China had abundant cheap labour and a great potential market; the US granted China the PNTR status; the two sides of the Taiwan Straits joined the WTO at the same time. On the other hand, the Asian Financial Crisis and unstable political economy of Southeast Asia had made Taiwanese business people less willing to invest there. (<http://www.moea.gov.tw/stat/four/invest/inv91.htm> 24/02/2003)

years before the government proclaimed its Southward Policy in 1994. Taiwanese business people worked in their own way even before the proclamation by the Taipei government. In some sense, Taiwanese business people became the pioneers and practitioners without much government help.

6.3.1 Different Viewpoints from the Business Community

Chen Shen-Tian (陳盛沅), the CEO of Xin-Bao Group (新寶集團), who is determined to set up the largest Chinese electronic product brand, has expressed the view that it is imperative to have a very large domestic market as a base if a company wants to become an international enterprise. There are merely twenty-three million people as a market in Taiwan, so how can it compete with a multi-national enterprise? The Ding-Xin Group, initially an oil shop in Taiwan, saw its business was declining in Taiwan and transferred its business to Mainland China in 1989, looking for new opportunities. Today, Kang Shi Fu instant noodles is already one of the biggest food products in China. In addition, the Pou-Chen Group, originally a sports shoes company, closed its factories in Hsiluo and Toulou in Taiwan and transferred its investment to the Mainland and now has become the largest manufacturing group of sports shoes in the world, with over one hundred production lines and more than one hundred thousand workers.³⁰

By contrast, the Formosa Plastics Group, due to the Policy of 'No Haste, Be Patient', withdrew its application for a power station in Zhang-Zhou, and deferred its Hai-Cang

³⁰ Zhao Si-Bi, Tainan Girls' Technology College Tribune, No. 17, June 1998, p. 249.

Project. This project was proposed by Y C Wang (Wang Yung-ching) of Formosa Plastics in order to build a complete petrochemical city, including a power station, a naphtha cracker, an oil refinery, a polyethylene plant, a sewage treatment plant, and auxiliary facilities on the coast of Fujian Province for a total of \$7 billion. Because of new strict environmental laws and the rising cost of labour and land in Taiwan, Formosa Plastics thought that it could not develop any more there. By this plan, which was prevented by the Taiwanese government, Wang pressured the government into letting him expand his business in Taiwan. In 1993, the Taipei government granted him even better conditions to allow him to set up a larger project of \$9.5 billion, including a sixth naphtha cracking plant, on a series of new, still-to be reclaimed islands in the sea next to Yulin on the west coast of Taiwan, where the distance to Xiamen is the shortest. From Yulin, Wang will be able to serve efficiently the hundreds of Taiwanese companies in Xiamen and the rest of Fujian that use his raw materials.³¹

Expecting that Wang would build a complete upstream base for raw materials for the plastics industry, more and more small, down-stream Taiwanese chemical producers had moved to Xiamen. Therefore, rubber and plastics industry: automobile tires, toys, artificial flowers, umbrellas, etc., became the major Taiwanese investments in Xiamen. Xiamen became a centre for the chemical industry. Afterwards, Wang started up several small-scale activities in Xiamen to the tune of \$70 million.³²

³¹ Willem Van Kemenade, *China, Hong Kong, Taiwan, Inc.*, London: Little, Brown and Company, 1998, p. 196.

³² Willem Van Kemenade, *China, Hong Kong, Taiwan, Inc.*, London: Little, Brown and Company, 1998, pp. 196-7.

In addition, Wang Wen-yang set up another company in Mainland China, Hong-Ren. Wang Wen-yang, Wang Yung-ching's son, was also the former management cadre of Formosa Plastics and helped to build the sixth naphtha cracking plant. Therefore, he was very familiar with all the processes of the chemical industry. He was a good friend of Jiang Mianheng, the son of Jiang Zemin, because Wang supported financially Jiang Mianheng while Jiang was a student in America. Therefore, the Wang family built very good relations with the Jiangs. By all this, the scale of Hong-Ren became equivalent to Formosa Plastics in Taiwan, and Hong-Ren produced the same products as Formosa Plastics. Furthermore, Wang Wen-yang and Jiang Mianheng would cooperate and build six wafer plants (three eight-inch wafer plants and three twelve-inch wafer plants), totalling US\$6.4 billion. The Chinese national bank also provided a loan of US\$2.5 billion for their company, Hong-Li.³³

A few years later, its CEO Wang Yung-ching stated solemnly that the Policy of 'No Haste, Be Patient' was not a long-term policy, because the economic relations across the Taiwan Straits could not remain cut off indefinitely.³⁴ A few years later, when everybody knew that Project in Ning-Bo (chemical industry and automobile industry) had been established by the Formosa Group, its spokesman still denied that it had invested in Ning-Bo. This was only to evade the Taipei government's punishment.

The CEO of the Evergreen Group complained in public that the bargaining chips of

³³ Interview with DD on 20 June 2003 in London.

³⁴ Ibid.

Taiwan were being lost because preventing economic exchange activities could seriously damage the ability of Taiwanese businesses to develop business opportunities and could do no good to the Taiwanese people. Not only the business community objected to the Policy of 'No Haste, Be Patient' but also some people in the academic field advised that the limitation imposed by the Taipei government would make the enterprises lose their competitiveness, so it should adjust the Policy of 'No Haste, Be Patient'. The former Chief Executive of the Chinese Productivity Centre also believed that the Policy of 'No Haste, Be Patient' could damage Taiwan's competitiveness. Therefore, from the perspective of many Taiwanese business people, the market and business opportunities in the Mainland are more copious than those in Taiwan as a result of the strong international competitive pressure and Asian Financial Crisis in the 1990s.³⁵

6.3.2 Taiwan's Politics and Business Community

In September 1997 Chang Yung-fa (張榮發), the owner of Eva Airline, called for three direct links. The intelligence service of President Lee Teng-hui (李登輝) found that Chang had been currying favour from Beijing, so the PRC had helped him to obtain the flying rights from Japan to Taiwan. That is to say, because Chang had actually built good relations with the Beijing government, he acquired flying rights between Japan and Taiwan. Lee therefore thought Chang was disloyal. Even in the early 21st century, Chang Yung-fa stated in Japan that the future of Taiwan's economy would be in Mainland China and that he would transfer the flags of more than half of Evergreen

³⁵ Ibid.

Container ships from Panama and Taiwan to Britain and Italy, thus allowing them to sail to Chinese ports. Chang's action could have caused the propagandists of the DPP to assert that he was a red-top (pro-China) businessman. However, very few DPP members accused him because Chang has long been a generous donor to President Chen Shui-bian (陳水扁) and the DPP. The Evergreen Group is also an important sponsor of Pan-green forces,³⁶ and influences President Chen in his choice of cabinet ministers and aides.³⁷

This can be proven by the fact that so-called Evergreen legislators have great leverage on the Ministry of Transportation and Communications, and many politicians are from the Institute for National Policy Research, which has been set up by Chang. For example, Huang Chu-wen (黃主文), at present Chairman of the Taiwan Solidarity Union (TSU), a branch of the Pan-green forces, was the Executive Director of the Institute for National Policy Research. In addition, Su Chin-chiang (蘇進強), Secretary General of the TSU and now a member of the cabinet, was a research fellow of the Institute for National Policy Research. Yeh Kuo-hsin (葉國興), the Director General of the Government Information Office, was the Vice Executive Director of Data Centre of the Institute for National Policy Research. Hung-mao Tien (田弘茂), the Foreign Minister, was the President of the Institute for National Policy Research. Huang Hwei-chen (黃輝珍), a Minister of State, was also an Executive Director of the Institute for National Policy Research, not to mention many other Evergreen legislators.³⁸

³⁶ The Pan-green forces include the DPP and the Taiwan Solidarity Union (TSU).

³⁷ Zhang Shu-ling (張書翎), *United Daily News*, 7 March 2002

³⁸ *Ibid.*

In the past, Chang focused on a global strategy but is now focusing on a regional one, i.e. the Chinese market. Even though the Evergreen Group declared openly against the government, which has been supported by the media, Lee and the Pan-green forces have not attacked it. However, Lee asserted that people like Morris Chang (張忠謀) were red-top (pro-China) business people and that the media which supported westward investment were pro-unification. However, Morris Chang had established the foundation of Taiwan's semi-conductor industry. Taiwan's semi-conductor technology was not developed by the government but introduced by Morris Chang and the like from the US. Most of the staff of his company, Taiwan Semiconductor Manufacturing Co (TSMC), had been trained in Silicon Valley and brought the technology back to Taiwan.

At that time, there were two ways of high-tech development. One was Acer's way, the other TSMC's. Acer made its own brand. Morris Chang believed that Taiwan could not compete with the US in technology so he adopted the strategy of Original Equipment Manufacturing (OEM). Under this strategy, America is responsible for design and marketing, then Taiwan makes the products and sells them back to America. This way has been proven to be more successful than that of Acer, which has its own brand but does not make much profit. In general the TSMC can make two or three times more profits than Acer. If Morris Chang is a red-top (pro-China) businessman, he represents the view of the business community. Furthermore, he has promised to invest in a large-scale 12-inch wafer factory in Taiwan when he moves his company's 8-inch

wafer production to the Mainland. Basically, according to his plan, Taiwan can still maintain relatively high-tech production. It could be plausibly argued that if the government forbids business people to invest according to their own judgment, the enterprises might lose their competitiveness in the end and that the government should, therefore, only warn the business people but not block them.

6.3.3 Uncontrollable flow of Taiwanese Money into the Mainland

There are several major ways in which money flows from Taiwan to the Mainland. In fact, many Taiwanese business people invest in the Mainland but register their company in a third country. In the Mainland, the first and the second largest FDI countries are Hong Kong and the British Virgin Islands. These two countries are exactly the places where Taiwanese business people most frequently set up their overseas companies. In particular, a lot of Taiwanese money is parked in Hong Kong.

So, how in fact does Taiwanese money flow into the Mainland under the Policy of 'No Haste, Be Patient'?

(1). Taiwanese companies can save their money in an overseas bank account when they export and import. When foreign exchange was still controlled by the Taiwanese government a long time ago, no enterprise could retain foreign exchange assets. At that time, some big companies already knew how to keep foreign exchange overseas by declaring different prices when they exported and imported. When they imported products or components, by declaring higher prices, Taiwanese business people could

ask their suppliers to save the excess money in a given overseas bank account, thereby investing in the future. In this situation, it is very difficult for the authority concerned to find out the truth in every case.³⁹

(2). Taiwanese companies can use their overseas branches to invest in the Mainland. Many Taiwanese enterprises have overseas markets. They receive income by way of their overseas branches and save it in overseas banks. It is even more difficult for the authority concerned to regulate the investment. Also, some syndicates of Taiwanese business people invest in Asia or America on a large scale. It is not essential to return their money to Taiwan. Nobody can interfere with their investment anywhere. Formosa Plastics invested in a new enterprise on the Mainland some time ago through its branch in America.⁴⁰

(3). Taiwanese business people can invest in the Mainland through investment funds. The four largest investment companies manage over NT\$ 70 billions, equivalent to the total amount that Taiwanese business people invested in the Mainland in 2001. Part of the funds flows into those places where the Taiwanese government does not allow investment. One high-tech company pointed out that the money it put into the investment funds was bound to go to its company in the Mainland.⁴¹

(4). Taiwanese companies can set up paper companies in a third country. Many

³⁹ Interview with X on 28 May 2002..

⁴⁰ It is also feasible on the other way round. A company near Shanghai transfers its income in China back to Taiwan by way of its branch in Singapore. Interview with A on 2 March 2002.

⁴¹ Interview with N on 1 May 2002.

enterprises which invest in the Mainland establish this kind of paper company in tax havens like the British Virgin Islands or the Cayman Islands. In the early 21st century, the British Virgin Islands is the second biggest investor in China and the biggest in Taiwan. The Cayman Islands are the 8th biggest investor in China.⁴² The PRC's *Zhongguo tongji nianjian* (中國統計年鑑), 2003, shows (a) that FDI from the Virgin Islands was almost 4 times higher than that from the Cayman Islands; and (b) that taken together, the Virgin and Cayman Islands rank *second* as a source of FDI to China.⁴³

In this way, Taiwanese business people can avoid the rigorous control regulations of both the Chinese government and Taiwanese government because it is very easy to set up a paper company in a third country and acquire the status of a foreign corporation. It costs only two or three thousand US dollars to run a paper company in these places. It also needs only one to three people to organise a board (董事). Therefore, an enterprise can set up several paper companies to make capital flow more complicated, thus avoiding the control of the authority concerned. It is also easy for an individual to open this kind of paper company and keep his or her capital overseas. The investment company of the famous Zhang-Zhou Power Plant and He-Jian Technology are both based in the British Virgin Islands.⁴⁴

(5). Some companies make their plans earlier than necessary and apply every year for permission to invest in China. Some companies apply for investment in the Mainland

⁴² Interview with EE on 1 May 2003.

⁴³ *Zhongguo tongji nianjian* (中國統計年鑑), PRC, 2003, pp. 672-674.

⁴⁴ Interview with N on 1 May 2002.

according to law but through multitudes of branch companies, with a different one every year. It is rather difficult for the Taipei government to discover the relations among those branch companies. Once the money goes abroad, it is hard to control how they invest in the Mainland. A wafer company pointed out that it had applied for permission to invest in the Mainland to the Investment Commission, Ministry of Economic Affairs, ROC. It applied for items permitted by the government but actually invested in a different industry in the Mainland, which is beyond the control of the Taipei government.⁴⁵

(6). Some companies use the rebate from equipment suppliers to invest in the Mainland. Most of the high-tech companies have very good relations with overseas equipment suppliers. Investment to set up and equip a new factory in the wafer, TFT and LCD industries usually costs over NT\$ 10 billion. Equipment suppliers have to build related equipment according to the needs of the high-tech companies, with long-term bilateral cooperation and communication. In the international equipment procurement market, there are open systems of rebate. For most of the procurement companies, the equipment suppliers usually offer 2% to 10% rebate. In this connection, Taiwanese enterprises can ask the suppliers to invest in the Mainland with the rebate or share the same projects. Sometimes, they can ask the equipment suppliers to save the money in a given overseas account and thereby retain overseas capital.⁴⁶

⁴⁵ <http://www.cw.tw/Files/article/frontend/Sub.asp?page=2&SubjectId=1002&key=2089> 2002/6/2

⁴⁶ Interview with A on 1 March 2002.

(7). Some Taiwanese companies use triangle-trading to transfer capital into China. For example, P usually pays money to another wood company in Southeast Asia. Then the company in Southeast Asia delivers the wood to his company in China. In the end, he can invest in the Mainland after selling the wood.⁴⁷

In terms of the analysis above, even though the Taipei government weaves a tight web to control the flight of capital into the Mainland, many people and enterprises still find different legal ways to invest in the Mainland. Hence, according to the Central Bank of Taiwan, it is estimated that US\$ 50 billion have flowed from Taiwan into China. What is worse is that Chen Ji-Zhu, Vice General Manager of China International Commerce Bank, believes that the capital flow is over US\$ 150 billion in the last decade.⁴⁸

6.3.4 Boldness versus Caution

Taiwan opened its door for Taiwanese business people to invest in the Mainland as long ago as 1987. However, the subsequent 'No Haste, Be Patient' Policy was based on an awareness of the risks inherent in any rush of investment in the Mainland. On the other hand, some people have argued for a 'Bold Westbound' Policy, because they believe that westward investment in the Mainland does not lead to negative effects. Both of these policies were viewed at the state level. However, if we examine the issue from a sub-national level, e.g. businesses, we can come up with different viewpoints. In addition, business people have more practical strategies in terms of individual

⁴⁷ Interview with P on 12 June 2002. The company can also transfer the money back to Taiwan. When the company in China receives the wood from Southeast Asia, it can also transfer its money back to Taiwan by way of Southeast Asia or even through Hong Kong.

⁴⁸ <http://www.cw.com.tw/Files/article/frontend/Sub.asp?page=2&SubjectId=1002&key=2098> 2002/6/2

enterprises. Large enterprises might have different strategies from small- and medium-sized enterprises. 'Go West' and 'Go South' might have different implications for business people from those for the government. What kind of conditions in the host country are their major concerns? Also, when they act on their own, do they serve the interests of the state? That is to say, are they acting as middlemen, surrogates or hindrances?

6.3.5 The Growth of Taiwanese Investment in China

Taiwanese investment in China has been on a large scale. For 2001, the *Taiwan Statistical Databook (2002)*, shows that the volume was US\$ 2.784 billion. The cumulative investment for 1991-2001 as US\$19.9 billion – omitting the Virgin and Cayman Islands.⁴⁹ However, PRC government statistics put the figure slightly higher than this: US\$ 2.979 billion. Taiwanese business people are the fifth largest Foreign Direct Investors (FDIs) in the Mainland.⁵⁰ Nevertheless, both these statistics may have underestimated the volume in total.

The General Situation of Taiwanese Investment in China and Southeast Asia (Table 6.1)

Table 6.1 shows the Statistics of Taiwanese Investment in China and Southeast Asia. Taiwanese foreign investment stemmed largely from 1986, a time when the New Taiwanese Dollar appreciated greatly and the domestic investment environment was

⁴⁹ *Taiwan Statistical Databook*, Republic of China, 2002, p. 272.

⁵⁰ Statistics on Indirect Mainland Investment, Investment Commission, Ministry of Economic Affairs, Republic of China..

deteriorating. Before 1990, the main investment area was Southeast Asia, mainly Thailand and Malaysia. Afterwards, Indonesia and the Philippines followed. In recent years, Vietnam has become the investment destination because of even cheaper and more hard-working labour and a more stable political economy.

The data given in Table 6.1 were recorded by the governments of the host countries. Usually the statistics are higher than those shown in the *Taiwan Statistical Databook* and *Zhonghua ming tongji nianjian* (中華民國統計年鑑), 2003, which suggest a quite different picture. This is because the latter shows the statistics approved by the Taiwanese government. However, many Taiwanese business people invested overseas without the approval of the Taiwanese government. Therefore, the statistics from the host countries are usually higher than those from the Taiwanese government.

In some cases, after the approval of the Taiwanese government, some Taiwanese business people chose not to invest abroad. Both in 1997 and 2000, the figures from *Zhonghua ming tongji nianjian* (中華民國統計年鑑), are higher than the statistics recorded by the Chinese government (host country). The thesis (host country's record) shows Taiwan's investment in China peaking in 1996 at US\$3.48 billion. If you look at *Zhonghua ming tongji nianjian* (中華民國統計年鑑),⁵¹ you will see that the corresponding figure for 1997 is US\$4.334 billion (which is higher than the statistics recorded by the PRC government). This is because, in 1997, just after the Asian Financial Crisis, many Taiwanese business people decided not to invest in China

⁵¹ *Zhonghua ming tongji nianjian* (中華民國統計年鑑), 2003, p. 242.

against uncertainty there after the approval of the Taiwanese government. At that time, the Chinese currency (Renminbi) did not depreciate, making the producing cost in Mainland China relatively high. This also discouraged Taiwanese business people from "Going West" in 1997. The difference of the statistics is also as follows:

	Statistics of the PRC	<i>Zhonghua mingo tongji nianjian</i>
1999	\$2.6 billion	\$1.253 billion
2000	\$2.3 billion	\$2.6.7 billion
2001	\$3.0 billion	\$2.784 billion

The statistics of the PRC show a 11.5% decline from 1999 to 2000, whereas *Zhonghua mingo tongji nianjian* (中華民國統計年鑑) shows a 108.1% rise. After Taiwanese business people applied for permission for investment in China in 2000, some of them decided not to invest in China in the end. This is because, in 2000, after the presidential election in Taiwan, some Taiwanese business people who supported Chen Shui-bian found that Chinese tax authorities were now much more eager to examine their tax records and make trouble for them. Therefore, although some of them obtained the permission of the Taipei government to invest in China, they abandoned investment in 2000.

The westward investment into China greatly increased in 1991 with the easing of tension across the Taiwan Straits. In 1996, the amount peaked at US\$3.48 billion. However, the investment decreased gradually due to the Taiwan Straits Crises and

Asian Financial Crisis. In 1999, there was Taiwanese investment of only US\$2.6 billion in China. In 2000, there was even less Taiwanese investment (US\$2.3 billion). In 2001, the investment went back up to US\$3 billion, but still less than the figure before the crises.

In terms of China's share of Taiwanese investment in China and Southeast Asia between 1959 and 2000, it absorbed nearly 40%. In single year statistics, it occupied more than 60% in 1998 and 2000 and over 70% in 1993, a turning point when westward investment reached above US\$3 billion. From 1998 onwards, the rise of China's share was because of the Asian Financial Crisis, leading to the decrease of Taiwanese investment in Southeast Asia.

It is not obvious which country comes next after China in the league table of preferred destinations for Taiwanese investment. There are often especially high amounts in several single years in some countries (e.g. Thailand, Malaysia or Indonesia). This is because there were single large-scale investment projects in those years, mainly Taiwan state-run enterprises and Kuomintang party-run enterprises.⁵²

⁵² Interview with V on 1 June 2002.

Table 6.1																
Statistics of Taiwan's Investment in Southeast Asia and China																
Unit: US\$ Million																
Year	1959-1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total	Total
Thailand	345.2	859.9	892.2	782.7	583.5	289.9	215.0	477.5	1,803.9	2,785.2	414.3	253.6	211.1	437.4	10,351.4	
Malaysia	151.2	306.1	799.7	2,347.8	1,326.2	574.7	331.2	1,122.8	567.8	310.3	480.4	263.4	70.3	241.1	8,892.9	
Philippines	16.9	109.9	148.7	140.7	12.0	9.1	5.4	267.8	13.6	7.4	13.1	5.4	5.0	1.0	756.0	
Indonesia	2,501.4	913.0	513.2	618.3	1,057.8	563.3	127.5	2,487.5	567.4	534.6	3,419.4	155.4	1,180.3	131.2	14,770.3	
Singapore	465.3	6.4	5.2	47.6	12.5	8.8	69.5	100.7	31.7	165.0	230.3	158.2	324.5	219.5	1,845.2	
Vietnam	0.0	0.0	1.0	233.5	503.4	544.1	403.8	519.3	1,204.6	534.3	247.8	440.6	172.9	280.5	5,085.7	
China	0.0	0.0	0.0	0.0	1,105.0	1,050.0	3,139.0	3,391.0	3,162.0	3,475.0	3,289.0	2,915.0	2,599.0	2,296.0	26,421.0	
Total	3,480.0	2,195.3	2,360.0	4,170.6	4,600.4	3,039.9	4,291.4	8,366.6	7,351.0	7,811.8	8,094.3	4,191.6	4,563.0	3,606.7	68,122.5	
China's share	0.00%	0.00%	0.00%	0.00%	24.02%	34.54%	73.15%	40.53%	43.01%	44.48%	40.63%	69.54%	56.96%	63.66%	38.78%	
Source: Industrial Development & Investment Centre, Ministry of Economic Affairs, Taiwan																
Date: August 2000 & August 2002																

The Geographical Distribution of Taiwan's Foreign Investment (Table 6.2)

In connection with the distribution of different size of enterprises in different area, the Statistics Department of Ministry of Economic Affairs made a survey in 1998. Table 6.2 shows that the most popular destination for investment is still China (measured by percentage of companies - 71% - investing there). The second most popular destination is Southeast Asia (37%). The next is the USA (17%). Scarcely any small-sized enterprises invest in more than two countries. The major country they invest in is China (76%). The next is Southeast Asia (32.6%). The USA attracts only 9.5% of small-sized enterprises to invest there.⁵³

A smaller proportion (65%) of medium-sized enterprises invest in China than of small-sized and large-sized companies. The next is still Southeast Asia, at 34%. However, 23% of medium-sized enterprises invest in the USA. This is because most medium-sized Taiwanese enterprises are electronics ones.

In connection with large-sized enterprises, a rather high percentage of them invest in all of the three areas: China (77%), Southeast Asia (51%) and the USA (40%).⁵⁴

⁵³ Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? - The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangYNCN.htm> 26/11/02

⁵⁴ Because a company can invest in more than one area (two or three areas), the total percentages are more than 100%.

Table 6.2 Distribution by Area and Size of Business in 1998. More than two choices are allowed, so the total is more than 100%. Unit: %						
	Total	Small-sized	Medium-sized	Large-sized		
Thailand	7.44	6.28	6.96	9.65		
Malaysia	8.62	7.59	8.86	12.28		
Philippines	4.51	3.53	5.7	6.73		
Indonesia	6.8	6.68	5.06	7.6		
Singapore	2.93	1.96	3.8	5.59		
Vietnam	6.72	6.54	3.8	9.06		
Subtotal	37.02	32.58	34.18	50.88		
China	71.12	75.92	65.19	77.19		
USA	17.48	9.55	23.42	40.06		
Hong Kong	8.47	6.02	12.66	15.5		
Total	134.09	124.07	135.45	183.63		
Source: Statistics Department, Ministry of Economic Affairs, Republic of China, 1999.						

If we add all of the percentages, we can find out the index of cross-border investment of each kind of enterprise. If it were equal to 100%, it would mean that there were no enterprises investing in more than two areas. The higher the figure rises above 100%, the more companies (we can deduce) are engaged in cross-border enterprises. We find that the index of cross-border investment is 124% for small-sized companies, 135% for middle-sized, and 183% for large-sized. This means almost all large-sized companies take on cross-border investment.⁵⁵

To sum up, China is the most popular offshore area of investment for Taiwanese business people. Southeast Asia is the second most popular offshore destination of investment. The next is the USA, especially for the large-sized enterprises (40.06%), following China (77.19%) and Southeast Asia (50.88%).⁵⁶

In terms of different-size enterprises, the scales of their offshore relocation are different. The larger the size of the enterprises, the more cross-border areas they are engaged with. It is noteworthy that only a small proportion of small-sized enterprises are engaged in cross-border investment.⁵⁷

Obviously, both 'Go West' and 'Go South' were the two major trends in the relocation overseas of Taiwan's business community in the 1990s. In addition, 'Go West' was

⁵⁵ Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? – The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02

⁵⁶ Ibid.

⁵⁷ Ibid.

more popular in this period than 'Go South'. This was beneficial to the government's Plan to make Taiwan the hub for business in the region, though it was the result of business people simply seeking to further their own interests. However, the trend did not exactly follow the policy of the Taipei government in connection with 'No Haste, Be Patient'.

6.3.6 Shift of Investment from Taiwan to China

In the early twenty-first century, more and more western firms are moving their investment from Taiwan to China, too. The reason is the 'cluster effect' of the Taiwanese business community that has formed in Mainland China. All the enterprises, including up-stream, middle-stream and the down-stream, have formed a chain and help one another. This tendency can be seen in both the Pearl River Delta and the Yangtze River Delta.⁵⁸

Frequently, when a country begins to invest in new manufacturing enterprises overseas, trade between the home country and the host country will soon increase, because initially the new factories will be dependent for supplies of primary materials and components on the original suppliers in the investing country. This is apparent in Taiwan's relocation overseas process. Therefore, the economic exchanges, including investment and trade, have boomed. If the Taipei government could have followed up this development and relaxed the restriction of three links of postal services, trade and transportation, economic exchanges across the Straits would have increased much more

⁵⁸ Interview with T on 17 April 2002.

than they did, and this would have been a tremendous boost for the realisation of the APROC Plan. However, when the time came to make the necessary decisions, the Taipei government failed to seize the opportunity.

In this connection, it is fair to conclude that it would have been better to follow the collective steps of the Taiwanese business people, which would have been more beneficial to Taiwan itself as a whole. The contradiction and inconsistency which resulted from the double-track policy made by the Taipei government ('No Haste, Be Patient' and 'Southward Policy' by the Presidency & the APROC by the Executive Yuan) merely led to ineffective administrative development without paying attention to the individual interests of the Taiwanese business people.

However, the Taipei government had its own consideration - security - and insisted on the Policy of 'No Haste, Be Patient'. All the transportation of people and goods between Taiwan and China has to pass through a third place, usually either Hong Kong or Japan. This has been not only very time-consuming but also costly and has made business people tired of the 'red tape' of the Taipei, Hong Kong and Japanese government. Some Taiwanese business people joke that they would like to send their goods directly to China and bribe Japanese officials to stamp the documents to provide evidence that they have gone via Japan. Because the Taiwanese government persists in refusing to authorise the three links across the Straits, the Hong Kong government and the Japanese government benefit greatly by means of 'stamp procedure', while long-suffering Taiwanese business people have had to incur delays and extra costs.

Gradually, all types of enterprises - including western firms - have been moving to the Mainland just because of the absence of 'three links'.

Why did Taiwanese Enterprises Relocate Overseas in the 1990s? (Table 6.3)

The above question was surveyed in 1996 and 1998, and the results for the two years are not very different. The three major reasons are 'using cheaper local labour' (65%), 'great potential of host local market' (50%) and 'deteriorating investment environment of Taiwan' (36%). However, if we consider separately the answers given by different size companies, there are some interesting differences. Whereas about the same proportion of all companies name 'using cheaper local labour' as a reason, there is a big gap between small-sized and large-sized companies when the question asks about 'great potential of the local market'. This is identified as an important motive by only 42.8% of small companies but 65.8% of large enterprises.⁵⁹

In terms of 'Deteriorating investment environment of Taiwan', 41% of small-sized enterprises regard this as the reason why they relocated overseas, but only 29.8% of large-sized enterprises believe this was important in their decision. Instead, 31.3% of large-sized enterprises think 'Effectively using the firm's capital' was relatively important.⁶⁰

⁵⁹ Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? - The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02

⁶⁰ Ibid.

Table 6.3				
The Reasons of Relocation Overseas				
Unit: %				
	Small-sized	Medium-sized	Large-sized	Average
Sample size	764	158	342	1264
Using cheaper local labour	67.8	62.0	60.8	65.2
Great potential of the local market	42.8	54.4	65.8	50.5
Deteriorating investment environment of Taiwan	40.9	31.0	29.8	36.7
Request of overseas customers	31.4	29.8	27.8	30.2
Following Taiwanese customers	25.0	18.4	16.7	21.9
Effectively using the firm's capital	12.4	17.1	31.3	18.1
Easier to acquire local land	15.7	15.8	20.8	17.1
Easy and expedient to acquire primary materials	17.3	17.7	16.4	17.1
Source: Statistics Department, Ministry of Economic Affairs, Republic of China, 1999.				

In terms of the reasons of relocation overseas, the first two major reasons given by enterprises in all size ranges are the same: 'Using cheaper local labour' and 'the Great potential of the local market'. However, in terms of other reasons of relocation overseas, large-sized enterprises consider 'Effectively using the firm's capital' as relatively important. Both small and medium-sized enterprises regard 'Deteriorating investment environment of Taiwan' as relatively important.⁶¹ (See Table 6.3)

Where to Invest? Views of Taiwanese Business People in Late 1990s (Table 6.4)

From the data analysed above, we can deduce that many Taiwanese enterprises have been engaged in cross-border investment, especially large-sized enterprises. When Taiwanese business people were asked in the late 1990s where they considered they might invest next, their answers showed an unflagging enthusiasm for overseas investment. China was still the most popular country for next investment (55.4%). For Southeast Asia as a whole, including Malaysia, Singapore, Thailand, Indonesia and the Philippines, 60.0% of the Taiwanese enterprises were going to invest there next.

⁶¹ Ibid.

Table 6.4										
Areas Considered for Firms to Invest Next										
(More than two choices are allowed)										
Unit: %										
Considered Area	China	USA	Vietnam	Malaysia	Thailand	Indonesia	Philippines	ASEAN (5 Countries in Total)		
Present Investing Area										
Total	55.4	18.1	17.1	13.8	11.8	9.2	8.1			60.0
USA	43.8	36.5	5.2	10.4	5.2	6.3	5.2			32.3
China	54.5	17.8	20.6	12.6	13.3	10.4	10.2			67.1
Malaysia	67.4	6.5	13.0	23.9	17.4	6.5	4.4			65.2
Singapore	75.0	37.5	0.0	0.0	12.5	0.0	12.5			25.0
Thailand	66.7	12.8	7.7	23.1	2.6	2.6	2.6			38.6
Indonesia	50.0	0.0	9.1	13.6	0.0	31.8	0.0			54.5
Philippines	72.2	11.1	27.8	16.7	5.6	0.0	27.8			77.9
Source: Statistics Department, Ministry of Economic Affairs, 1999.										

It is interesting to note the fact that Taiwanese enterprises now investing in China intend to invest next in Southeast Asia. However, the Taiwanese enterprises currently engaged in investment in Southeast Asia were likely to invest next in China.⁶² The Taiwanese enterprises operating in Indonesia were exceptional: they were less likely to seek new territories in which to invest, largely because they had benefited greatly from the cheaper local labour after the Asian Financial Crisis.⁶³ However, Taiwanese business people in general were inclined to spread their risks in cross-border investment.

A Taiwanese shoemaker in Vietnam expressed the view that Vietnam, as a former colony of France, benefited from exporting goods to the European Union (EU). Therefore, Vietnam became the major chosen country when he decided to invest because compared to Vietnam, China offered him no favourable terms for exporting to

⁶² Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? – The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02

⁶³ Interview with FF on 25 April 2002. The Asian Financial Crisis starting from Thailand in 1997 caused major depreciation of currencies. During the huge fluctuation of currency value, the impacts on the local Taiwanese business people have varied. In general, if Taiwanese business people focused on the local domestic market, the negative effects on them were very serious. The shrinking domestic market as well as the rising cost of importing were both devastating. However, for Taiwanese business people who focused on export, the reduced cost of local labour made them become very competitive, and if they also bought local primary materials, the cost became even lower. At that time, the Chinese currency (Renminbi) did not depreciate, making the producing cost in Mainland China relatively high. When western customers ordered products, they were very aware of the price of primary materials and the transportation fee. By contrast, if an Original Equipment Manufacturer (OEM) wanted to maintain its competitiveness, China became less likely to be its top priority. For example, according to the statistics in 1996, 72% of Taiwanese business people in China wanted to utilise cheaper local labour. This figure was very similar to that of Taiwanese business people who wanted to utilise cheaper local labour in Southeast Asian countries in 1997. The statistics were Thailand (70%), Indonesia (79%), the Philippines (81%), and Vietnam (65%), respectively. On the other hand, gradually the figure of Taiwanese in China, who wanted to utilise cheaper local labour, rose from 41% in 1997 to 69% in 1998. This was because the relatively stable currency enhanced the trend of Taiwanese investment. Again, the figure dropped from 72% in 1996 to 41% in 1997 because the currency depreciation of Southeast Asian countries made Chinese cost of labour relatively high when Chinese currency remained stable. See also The Overseas Investment Practice Investigation Report of Taiwanese Manufacturers, Taipei: Department of Statistics, Ministry of Economic Affairs, 1997. & The Overseas Investment Practice Investigation Report of Taiwanese Manufacturers, Taipei: Department of Statistics, Ministry of Economic Affairs, 1998.

the EU and he had no chance of gaining access to any of China's quota of exports to the USA.⁶⁴ Like Pou-Chen, Taiwanese business people expected Vietnam to establish diplomatic relations with the US and benefit from normalisation of trade relations between Vietnam and the US. In addition, Vietnam was going to join the ASEAN Free Trade Area, so they too expected to benefit from exporting products to and importing primary materials from other ASEAN countries, especially when trade barriers were removed in the future. Therefore, with regard to Taiwanese business people already investing in Vietnam and exporting to third countries, the changes of international economic climate, international norms (including international regulations), and exporting destination countries are all factors they consider when choosing where to invest (either 'Go South' or 'Go West').

The Impact of Where Overseas Taiwanese Business People's Primary Materials, Components and Semi-Products Came from (Table 6.5)

After the overseas relocation of Taiwanese businesses, did they still maintain strong links with Taiwan or let old networks weaken while they built new relations with the local community in their host country? Based on the statistics of overseas Taiwanese businesses, it is obvious that the connection between overseas Taiwanese businesses and Taiwan was reduced over time. For example, the proportion of primary materials which these businesses sourced in Taiwan fell from 49.7% in 1996 to 45.5% in 1997. Similarly, the proportion of semi-products from Taiwan fell from 53.7% to 49.7% in the same period. Although these differences were not very substantial, all the countries

⁶⁴ Interview with S on 3 March 2002.

except in a very few cases seem to have the same declining tendency.⁶⁵

As regards individual countries, Taiwanese businesses in the USA, China, Malaysia, Singapore, Thailand and Indonesia had less connection with Taiwan itself in 1997 than they had in 1996. Only the Taiwanese businesses in the Philippines obtained slightly more primary materials from Taiwan, going from 50.4% in 1996 to 52.3% in 1997. On the other hand, the percentages of the primary materials and semi-products provided both by local Taiwanese business people and local non-Taiwanese business people rose. This trend is similar in almost every country. In other words, the necessary primary materials and semi-products for production provided by local businesses have usually increased year by year.⁶⁶

⁶⁵ Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? – The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02 Also, both the percentages of primary materials and semi-products of Singapore sourcing from Taiwan were the same from 1996 to 1997. The primary materials of Indonesia and the Philippines sourcing from Taiwan rose. These are the only exceptions.

⁶⁶ Wang, Hong-zen, Mobility Patterns and Strategies Among Taiwan's Small and Medium-Scale Business People. Unpublished PhD Thesis: Australian National University, 1998, pp. 210-211.

Table 6.5

Origin of Primary Materials and Semi-Products Acquired by Overseas Taiwanese Business People										
Percentage of Primary Materials		Total	USA	China	Malaysia	Singapore	Thailand	Indonesia	Philippines	
		1996	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
From Taiwan			49.7	56.5	50.3	37.3	18.8	32.3	41.6	50.4
From Local Taiwanese Business People			15.4	10.5	17.6	17.1	10.0	8.6	8.5	10.0
From Local Non-Taiwanese Business People			21.6	24.5	19.5	32.6	26.3	37.2	29.0	19.4
From Other Countries			13.4	8.5	12.6	13.0	45.0	21.9	20.9	20.2
		1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
From Taiwan			45.5	54.8	45.2	33.7	18.8	26.9	44.1	52.3
From Local Taiwanese Business People			18.0	11.2	21.0	17.7	10.0	10.3	5.9	10.6
From Local Non-Taiwanese Business People			22.7	25.0	21.0	34.6	26.3	39.2	29.4	17.9
From Other Countries			13.8	9.0	12.9	14.0	45.0	23.7	20.6	19.8
Percentage of Semi-Products		Total	USA	China	Malaysia	Singapore	Thailand	Indonesia	Philippines	
		1996	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
From Taiwan			53.7	62.9	53.0	38.5	40.0	41.1	48.0	64.6
From Local Taiwanese Business People			15.6	3.3	18.6	22.7	0.0	12.4	10.5	2.4
From Local Non-Taiwanese Business People			21.6	23.0	20.5	33.3	32.0	31.0	27.5	19.1
From Other Countries			9.1	10.8	7.9	5.6	28.0	15.5	14.1	14.0
		1997	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
From Taiwan			49.7	60.8	48.0	34.0	40.0	39.1	47.2	61.8
From Local Taiwanese Business People			18.2	4.8	22.1	25.1	0.0	12.6	9.8	3.2
From Local Non-Taiwanese Business People			22.6	23.1	22.0	35.1	32.0	28.7	28.0	21.6
From Other Countries			9.5	11.4	8.0	5.7	28.0	19.6	15.0	13.4

Source: Statistics Department, Ministry of Economic Affairs, Republic of China, 1999.

Based on the statistics of mainly overseas Taiwanese businesses of 2001 and 2002, the primary materials, components, and semi-products sourced from *Taiwan* all declined from 2001 to 2002. The primary materials, components, and semi-products sourced from *local non-Taiwanese businesses* all increased. The primary materials, components, and semi-products sourced from *local Taiwanese businesses* all increased even more. This indicated that after the development of overseas Taiwanese businesses had become stable, the effect of trade produced by investment gradually declined. Overseas Taiwanese businesses gradually turned to employ local resources efficiently and to devote them to local development, thus sourcing local primary materials, components and semi-products sourced.⁶⁷

Therefore, the longer Taiwanese businesses stay in China, the more likely they are to become entrenched locally. The cluster effect of Taiwanese business people in China is becoming more and more evident. For example, in Dongguan the degree of integration of Taiwanese electronics industries from up-stream to down-stream is already extremely high. Businesses can order in Dongguan and pay in Taiwan.⁶⁸

⁶⁷ http://2k3dmz2.moea.gov.tw/gnweb/news/hot_html/Inv92.htm 27/04/04

⁶⁸ Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? – The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02

Table 6.6									
The Difficulties Faced by Overseas Taiwanese Businesses									
Unit: %									
Investment Area	China	Vietnam	Malaysia	Singapore	Thailand	Indonesia	Philippines	Total	
Problem and Difficulty									
Inferior Administrative Effectiveness	41.8	40.5	23.7	30.0	29.1	32.6	37.1	36.4	
Difficulty in Managing Local Labour	37.0	9.5	33.9	30.0	29.1	23.3	22.9	34.4	
Seriously Competitive Market	30.1	23.8	35.6	60.0	29.1	2.3	17.1	31.4	
Unstable Political Economy	31.9	21.4	17.0	20.0	29.1	76.7	40.0	30.0	
Different Business Customs	17.8	28.6	20.3	20.0	20.0	18.6	31.4	21.0	
Rising Cost of Labour	14.1	11.9	22.0	20.0	16.4	9.3	17.1	15.8	
Language Difficulty	2.6	45.2	16.9	0.0	34.6	30.2	17.1	9.5	
Source: Statistics Department, Ministry of Economic Affairs, 1999.									

6.4 Extending Taiwanese Businesses Overseas

6.4.1 The Difficulties Faced by Overseas Taiwanese Businesses (Table 6.6)

'Go West' or 'Go South' also involved the administrative effectiveness of local government and local political economy. A Taiwanese businessman in Vietnam expressed the view that he had examined China and Vietnam many times before he decided where to invest in 1995. He felt that not only was the infrastructure of China better than that of Vietnam, several other factors were also superior to those in Vietnam. However, he eventually decided to invest in Vietnam just because the political risks were higher in China. Table 6.6 shows that 41.8% of Taiwanese businesses in China believe the administrative effectiveness in China does not meet their needs for investment. 31.9% of Taiwanese business people in China think that the unstable political economy in China is the main difficulty they met with. Only in Indonesia and the Philippines did a higher percentage of the Taiwanese business people mention political instability as a negative factor, 76.7% and 40.0% respectively. In China, Taiwanese business people were regarded by local officials as an instrument against the Taiwanese government.⁶⁹ In addition, Taiwanese business people could not be protected by the local law because the Taiwanese government had no sovereignty in the Mainland, and Chinese officials could not be relied on to adjudicate impartially

⁶⁹ Beijing's announced policy of "yi jingji cu zhengzhi, yi tong cu tong, and yi min bi guan" (以經濟促政治, 以通促統, 以民逼官; "promoting political amalgamation through economic integration; achieving unification through communications; and pressuring the government with popular demands") implied a strong desire to utilise an over-committed business community to influence the politics in Taiwan. See Yu-shan Wu, "Economic Reform, Cross-Strait Relations and the Issue of Policy Linkage", in Tun-jen Cheng, Chi Huang, Samuel S.G. Wu, *Inherited Rivalry - Conflict Across the Taiwan Straits*, p. 128. See also Steven M. Goldstein, "Terms of Engagement: Taiwan's Mainland Policy" in Alastair Iain Johnston and Robert S. Ross, *Engaging China - the Management of an Emerging Power*, p. 67.

between foreigners and their own nationals. Some business people would even like to change their nationality.⁷⁰ In Indonesia, the uprising to topple Suharto in 1998 and in the Philippines the accession to power of President Joseph Estrada, a popular entertainer who turned populist politician, were both thought by the local Taiwanese business people to be indicators of a highly unstable political economy. By 1999, there were many more Taiwanese business people expressing fears about the stability of Indonesia and the Philippines than there had been in 1996. (In Indonesia, the percentage rose from 37% to 76.7%, in the Philippines, from 23% to 40%.)⁷¹ By contrast, Taiwanese business people in Vietnam had legal rights because the Taipei government had concluded an investment guarantee agreement with the Hanoi government. Therefore, they were treated as foreign business people, sharing privileges under the Vietnamese government's 'Doi Moi' Policy.

The management of local labour was another difficulty faced by overseas Taiwanese businesses. Most Taiwanese business people expressed the view that it was highly desirable to build up a cadre of locally recruited managers and administrators. There

⁷⁰ Interview with K, who said that if he were Vietnamese, the Vietnamese government would be more powerful to protect him than the Taipei government because the Taipei government could not negotiate with the Beijing government in terms of the rights of Taiwanese business people. Consequently, Taiwanese business people can neither be treated as foreign business people nor Chinese business people, thus being deprived of any rights shared by either foreign people or Chinese. On the other hand, some argued that people who kept the law had nothing to fear from the Chinese government and that most Taiwanese business people enjoyed privileges such as reduced taxes and the cooperation of local government in areas such as improvement of the infrastructure. However, the confidence of Taiwanese business people is undermined by the fact that even if one gets a favourable verdict from a Chinese court, there is no guarantee that officials will enforce the judgement effectively. This situation shows the need for improved institutions and government intervention.

⁷¹ The Overseas Investment Practice Investigation Report of Taiwanese Manufacturers, Taipei: Department of Statistics, Ministry of Economic Affairs, 1997, pp. 216-217. Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? - The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02

were two reasons for this policy. First, a Taiwanese manager in China costs from 1.5 to 2 times as much as one in Taiwan, equalling to about US\$2,4000 to US\$3,150. This salary is roughly that of 5 or 6 Chinese managers of equivalent rank. Second, Taiwanese managers are usually unwilling to go to the Mainland because they dislike leaving their home country, and thus they find it difficult to concentrate on their work overseas. However, it is difficult to achieve localisation of management, because locally recruited managers are difficult to retain. Many Taiwanese business people expressed the view that whenever another company offered a higher wage, workers would swiftly depart. These workers only wished to make the most money in the shortest period, and were not interested in acquiring skills that would further their long-term career development. Given the mobility of employees, it is very hard to cultivate local management cadres. 53% of Taiwanese business people stated that it was difficult to find local technicians.⁷² Thus, Taiwanese businesses have had to cultivate their internal management cadres because highly-qualified managers are difficult to find in China. However, high mobility led to difficulty in cultivating management cadres.⁷³

6.4.2 Taiwanese Business People and Chinese Officialdom

Taiwanese business people had to build good relations with local government in China. Some of them had great influence on the local government. One of the Taiwanese

⁷² The Overseas Investment Practice Investigation Report of Taiwanese Manufacturers, Taipei: Department of Statistics, Ministry of Economic Affairs, 1997, pp.156-157.

⁷³ Wang, Hong-zen & Gong Yi-Jun, "Moving into or out of China? – The Mobility of Taiwanese Capital in China and Southeast Asia", <http://benz.nchu.edu.tw/~hongzen/TaishangVNCN.htm> 26/11/02

business people was even called the 'underground mayor' of the city.⁷⁴ Very often, Taiwanese business people had to deal with various institutions of local government in China, for example, when applying for a licence and business registration (工商登記證). Frequently, a licence had to be stamped by more than twenty different officials and took more than a year to complete. In the coastal area, local authorities were more open-minded, since they had met many foreign business people. However, in the interior areas like Xian, officials followed older Chinese traditions which laid down that officials should be distant and superior. It was very difficult to build up personal networks with them. Therefore, Taiwanese business people in Xian had to 'fight countless battles'. A Taiwanese businessperson who went to Xian in 1992 had to deal with many officials every day for a year before he could obtain the necessary licences to build his factory and start producing goods. During this period, his hotel bill and public relations expenses were enormous. This was time-consuming and dispiriting. He was faced with a dilemma whether he should give up or persevere. In the end, he decided to stay. In addition, he suffered from the dishonesty of his Chinese partner. He expressed the view that he finally survived after paying a lot of 'tuition fee'.⁷⁵

Many Taiwanese business people complained about the unforeseen payments they had to make; many officials were very corrupt; it was very difficult to make money in China. Very few people said that they had made a lot of money and that their businesses were very successful. However, if this was so, why were so many Taiwanese business people

⁷⁴ Interview with J on 20 June 2002.

⁷⁵ Li Dai-Zheng & Xu Xiou-Mei, *Dealing Businesses in China*, Taipei: Shang-Xun, 2001, pp. 203-204. (李道成 & 徐秀英, *經商中國*, 台北: 商訊文化事業股份有限公司, 2001, pp. 203-204)

rushing to invest in China? In fact, many Taiwanese people had made a lot of money and expanded their investment.⁷⁶ Prompted by the growing 'cluster effect' in China and the lack of three links across the Taiwan Straits, they even moved their headquarters from Taiwan to China. Although they might meet some troublesome tax problems, business was still very smooth. In general, if a Taiwanese businessperson did not violate the law or challenge the unwritten 'regime' of corruption, he or she would not meet any trouble.⁷⁷

However, some exceptional situations did exist. Taiwan and China did not sign a double-taxation agreement. According to the tax regulation in China, all foreigners had to pay taxes after they had lived in China for ninety full days. Even if the employees hired by Taiwanese business people obtained their salary in Taiwan, they still had to pay the tax. A Taiwanese manager did not know this regulation. One day, a local tax bureau official came to the factory. The manager showed his business card to the visitor and, in reply to the official's questioning, said he had been in China for five years. The tax official asked if he had paid any income tax. The manager replied that he had not paid any tax in China because he had always received his salary in Taiwan. In the end, the manager had to pay all the arrears of income tax in China.⁷⁸

The tax problems were both troublesome and complicated for Taiwanese business people and the local government. The government did not have sufficient personnel to

⁷⁶ *Dealing Businesses in China*, p.204..

⁷⁷ Interview with M on 6 April 2002.

⁷⁸ *Dealing Businesses in China*, pp. 140-41.

examine tax for every business, so there had been much flexibility in levying tax. Many Taiwanese business people adopted the policy of 'bargaining' with the local government, which generally worked. For example, a Taiwanese businessperson paid RMB 100,000 to the government, including all the complicated taxes. This made both the local government and the businessperson happy. Sometimes, if a Taiwanese businessperson had ten employees, he bargained with officials and ended up paying tax for only three or four of them. Some Taiwanese businesses 'downgraded' the title of their managers to 'engineers' so that they could pay less tax. In addition, if a person lived in China for six consecutive years, he had to pay tax for all his income around the world. Therefore, many Taiwanese business people returned to Taiwan for over one year after staying six consecutive years in China in order to avoid paying this income tax. In order to avoid paying income tax, some companies also distributed their employees' salary into several parts. For example, if a manager had NT\$100,000 per month, the company could pay him NT\$55,000 through the British Virgin Islands (a favourite tax haven), NT\$30,000 through the Taiwanese parent company and NT\$15,000 through the Chinese branch company, thus avoiding all the income tax.⁷⁹

A Mr Cai went to Chongqing, Sichuan in 1992 to invest in real estate. By investing many millions of Taiwanese dollars, he bought a piece of land for building a multi-storied building. However, it took him seven years to get the licence and permission to relocate the people from the land. This was too late to make money. Another businessman, a Mr Li, bought a piece of land after Mr Cai but built his

⁷⁹ Ibid. pp. 139-146.

multi-storied building for sale two years earlier than Mr Cai, when the Chinese real estate market was at its peak, thus making a fortune. Mr Cai reminisced that he made good networks with city-level officials but ignored the problem of moving village people. He had thought the officials would help him to sort it out. Thus he had spent seven years without building the multi-storied building, and his money was wasted. Many Taiwanese people thought they had built very good networks with local officials, ensuring that everything would go smoothly. However, there were provincial leaders above city leaders and there were central leaders above provincial leaders. If your competitors had better networks, your investment would be beyond redemption.⁸⁰

6.4.3 Different Networks With Different Occupations – Dealing with Corrupt Officials

Taiwanese who dealt with imports had different situations with people who dealt with exports. For imports, they had to deal with the Bureau of Industry and Commerce Management (工商管理局). If Taiwanese business people had joint ventures with Chinese, they could just leave the task of networking to the Chinese. At most, they had only to have dinner with officials on important occasions. Whenever festivals came round, they had to give some presents. But things were much more difficult for Taiwanese people whose main business was in export, and these were the majority of Taiwanese business people in China. If irregularities were found, the situation would be very serious. The factories might have to close down, and Taiwanese business people might be sent to jail. A Mr Lin ran a factory producing shoes. He gave some of

⁸⁰ Dealing Businesses in China, pp. 204-206.

his products to all the officials of customs, tariffs and governmental institutions. He also dispatched employees to make a list of the shoe sizes of those officials' families whenever the Dragon-boat Festival, Moon Festival and Chinese New Year were approaching. He expressed the view that if his customs declaration had a mistake and they allowed him to correct it without violating the law, it would be worthwhile to give those shoes as presents. Many Taiwanese people followed suit. However, this way only worked until the mid-1990s. Gradually, Chinese officials came to be satisfied only with a large amount of money.⁸¹ In addition, the booty had to be neither too much nor too little. Too much could be regarded as bribery; too little would fail to get the desired response. How much would be appropriate? A Mr Wang, with a factory of two thousand workers, gave presents to different officials from RMB 500 to RMB 1,000 whenever festivals occurred. Every time, he treated from thirty to forty people, his expenditure amounting to roughly RMB 60,000 or RMB 70,000 annually. This equalled less than ten thousand American dollars, which seemed reasonable to him. However, for Taiwanese business people who were engaged with entertainment and leisure industry, the booty had to be much more because Chinese regulation of this industry was very strict. Taiwanese business people had to be very willing to give periodically in order to run this kind of business smoothly. A Mr Lin ran a karaoke business, with over two hundred girls younger than twenty years old. Every night police officers visited his premises because he offered women, Mercedes-Benzes cars and houses to the police as 'sweeteners'. As a result, he was able to run three karaoke

⁸¹ For more analysis in detail, see Xiaobo Lu, "Booty Socialism, Bureau-preneurs, and the State in Transition – Organisational Corruption in China", *Comparative Politics*, Vol. 32, No. 3, April 2000, pp. 273-294.

bars without any problems.⁸²

However, after 1998, when Zhu Rongji came to power, there was serious cracking down on corrupt activities, and the situation has changed to a certain extent. Officials were nervous about accepting houses, tangible assets and money because they were afraid of being charged with taking bribes: people with limousines and mansions attracted the attention of ordinary people, who would denounce them to the authorities.⁸³ Usually big enterprises needed to emphasise more their public images, so they could pay less attention to offering bribes. However, there was an exceptional case of a multi-national enterprise, which was requested to pay several million RMB, ostensibly in overdue tax, because it did not socialise with the customs officials. Since the enterprise had paid all its taxes and official fees, it decided not to pay any more but to denounce the customs officials. However, this case had to be dropped because the officials were accused of another case of corruption and two-thirds of them were dismissed. In the end, this multi-national enterprise built new networks with the new customs chief so it could avoid further unwarranted demands for payment. There was, then, no fixed rule of networking between Taiwanese business people and the local government.⁸⁴ Generally, big enterprises had to participate in more charity activities to build up a good image. Small businesses might have to open overseas bank accounts

⁸² Li Dao-Zheng & Xu Xiou-Mei, *Dealing Businesses in China*. Taipei: Shang-Xun, 2001, pp. 203-204.
(李道成 & 徐秀美, *經商中國*, 台北: 商訊文化事業股份有限公司, 2001, pp. 206-211.

⁸³ For very large bribes, however, they were still willing to take the risk.

⁸⁴ Li Dao-Zheng & Xu Xiou-Mei, *Dealing Businesses in China*. Taipei: Shang-Xun, 2001, pp. 203-204.
(李道成 & 徐秀美, *經商中國*, 台北: 商訊文化事業股份有限公司, 2001, pp. 206-211.

for local officials or send their children to study overseas.⁸⁵

6.4.4 Getting Established in Southeast Asia

As in China, Taiwanese business people had to build good relations with local governments in Southeast Asia. During the turmoil in Indonesia in 1998, Pou-Chen called for the help of the Indonesian government. The Indonesian government even dispatched troops to protect the factories and building complexes of Pou-Chen.⁸⁶ This proved Pou-Chen had very good relations with the Indonesian government.

Taiwanese business people who went to Southeast Asia could be divided into three types: first, those gaining an entrée to Southeast Asia by means of networks which they themselves had built up, without government help; second, those following big companies to Southeast Asia to set up their coordination factories; third, those doing joint-ventures with local enterprises.⁸⁷ Typically, Taiwanese business people set up enterprises, sought funding, and coped with excessive demand by farming out orders to members of the local Taiwanese network. A leading factory organised small and medium-sized enterprises as coordination factories. The relationships between them were flexible and small-scale. The flexible production networks of coordination could, when necessary, form a production line that was not a single factory. Therefore, it was

⁸⁵ Interview with N on 1 May 2002.

⁸⁶ In 1998, when inflation in Indonesia reached 70 percent a year, nationwide unemployment made two-thirds of the Indonesian people unable to obtain minimum necessary food. This led to violence and looting, especially against ethnic Chinese scapegoats (so-called rich people). See Wayne C. McWilliam & Harry Piotrowski, *The World Since 1945 – A History of International Relations*. Boulder: Lynne Rienner, 2001, p. 396.

⁸⁷ "Southward Policy and Overseas Chinese Conference", *Southeast Asia Quarterly*, Vol. 2, No. 2, April 1997, p. 98. (南向政策與海外華人學術座談會記錄, *東南亞學刊*, Vol. 2, No. 2, April 1997, p.98)

not necessary to accumulate a lot of materials, because the production line was composed of many scattered small factories, including family OEMs. This could adjust production combination according to what and how much the orders were.⁸⁸

According to the regulations of Southeast Asian countries, usually there was no percentage limit on foreign capital. Many Taiwanese business people operated small and medium-sized enterprises set up entirely with their own capital because they largely exported. For medium and large-sized enterprises, which usually focused on the market in Southeast Asia, it was very important to consider the local government's policies and the strategies of the market. Therefore, they often chose to operate by joint venture with local enterprises, thereby using the networks of political economy of local people. Although coordination factories followed large enterprises to operate cross-border investment, they did not receive all of their orders from the large enterprises. Therefore, they still had to search for new customers, in addition to receiving the orders from the main factories. These small and medium-sized enterprises usually set up international networks among Taiwanese business people and local Chinese business people. On the other hand, large enterprises established high-level relations of political economy. Large enterprises set up relations with various governments in Southeast Asia as well as Chinese business people in various countries of Southeast Asia. In general, Taiwanese business people cooperated with

⁸⁸ Michael H.H. Hsiao, "Interpreting the Establishing Processes of Taiwanese Small and Medium-Sized Enterprises and Large Enterprises", *Chinese Social Science Monthly*, No. 16, December 1992, p. 142. 蕭新雄, "解讀台灣中小企業家與大企業家的創業過程", *中國社會科學月刊*, No. 16, December 1992, p. 142.

local Chinese business people by public relations. That is to say that through the introduction of friends or customers, Taiwanese business people were in charge of management and finance, and their local Chinese business partners were in charge of procurement of land and banking finance on the existing economic and commercial networks.⁸⁹

Those enterprises that went to Southeast Asia before 1987 usually went alone or on their own social networks without the help of the Taiwanese government. They might have few relations with local government. Sometimes they invested under the names of local people. If they met an adverse environment, they might move to other places. However, some small and medium-sized enterprises as coordination factories, together with medium and large-sized enterprises, invested in Southeast Asia. These small and medium-sized enterprises usually had better relations with local government than those that went alone or via their own social networks. This was because large enterprises usually had better politico-business effects than small and medium-sized enterprises.⁹⁰

6.4.5 Relations With Local Chinese

The first problems Taiwanese business people met were language difficulties and cultural differences. They usually sought the help of overseas Chinese in Southeast Asia. These Chinese had usually been in Taiwan as overseas students, so they spoke

⁸⁹ Michael H.H. Hsiao & Gong Yi-Jun, "The Commercial Networks of Taiwanese Business People and Chinese People", Taipei: Academia Sinica, May 1998 (PROSEA Occasional Paper No. 17) pp. 15-18.
蕭新雄&龔宜君, "東南亞台商與華人之商業網絡關係", 台北:中央研究院東南亞區域研究計劃, May 1998 (PROSEA Occasional Paper No. 17) pp. 15-18.

⁹⁰ Ibid. pp10-11.

Mandarin, read Chinese, understood the situations of Taiwan's political economy, and were familiar with a couple of Chinese dialects. Therefore, they could communicate with Taiwanese business people very well. Very often they organised Taiwanese Alumni Associations.⁹¹ The exception was that Vietnamese Chinese students in Taiwan did not go back to Vietnam because Vietnam was a Communist country, so Taiwanese business people did not get much help from them.

In addition, these former overseas Chinese students in Taiwan were rather familiar with local development of political economy and even spoke local aboriginal dialects, so they could provide Taiwanese business people with local information. Thus these former overseas Chinese students in Taiwan became very important economic and commercial networks, management cadre and even partners of Taiwanese business people.⁹²

In addition, the training and experiences of the former overseas students in Taiwan helped them to be familiar with the management style of Taiwanese business people. From the perspective of the former overseas students in Taiwan, the Taiwanese capital which flooded into Southeast Asia in the 1980s and 1990s helped to promote their social and economic status. Their college certificates from Taiwan were usually not

⁹¹ Yan Jiann-Fa, "The Commercial Networks and Management strategies of Chinese Business People in Southeast Asia", *Southeast Asia Quarterly*, Vol. 2, No.2, July 1997, p.58. (顏建發, "東南亞華人之商業網絡與企業經營策略", *東南亞季刊*, Vol.2, No. 2, July 1997, p. 58.)

⁹² Chen Tian-Zhi, "The Role Chinese Business People Play in the Internationalisation of Taiwan's Economy", *Essays on Overseas Chinese Issues*, Taipei: Overseas Chinese Association, 1991, p. 110. (陳添枝, "華商在台灣經濟國際化中所扮演的角色", *華僑問題論文集*, 台北:中國僑政學會, October 1991, p. 110.)

recognised by local governments, so it was very difficult for them to compete with graduates of western universities, and thus it was hard to survive. The investment of Taiwanese business people helped the overseas alumni of Taiwanese institutions to develop and utilise their social networks by being partners and employees of Taiwanese business people. The local governments of Southeast Asia also used those former overseas students to absorb Taiwanese capital and to be the communication medium with Taiwanese business people. Therefore, these former overseas students and Taiwanese business people gradually formed a new set of politico-economic networks.⁹³

However, overseas Chinese business people also had a conflict of interest with Taiwanese business people when they competed for business opportunities. In recent years, the abundant capital, sophisticated techniques, excellent marketing and management of Taiwanese business people had put a lot of pressure on local overseas Chinese business people.⁹⁴ Therefore, overseas Chinese business people and Taiwanese business people had complicated relations of cooperation and competition. Sometimes, it also happened that overseas Chinese business people peculated the assets of Taiwanese business people. In addition, the new-coming Taiwanese business people also competed for markets with the already established Taiwanese business people.⁹⁵

⁹³ Michael H.H. Hsiao & Gong Yi-Jun, "The Commercial Networks of Taiwanese Business People and Chinese People", p. 11. (蕭新雄&龔宜君, "東南亞台商與華人之商業網絡關係", p.11.)

⁹⁴ Yan Jiann-Fa, "The Commercial Networks and Management strategies of Chinese Business People in Southeast Asia", p.62. (顏建發, "東南亞華人之商業網絡與企業經營策略", p. 62.)

⁹⁵ Michael H.H. Hsiao & Gong Yi-Jun, "The Commercial Networks of Taiwanese Business People and Chinese People", p. 15. (蕭新雄&龔宜君, "東南亞台商與華人之商業網絡關係", p. 15.)

6.5 Conclusion

To sum up, due to the change of the objective environment in the late 1980s, Taiwanese business people gradually increased their investment and involvement in Southeast Asia. The Taipei government not only requested them to abide by the Policy of 'No Haste, Be Patient' but also called for the Southward Policy, encouraging Taiwanese business people to develop their economic activities in Southeast Asia. In spite of the Taiwanese government's assistance and encouragement, the total investment projects and capital of Taiwanese business people in Southeast Asia did not increase as expected. The overlapping and multi-track decision-making of the Taipei government proved to be relatively futile. However, Taiwanese business people continued to invest in Southeast Asia as usual. They also rooted their enterprises in Taiwan, making Taiwan the potential APROC. Vietnam and China became the new popular destinations of Taiwanese investment. Generally speaking, Taiwanese business people were proactive in investing overseas rather than investing at the beck and call of the Taipei government, and they used the networks they built with the local overseas Chinese in Southeast Asia and China. The encouragement and help of the Taipei government by signing bilateral investment guarantee agreements and double-taxation agreements played a complementary role at most. Meanwhile, Taiwanese business people served as surrogates (people whose dealings with other nations take the place of government-to-government links), middlemen (people whose activity proves useful to the government when it finally comes round to seeking diplomatic links) and sometimes 'hindrances' (people who go west rather than go south) of Taiwan's

economic diplomacy.

Chapter 7

Practice of Economic Diplomacy in Vietnam

7.0 Introduction

This article does not compare the cross-Straits economic relations with Taiwan-Vietnam economic relations. However, as Brantly Womack puts it: "In general, China and Vietnam are most similar cases.... The differences lie primarily in scale."¹

Taiwan-Vietnam economic relations share many similarities with cross-Straits relations in terms of the limited usefulness of the market mechanism. Market mechanism is the core theory of mainstream economics. When scholars discuss varying economic issues, 'laissez-faire' is the most frequent viewpoint. This means governments should not interfere with markets but should let the markets operate freely by themselves. For

¹ <http://www.people.virginia.edu/~bw9c/gzho.htm> 2003/2/13

When William S. Turley and Brantly Womack refer to the problems of disparity in China and Vietnam comparisons:

In general, China and Vietnam are 'most similar' cases for comparison, because no country is more similar to China than Vietnam in terms of traditional society, revolutionary experience, and post-revolutionary government, and no country is more similar to Vietnam than China. This being said, the disparities between the two create tremendous difficulties for comparisons, and these difficulties are particularly acute for a concrete comparison of parts of each country.

While the similarities between China and Vietnam concern situation, culture, history and institutional forms, the differences lie in scale. With seventeen times Vietnam's population and twenty-nine times its area, China has a Gross Domestic Product over thirty times as large as that of Vietnam, or about twice as large per capita.

example, the Taiwanese government has been asked by some people to allow Taiwanese businesses to 'Go West' and respect market mechanisms. However, Zheng Bing-Zheng argues that market mechanisms cannot be efficiently applied to the complicated cross-Straits economic-related exchanges. The special political economy of the Mainland makes the application of pure market mechanisms futile.² Similarly, the author argues that the state and institutions of Vietnam still matter in Taiwan-Vietnam economic relations.

I begin my discussion regarding economic diplomacy in Vietnam by considering the central question of who is leading whom, government or businesses? Next, I discuss the impact of Taiwanese business people as promoters of regionalisation and globalisation. I proceed with my analysis with a brief review of Vietnam's economic history, including the failed integration of central planning, which led to a transformation of the economy and the impact of the 1997 Asian Financial Crisis. Following this review, I turn my attention to the attitudes of the Taiwan and Vietnam governments. Then I summarise important parts of the recent history of Taiwan-Vietnam relations and review Taiwan's investment relationship with Vietnam. I point out here that the relationship between trade and investment, including a review

² Zheng-Bing Zheng (鄭秉政), "The Death of Market Mechanism Theory", *Policy Forum*, No. 33, 14 June 2002.

of the impact of Vietnamese Labour in Taiwan and Taiwan's foreign investment in Vietnam. This chapter then reviews the international pressures on businesses in China, Vietnam and Taiwan. Finally, this chapter discusses the roles of three different Taiwanese companies with respect to diplomatic efforts in Vietnam. This chapter concludes that states and institutions still matter in the face of increased trade and investment; and while governments play an auxiliary role in providing the basic environment for economic development, businesses for their part take their own initiatives and assert considerable power from the bottom up.

7.1 Governments and Businesses – Who Is Leading Whom?

Most Taiwanese companies follow the policy of 'Root Enterprise in Taiwan'. Even though Pou-Chen has operations all over the world, it still insists on 'Rooting enterprise in Taiwan'. After China, Indonesia and Vietnam have gradually become the production centres of Pou-Chen. Under the global strategy arranged by Cai Qi-Rui, Taiwan has become the Research and Development (R&D) Headquarters. For example, a few years ago, Pou-Chen built three R&D centres in Chang-Hua, specialising in research into better shoe-material and moulding machine design and developing ways to auto-control temperature and shorten the time of production. At present, out of 40,000 Pou-Chen employees in Taiwan there are 300 researchers with BSc or MSc degrees

who specialise in advanced R&D. In addition, several hundred people make frequent business trips to spread its R&D fruits.³

For another example, the Taiwan Semiconductor Manufacturing Co (TSMC) also decided to set up 12-inch wafer factories in Taiwan while it prepared to move its 8-inch wafer production to China. Many other firms have also upgraded their Taiwan production before moving their lower-level production overseas. These are typical 'Root Enterprise in Taiwan' cases. Therefore, although the Taiwanese government failed to establish Taiwan as the Asia-Pacific Regional Operations Centre (APROC) because it was simultaneously pursuing other inconsistent policies, such as the 'Southward Policy', the Policy of 'No Haste, Be Patient', and the policy of refusing to establish postal, trade and transportation links with the Mainland, nevertheless many Taiwanese business people have been hastening the day when Taiwan will be a real operation centre in the region.

These developments are examples of the processes analysed by John Naisbitt in the foreword to The New Asian Way by Foong Wai Fong. John Naisbitt states that entrepreneurship should be encouraged to flourish and that in a supportive

³ http://archive.cw.com.tw/88_86/90年02月第237期.doc/157848897.16.htm

entrepreneurial environment, failures are tolerated, people are encouraged to try and try again if they do not succeed the first time, and success is celebrated with recognition and financial rewards. He also expresses the view that the most dramatic shift in the world today is the shift of power from governments: the world is moving from being directed from the top down to being driven from the bottom up. He goes on to say that the experiences of the 20th century seem to show that it is more effective and efficient to allow individuals to decide and accomplish through their own efforts than through centralised state planning.⁴ What I have said about Pou-Chen and TSMC shows that, although Taiwanese companies do follow some of the policies of the government, they essentially serve their own interests. This perhaps illustrates part of Naisbitt's argument.

7.1.1 Taiwanese Business People as Promoters of Regionalisation and Globalisation

Southern China was becoming integrated into wider East Asian regional and global commodity-driven production networks. With most of the components of the products imported rather than produced by factories in China, southern China was in many ways more firmly locked into the international economy than it was part of the internal

⁴ John Naisbitt, "Foreword" in Foong Wai Fong, The New Asian Way, Kelana Jaya: Pelanduk Publications, 1999.

Chinese economy.⁵ This development owed much of its impetus to Taiwanese business people.

Many liaison offices were based in Taiwan, responsible for trading business between China, Vietnam and western countries. A shoe liaison officer was interviewed by the author.⁶ He estimated that 95% of the leather used in shoe-making in China and Vietnam was imported as untreated hides (10% from Argentina, 15% from America and 70% from India and Bangladesh) and turned into processed leather in Taiwan. The remaining 5% was imported from Italy, not in the form of hides but as finished leather. This was because Italy processes and uses domestically nearly all its own production of hides, so that after supplying its own finished leather and shoe-manufacturing industry, it has almost no untreated hides available to export. (Italy's shoes and finished leather are premium products, with high added value, so the export of hides is not important to its economy.)⁷ Afterwards, it was transported to China or Vietnam. Among these leathers, the leather from Italy was the best. The second best was leather made from hides from America and Argentina. The third grade leather came from hides of

⁵ Shaun Breslin, "Decentralisation, Globalisation and China's Partial Re-engagement with the Global Economy", *New Political Economy*. Vol. 5, No. 2, 2000, p. 218.

⁶ Telephone interview with D on 29 March 2003.

⁷ Some very rare poor rawhide was also provided by China. Brazil also provided hide but because it also produced shoes, very little hide in Brazil, which was inferior to that in Argentina, was exported to East Asia. Also, gradually some Taiwanese coordination factories moved to China (but very rarely to Vietnam), so China processed hide into semi-products (finished leather) in recent years.

Brazilian origin. Even poorer leather was that made from Indian and Bangladeshi hides.

The worst leather had a Chinese provenance.

The coordination factories were so-called leather suppliers, mainly based in Taiwan; very few were in China, none in Vietnam. Therefore, the raw materials in Vietnam were all imported into Vietnam, leading to higher cost. Even though labour in Vietnam was cheaper than that in China, the finished shoes were still more expensive in Vietnam.

My informant worked for a company linked to a design company based in Italy, which is famous for shoe-design. During the shoe-development period, the designer came to Taiwan twice a year, several weeks each time. This was to ensure the products were unique and fashionable and had copyright. The samples were then sent to the exhibition fairs in Germany, Italy and America, to attract customers. The customers were usually famous but second-order western brand name companies.⁸ Whether shoes were made in China or Vietnam depended on whether the brand-name companies had quota. If so, they could choose China, and Chinese shoes are generally preferred to those from Vietnam because they are cheaper. If not, they chose Vietnam, which does

⁸ The most famous western brand-name companies usually have long-term relationships with their OEM companies, for example, Nike, Reebok and Adidas with Pou-Chen.

not need quotas to export shoes to the EU. (After 2004, because of new WTO regulations, Chinese shoes will have unimpeded access to the European market.) Although the US had lifted sanctions on Vietnam, most companies selling in the American market still prefer to source their shoes from China for reasons of price and long-standing partnership.

If we analyse the known components (excluding bribery and corruption) of the final price of a pair of shoes produced under this system in China or Vietnam, we typically find the following figures:

Labour in country of manufacture*	4%
Salaries of Taiwanese management cadre*	1%
Profit of Taiwanese entrepreneurs*	20%
Transportation	10%
Raw materials	55%
Liaison companies	10%
<hr/>	
TOTAL	100%

It may seem that the local labour got very little in return for its contribution, but it

should be noted that, adding together the elements marked with an asterisk (*), 25% of the total contributed to the GDP in China or Vietnam and thus stimulated the local economy. This process could be categorised as one of the commodity-driven production networks described by Shaun Breslin.⁹ The integration between Southern China and Taiwan (regionalisation) or Vietnam and Taiwan (regionalisation) was linked with the hide-producing country, Italian design company and western brand name customers (globalisation).

Chinfon was another promoter of regionalisation between Taiwan and Vietnam. In the mid-1970s, Taiwan was able to produce 90% of the components needed for motorcycle production. By the early 1980s, Taiwan could produce engines independently, though still following Japanese blueprints. By the mid-1980s, Taiwan was able to design and produce motorcycle engines without outside help. Therefore, Taiwan was able to produce complete motorcycles by itself from then on. Huang Shi-Hui, CEO of Chinfon, was a major shareholder of Sanyang, a Taiwanese motorcycle company. Initially, the designer was Honda, a Japanese company. At the same time, Honda was also a shareholder of Sanyang. SYM was the brand of Sanyang motorcycles.

⁹ Shaun Breslin, "Decentralisation, Globalisation and China's Partial Re-engagement with the Global Economy", *New Political Economy*, Vol. 5, No. 2, 2000, pp. 216-218.

For several reasons, Chinfon planned as its next step to set up a motorcycle factory in Vietnam. It considered the facts that motorcycles were bulky and expensive to ship; the Vietnamese market was large enough to justify the setting up of an assembly plant and the introduction of component suppliers; and Chinfon expected the Vietnamese government to introduce protectionist measures to encourage the new industry in its early stages.

However, Huang Shi-Hui's plan to start a motorcycle industry in Vietnam was rejected by Honda because Honda exported motorcycles to Vietnam and held 90% of its market, and Huang's investment would compete with Honda. However, Sanyang had already internalised all the motorcycle production techniques in Taiwan. That is, SYM had 100% localisation and could produce its own motorcycles according to a Taiwanese blueprint. Accordingly, Huang Shi-Hui built his own brand, VMEP, and set up a motorcycle factory in Vietnam using Taiwanese techniques, capital and management completely. In 1992 VMEP acquired the first motorcycle production licence in Vietnam and in 1993 VMEP started to produce motorcycles.

Initially, about 70% of the components were imported from Taiwan and 30% of the components were produced locally in Vietnam. By 2003, 75% of the components were

produced (localised) in Vietnam. 23% of the components were still imported from Taiwan, and 2% were imported from neighbouring countries. Therefore, the regionalisation between Taiwan, Vietnam and neighbouring countries was promoted by VMEP, a branch of Chinfon.

In 1997, Honda also obtained a motorcycle production licence in Vietnam and started to produce in 1999. In 2002, the four major motorcycle production companies in Vietnam shared the market as follows:

Honda	394,608 motorcycles
VMEP	235,299 motorcycles
Yamaha	66,531 motorcycles
Suzuki	44,263 motorcycles
 TOTAL	 740,701 motorcycles

Roughly only 1.5 million motorcycles were sold in Vietnam in 2002, including Hondas imported from Malaysia, Thailand and Japan, and some other copied Hondas. Although VMEP had only 15% (235,299/1,500,000) of the Vietnamese motorcycle

market, by 2003, 75% of the components of motorcycles made in Vietnam came from Vietnam itself. Since the early 1990s, Chinfon has introduced many coordination factories (component suppliers) from Taiwan to Vietnam against the will of Japanese Honda, promoting the motorcycle localisation of Vietnam and the regionalisation between Taiwan and Vietnam. In addition, VMEP also exported some (fewer than 10%) of its Vietnamese motorcycles to the Philippines, Indonesia and Malaysia, thus contributing to the regionalisation in ASEAN and Taiwan.¹⁰

7.2 History of Taiwan-Vietnam Relations:

Up to 1975, largely because of international ideology, the Republic of China on Taiwan had official relations with South Vietnam but not North Vietnam. The connection between South Vietnam and the ROC was very intensive, including politics, military matters and economics. It is noteworthy that Taiwanese investment in South Vietnam at that time was extensive, including textiles, food processing, chemical fertilizers, etc.¹¹

7.2.1 Taiwanese Disengagement and Re-engagement

After Vietnamese re-unification in 1975, most Taiwanese business people withdrew

¹⁰ This is the primary research of the author based on the telephone interview with X in April 2003.

¹¹ Interview with Q on 2 March 2002.

their investment from Vietnam. The Vietnamese Communists afterwards nationalised their factories and enterprises. Therefore, Taiwan severed its relations with Vietnam.¹²

The major reason why Taiwan split with Vietnam was political: Vietnam had become part of the Communist bloc and had cordial official relations with the PRC, thus confronting Taiwan. Even though China had waged war with Vietnam in 1979, Taiwan did not take advantage of the situation to set up diplomatic relations with Vietnam because the ROC on Taiwan still stuck to its anti-communism doctrine.

In the summer of 1986, Mikhail Sergeyevich Gorbachev, General Secretary of the Communist Party of the Soviet Union, embarked on his twin strategies to reform the Communist State, *glasnost* (opening) and *perestroika* (restructuring). This led to the decline of Soviet assistance to Vietnam. The Vietnamese planned economy also failed to help the country, which had been devastated by war. Therefore, this resulted in the Vietnamese 'Doi Moi' (Open Door) Policy, which embraced a greater openness to economic investment from abroad and a greater readiness to engage diplomatically with foreign countries, even former enemies. The new policy soon bore fruit. On 3 February 1994 the USA lifted American economic sanctions against Vietnam, and in

¹² Ibid.

1995 it established diplomatic ties with Vietnam. Although it was not until late 2001 that the US granted normal trade relations to Vietnam, the attitude of the western countries has been changed towards Vietnam in the 1990s.¹³ The US policy was not necessarily a pre-condition but only conducive to a pull factor. Above all, the European market was open to Vietnam without quota control. Most of the products of Taiwanese businesses were for Vietnamese domestic or European markets. Vietnam also joined ASEAN, the ASEAN Free Trade Area, and the APEC.

During the Cold War period when the North Vietnamese government had a friendly relationship with the Soviet Union, the US and its western allies imposed multilateral sanctions on the communist government. These sanctions on North Vietnam were extended to South Vietnam when its pro-western government fell in 1975. Although after the Cold War the US western allies no longer imposed multilateral sanctions, the US did not lift the sanction until 1994. Therefore, Vietnam was able to establish very good relations with the EU.¹⁴

¹³ On 10 December 2001, the US-Vietnam Bilateral Trade Agreement (BTA) took effect. Under the Jackson-Vanik Amendment to the Trade Act of 1974, a bilateral trade agreement and certification of freedom of emigration are necessary for the US to establish conditional Normal Trade Relations (NTR) – formerly called most-favoured-nation (MFN) trading status – with non-market economies such as Vietnam. The conditional NTR is subject to annual review by Congress.
<http://usinfo.state.gov/regional/ea/vietnam/> 15 September 2003

¹⁴ <http://www-personal.umich.edu/~rtanter/F98PS672PAPERS/MANOKHAM.THAMMASACK.VIETNAM.HTML...htm> 04/03/2004

Since Vietnam signed the first Textile and Clothing Agreement of 1992 with the EC, two more trade agreements have been concluded and implemented (agreements of 1997 and 2000). The signature of a Framework Cooperation Agreement (OJ L 136/28 of 07.06.1996) between Vietnam and the EC in July 1995 entered into force on 1 June 1996 provided for Most Favoured Nation (MFN) treatment. In 2003, the European Commission and Vietnam concluded a further bilateral agreement on trade in textile and clothing products and other market opening measures. Up to November 2003, no anti-dumping or anti-subsidy duties were in place against Vietnamese exports, but only a combined anti-circumvention and anti-fraud case regarding zinc oxide was in progress.¹⁵

Now, it actively participated in the WTO. Furthermore, Vietnam could offer a potential domestic market and cheap and abundant labour, which was reasonably well educated, eager to learn and hard working. It also had copious natural resources, including agriculture, forestry, fish and minerals, which provided the necessary primary materials for industrial expansion. In addition, both imports and exports were growing rapidly, so there was every reason to expect a sustained growth in the Vietnamese domestic market. All these pull factors helped to make Taiwanese business people eager to invest in

¹⁵ http://europa.eu.int/comm/external_relations/vietnam/into/index.htm 04/03/2004

Vietnam.¹⁶

7.2.2 Initiatives by Vietnamese Government to Encourage Investment

In January 1988, Vietnam promulgated its Foreign Investment Law, providing foreign business people with favourable conditions and attracting foreign direct investment. This policy was framed to help the recovery of the country's shattered economy. Year by year, the input of foreign investment solved the problem of Vietnamese shortage of capital and drove its economic reform forward. From 1988 to 1998, foreign direct investment projects totalled 2488, amounting to US\$ 35,520.8 million.¹⁷

In the post-Cold War era, the impact of ideology declined extensively; and the 'Doi Moi' Policy of Vietnam stemming from December 1986, together with the Pragmatic Diplomacy, the efforts of Taiwanese business people in Vietnam and the Southward Policy of Taiwan, opened the door of Taiwan-Vietnam relations. Since the two sides were willing to develop their economic relations, some of the existing production lines annexed by the government were returned to Taiwanese business people. Once again, Taiwanese companies were active in Vietnam in food processing, the production of

¹⁶ The push factors have been discussed in Chapter 5.

¹⁷ Foreign Direct Investment in Vietnam 1988-1998, *Statistical Yearbook*. Hanoi: Statistical Publishing House, 1999, p. 247.

textiles and chemical fertilizers, and in other primary industries.¹⁸ In addition, the Vietnamese government continued to improve investment conditions for foreign business people. These measures included revising the Foreign Investment Law, allowing licensed foreign investors certain tariff privileges, granting them government compensation if their rights were violated, the ability to carry out indirect exports free of duty, large-scale reduction of land rent (25-95% in 1999), simplified procedures of investment, devolving the right to grant investment licences down to local government level, and some other new preferences for foreign investors in Vietnam. The Hanoi government also promoted exports by promulgating new measures, which included the abolition of direct import-and-export restraints and widening the range of enterprises in which foreign investment was permitted.¹⁹

7.2.3 Doi Moi benefits Vietnam and Taiwan

The foreign enterprises changed the original configuration of the Vietnamese economy, elevating productivity, expanding the market economy, and forcing Vietnam to develop an export-oriented economic system.

¹⁸ Interview with Q on 2 March 2002.

¹⁹ CETRA, *Overseas Market Economic Yearbook 2000-2001-Asia Pacific*. Taipei: CETRA, 2000, p. 363. In 2000, the new law also abolished the necessity for unanimous agreement in a board of directors, prescribed that foreigners could run a limited liability company and a branch company, simplified the procedures for joint ventures to change into individual-owned enterprises, and allowed foreign

As regards growth, the data of the World Bank show that in Vietnam the average annual percentage growth of gross domestic product in the period 1980-90 was 4.6% and from 1990 to 1998 was 8.6%, nearly double the figure for the previous decade. (In China, the GDP growth rate from 1980 to 1990 was 10.2%, and from 1990 to 1998 11.1%.) The average annual percentage growth of gross domestic investment 1990-98 was 28.4%, the fastest growth rate in the world. (For China in the same period, the rate was only 13.4%). By 1997, the percentage of gross domestic fixed investment coming from private investors had reached 79.7%.²⁰

As regards exports, the figure for the average annual percentage growth of exports of goods and services from 1980 to 1990 is not available, but for the period from 1990 to 1998 it was 27.7%, the highest in the world. (In China, by contrast, exports grew at an average annual rate of 11.5% from 1980 to 1990 and only 14.9% between 1990 and 1998.) By 1998 exports of goods and services had come to occupy 46% of Vietnam's GDP.²¹

Therefore, in terms of growth rate, the average annual percentage growth of gross

enterprises to purchase foreign currencies in Vietnamese commercial banks for business purposes.

²⁰ The World Bank, *Entering the 21st Century – World Development Report 1999/2000*. Oxford: Oxford University Press, 2000, pp. 250-61. See Table 11, Growth of the economy, pp. 250-51; Table 16, Private sector finance in p. 261.

²¹ The World Bank, *Entering the 21st Century – World Development Report 1999/2000*. Oxford: Oxford

domestic product, the average annual percentage growth of gross domestic investment, and the average annual percentage growth of exports of goods and services from 1990 to 1998 were by far larger than the previous decade. This was good enough to justify the success of the 'Doi Moi' Policy.

In this transformation, Taiwan played an important role in Vietnam. Taiwan's investment in Vietnam grew very rapidly, and by 1991 Taiwan had become the top investor in terms of project numbers, project categories, total capital, etc. Taiwanese investment capital in Vietnam continued to increase almost every year and reached its peak in 1995, totalling US\$1,204.63 million.²² Taiwan had also become the third largest trading partner, behind Japan and Singapore. In 1997, Singapore overtook Taiwan and became the largest investment country in registered capital. However, Taiwan remained as the largest investment country in terms of real (as opposed to registered) capital.²³ (See Table 7.1 and Table 7.2.)

University Press, 2000. See Table 13, Structure of demand in p. 255.

²² See Table 6.1.

²³ Interview with O on 22 April 2002.

Table 7.1 Foreign Direct Investment in Vietnam (1988-1998)						
Unit: US\$ million						
Year	Projects (number)	Registered Capital	Real Capital			
1988	37	371.8	288.4			
1989	68	582.5	311.5			
1990	108	839.0	407.5			
1991	151	1322.0	663.6			
1992	197	2165.0	1418.0			
1993	269	2900.0	1468.0			
1994	343	3765.0	1729.0			
1995	370	6530.0	2986.0			
1996	325	8497.0	2940.0			
1997	345	4649.0	2334.0			
1998	275	3897.0	1795.0			
Total	2,488	35520.8	16377.4			

Source: General Statistical Office, Statistical Yearbook, Hanoi: Statistical Publishing House, 1999, p. 247

Table 7.2 Statistics of Foreign Direct Investment Countries in Vietnam								
Unit: US\$ million								
Rank	Country	Project Number	Total Capital	Percentage (%)				
1	Singapore	221	5597.9	16.0				
2	Taiwan	469	4736.8	13.5				
3	Japan	298	3435.1	9.8				
4	Hong Kong	300	3300.7	9.4				
5	South Korea	245	2915.9	8.3				
6	France	139	1848.9	5.3				
7	Virgin Islands	71	1666.3	4.8				
8	Russia	59	1498.5	4.3				
9	USA	95	1195.9	3.4				
10	UK	32	1080.5	3.1				
11	Thailand	113	990.7	2.8				
12	Australia	83	947.8	2.7				
13	Malaysia	73	930.3	2.6				
14	Others	393	5034.9	14.4				
	Total	2591	35008.7	100				
Source: General Statistical Office, Statistical Yearbook 1998, Hanoi: Statistical Publishing House, 1999, pp. 249-250								
* In 1997, Singapore overtook Taiwan as the largest registered investment country, but Taiwan's real investment capital remained the largest. The real investment capital was: Singapore, US\$ 1,810,600,000; Taiwan, US\$ 1,960,600,000 respectively.								

7.3 Taiwan's Investment Relationship with Vietnam

7.3.1 The Attitudes of the Two Governments

Initially, the Taiwanese government had no over-arching policy towards investment in Vietnam when Vietnam revealed its 'Doi Moi' Policy. Many Taiwanese business people went to Vietnam and invested there before the Taiwanese government launched its Southward Policy because if they can make profits, many Taiwanese business people usually do what the Taipei government discourages or even forbids. For instance, Vedan Enterprise established its corporation in Vietnam in 1991. Even before the instalment of its factory, Vedan had traded with Vietnam through Hong Kong and Singapore for nearly twenty years, at a time when the Taiwanese government forbade any form of exchange between Taiwan and Vietnam because Vietnam was a communist country, which the Taiwanese government tried to shun at that time.

Because of different political and social systems between Vietnam and Taiwan, the bilateral ties did not boom until the beginning of the 1990s. In addition, the hostile relations between the Chinese and Taiwanese governments made official contact between Taiwan and Vietnam impossible. In this connection, substantial relations are essential. Therefore, the Vietnamese government set up the Committee for Taiwan

Business Affairs under the Cabinet, with the former Deputy Prime Minister as its Chairman.²⁴

The Vietnamese government believes that in the past, Taiwanese business people were too cautious to invest in Vietnam, but the attitude has been changing. On the other hand, the Vietnamese government did not understand Taiwanese business people very well. Gradually, the Vietnamese government and Taiwanese business people have come to understand each other. Taiwanese small and medium-sized enterprises have offered the Vietnamese people a chance to gain useful training, experience and employment. Taiwanese business people are willing to risk and explore, so they are more successful than those from other countries. Vietnam is in a political transitional period, so its laws, regulations and administrative procedures are unstable. However, the Taiwanese and Vietnamese share similar customs and habits, so Taiwanese business people are able to accept them. In this context, European and American business people cannot acclimatise so easily to the Vietnamese environment.

From the perspective of the Vietnamese government, the economic relations between

²⁴ Interview with GG, Senior Advisor, Ministry of Planning and Investment, Vietnam, in Taichung, 8 June 2002. Nevertheless, GG believed that Taiwanese business people would have to adjust their attitudes to the new sound regulations. Deals *sub rosa* would be eradicated or extirpated in the future if healthy regulations were introduced in Vietnam. He believed there was a danger, at some time in the future, that Western business people might have advantages and replace Taiwanese business people.

Taiwan and Vietnam are extremely important. Even though there are no diplomatic relations between Taiwan and Vietnam, like other countries, Taiwan has concluded an investment guarantee agreement, a double-taxation agreement, and agreements on agriculture, forestry, fishery, labour and technological cooperation. Since the beginning of the 1990s, Taiwan has become the largest FDI country in Vietnam and the third largest trading partner of Vietnam. Commercial relations between the two countries are highly complementary. In Vietnam, Taiwanese businesses greatly contribute to Vietnam in industry skills, import-substitution and export-led foreign exchange making. In 2002, there were more than 22,000 foreign Vietnamese labourers working in Taiwan.²⁵ There were also 60,000 Vietnamese brides married to Taiwanese.²⁶ Unlike China, Vietnam shared three links with Taiwan – postal services, trade and transportation. On the other hand, the skills and technologies of Taiwan were relatively inferior to those of Japan, Europe and America, but the Taiwanese option was increasingly welcome to Vietnam, because it was seen as more appropriate. Taiwanese business people helped Vietnam to develop everyday consumer products, mechanical equipment, moulding machines and fish farms. They also cooperated in projects to produce new animals and plant varieties for the agricultural sector. In this connection, Vietnam competed with China. Taiwanese business people were seen as more

Besides, the existing Vietnamese business people could also compete with them by cheaper labour.

²⁵ Compare the figure of 10,154 foreign Vietnamese labourers for 1999.

trustworthy than people from China or Hong Kong.²⁷

Therefore, the Vice-Minister for Industry visited Taiwan in early June 2002 to seek out Taiwanese business people, although the Chinese government had always protested against any kind of official contact between Taiwan and Vietnam in the past. According to the President of Vedan Enterprise Corporation Limited, even vice governors or governors of all the Vietnamese provinces were not allowed by the PRC to visit Taiwan in the 1990s. Although we understand that the retired Deputy Prime Minister could visit Taiwan from time to time in a private capacity, China tried to forbid any bilateral diplomatic relations between Taiwan and Vietnam. However, in this journey to Taiwan, the Vice-Minister for Industry held two open seminars in Kaohsiung and Taichung and had discreet meetings with high-ranking officials of the Taiwanese government. In the future, it is very likely that the two countries will conclude a bilateral trading agreement.

7.3.2 Taiwan's Investment in East Asia: Rival Attractions of Vietnam and China

Taiwan invested in Southeast Asia and was its major investment country. Singapore had good infrastructure, but its labour was expensive and insufficient, and its domestic

²⁶ In 2003, there were about 90,000 Vietnamese brides living in Taiwan.

²⁷ Interview with HH, Foreign Investment Department, Ministry of Planning and Investment, Vietnam.

market was small. Therefore, Singapore was a suitable host for an electronics industry. Malaysia also had good infrastructure, but its labour was insufficient and more expensive than that of Thailand, Indonesia, the Philippines and Vietnam. Thailand had bountiful labour, but it was more expensive than that in Indonesia and Vietnam, and its infrastructure was somewhat inferior. Indonesia and the Philippines had unstable political economies.²⁸ Even though Vietnam had an inferior infrastructure and ineffective administration and it was a difficult country in which to raise finance, Taiwanese business people still wanted to invest there because it had a policy of privileges for foreign business people and special types of investment industries. After 1993, China became the top investment destination for Taiwanese business people. The Taipei government promoted the Southward Policy in order to avoid the 'Go West' trend, which would lead to Taiwan's over-dependence on China.²⁹ In this context, Vietnam became one of the beneficiaries of Taiwanese investment, although the influence of the Taipei government was rather limited. Chiang Pin-kung at that time expressed the view that the economic centre of gravity of the world was moving towards Asia, and the highest growth rates in Asia were to be found in China and in

In Taichung, Taiwan, 8 June 2002.

²⁸ Li Jun-Xian, Jiang Hong-Zhi & Xu Mu-Lang, "Analysis on the Investment of Taiwanese Business People in the Philippines, Malaysia, Indonesia and Thailand", Taipei: Academia Sinica, 1999, pp. 4-6. (李俊賢, 江宏志, 徐木蘭, "台商在菲印泰四國投資情形之分析", 台北: 中央研究院東南亞研究計劃年度研討會論文, 1999.)

²⁹ Chen Tian-Zhi & Gu Ying-Hua, "Taiwan's Investment in the ASEAN in General", *Economic Prospect*, No. 54, 1997, pp. 40-44. (陳澤枝 & 顧瑩華, "台灣對東協的投資概況", *經濟前瞻*, No. 54, 1997, pp.

some certain ASEAN countries and would be found in Vietnam in the future.³⁰

There are some significant contrasts between China and Vietnam. China's market is much larger than Vietnam's, and China's infrastructure is better than Vietnam's. However, Vietnam's labour price and land cost are cheaper than China's. The most important factor was that Taiwanese business people were protected by the 'Foreign Investment Law', enjoying the same status as other foreign business people. In 1993, the Taipei and the Hanoi governments concluded an investment guarantee agreement. Even though China promulgated a law – the so-called "Investment Protection Law of Taiwan Compatriots of the People's Republic of China" (中華人民共和國台灣同胞投資保護法)—this was municipal law that could not really protect Taiwanese people once a dispute arose. Especially when the Chinese adopted the policy of 'promoting political amalgamation through economic integration' (以經濟促政治), Taiwanese people could be trapped in a predicament after a political power struggle. In the wake of the March 2000 presidential election, for example, some Taiwanese business people who supported Chen Shui-bian found that the Chinese tax authorities were now much

40-44.)

³⁰ Li Pei-Ling, "The Countries in Southeast Asia Will Become the Important Economic Partners of Taiwan in the 21st Century", *Observation Bi-Weekly*, No. 1, 1994, pp. 8-11. (李佩玲, "東南亞各國是台灣 21 世紀的重要經濟夥伴", *觀察*, No.1, 1994, pp.8-11. Vietnam was not a member of ASEAN until July 1995.)

more eager to examine their tax records and make trouble for them.³¹

7.3.3 Paving the Way for Taiwanese Investment

In 1987, Taiwanese business people successively investigated and invested in Vietnam. In view of the turmoil of information, the CETRA also undertook market investigation in June 1988 and set up offices in Hanoi and Ho Chi-Minh City, promoting economic exchanges between the two countries. These were followed by the first official contact between the two countries; and Chiang Pin-kung, Vice Economic Minister, visited Vietnam with a delegation, signing a cooperation memorandum. In June 1992, both sides established liaison offices. In August, at the Economic Cooperation meeting between the Chinese National Association of Industry and Commerce and the Chamber of Commerce and Industry of Vietnam it was decided to convene a meeting every year in either Hanoi or Taipei by turns. Up to 2002, eight meetings had been held. In July 1993, the first ministerial level meeting of economic affairs took place. In 1995, the second ministerial level meeting was held.

It is obvious that since 1992, economic relations have developed much more rapidly than before. Taiwan became the sixth largest trading partner of Vietnam in 2000 and

³¹Shi Wen-long (許文龍), CEO of Chi-Mei, was a famous case.

the third in 2002. The two sides have signed several agreements as follows:

1. Investment guarantee and encouragement agreement (April 1993)
2. Avoiding double taxation agreement (April 1998)
3. Agricultural and fishery agreement (May 1999)
4. Labour cooperation agreement (May 1999)

Based on the above agreements, over thirty thousand Taiwanese business people have invested in Vietnam. Officially, the accumulated investment in total up to 2000 reaches more than US\$5 billion, making Taiwan the second FDI country in Vietnam. According to Mr O, Taiwanese business people have in fact invested much more than US\$5 billion. In the beginning, foreign investors had to share their companies with local people, so some Taiwanese business people employed local people as figureheads of their companies. Some investment has been in the name of Vietnamese but in reality by Taiwanese business people. In addition, Taiwanese business people also invest in Vietnam by way of Hong Kong, Singapore and the British Virgin Islands. Therefore, Taiwan has actually been the number one FDI country in Vietnam.³² Bilateral trade has also been booming. For the first half of 2000, the trading volume certainly realised over

³² Interview with O, Board of Foreign Trade, Ministry of Economic Affairs, Taiwan. According to O, the Vietnamese government can distinguish the origin of investment in Vietnam somehow.

US\$ 1 billion and possibly US\$ 2 billion. From 1992 to 2000, there were roughly 150,000 Taiwan tourists to Vietnam every year. To satisfy the needs of tourism, the airliners of the two sides decided to negotiate and expand the non-stop flights from Taipei and Kaohsiung to Hanoi and Ho Chi-Minh City in 1999.³³

7.3.4 The Marriage Question: An Outgrowth of Continued Investment

In addition, because more and more families of Taiwanese business people had settled down in Vietnam, the education of their children became a new issue to face. In September 1997, the first Taipei school was set up in Ho Chi-Minh, providing for the children of Taiwanese business people. Marriages between citizens of the two countries became increasingly common in 1996. From January 1996 to October 1997, more than 7000 couples registered for marriage. By August 1999, 27,000 such marriages had been contracted, and by January 2000, the figure had reached 34,000. From January 1996 to January 2000, there was an average of 1,000 marriages per month. In time, this became the most common type of foreign marriage in Vietnam.³⁴

It is said in Taiwan that Chinese brides are ferocious, Indonesian are snobbish, but Vietnamese are most obedient. Therefore, Taiwanese men are very fond of marrying

³³ Memo of Mr Chu Cong Phung, Head, Vietnam Economic and Cultural Office in Taipei.

³⁴ Interview with L, Vietnam Economic and Cultural Office in Taipei, 27 June 2002.

Vietnamese girls, who are considered to be docile and hardworking. Up to January 2003, there were 150,000 foreign brides in Taiwan. Among these, the Vietnamese brides represented 60%, totalling around 90,000 people, and an even higher proportion (70%) of foreign brides found through marriage agencies. However, the Vietnamese government was concerned about the trend of more and more girls migrating to Taiwan, afraid they might be abused by Taiwanese men after marriage. Mr Nguyen Chinh Thang, Deputy Head of the Vietnam Economic and Cultural Office in Taipei, expressed the view that the Vietnamese government objected to agencies introducing Vietnamese brides to Taiwanese men. In fact, the agencies were doing so furtively, and some of the brides were introduced by their relatives who had already married Taiwanese men. In a few cases, the agencies introduced Vietnamese girls to marry handicapped Taiwanese men.³⁵

In addition, some Vietnamese girls were not accustomed to Taiwan's environment or were abused by their Taiwanese husbands. Some of the agencies presumed on their wealth and exercised undue power and authority. All these developments were very obnoxious to Vietnamese people. The Vietnamese media also accused Taiwanese men and agencies. The officials also made films to warn Vietnamese girls not to throw

³⁵ <http://udn.com/NASApp/rightort/prtnews?newsid=1154523> (2003/1/12)

themselves away for money and marry Taiwanese men. Taiwan's Representative Office in Vietnam stated that this had done a great damage to Taiwan's image. In early 2003, the Taipei Representative Office in Hanoi had to deal with 1,200 marriage procedures per month. A secretary in the Representative Office, Zhang Zheng, said that the marriage procedure had become the predominant business in the Representative Office. Vietnamese girls crowded in every morning, day in and day out. Officially there were over 65,000 Vietnamese brides in Taiwan, but it was estimated that there were roughly 90,000 Vietnamese brides in Taiwan, the highest figure for all foreign brides in the country. However, a lot of comment in the Vietnamese media argued that Vietnamese girls should not marry Taiwanese men and described the life of Vietnamese brides in Taiwan as 'harrowing', 'miserable', and 'shameful'. The officially made films illustrated that beautiful young Vietnamese girls married old, handicapped, or dwarfish men in Taiwan just because the Vietnamese were poor. Are these free marriages or poor Vietnamese girls willing to sell themselves to Taiwanese men? From the perspective of many Vietnamese, Taiwanese men who 'bought' Vietnamese girls should be punished by law. A newspaper reported that on 5 July 2002, fifty-nine girls who were set up by a marriage agency to participate in a beauty contest to marry Taiwanese men were 'rescued' by the police. This kind of market of competing for a chance to marry Taiwanese men was cracked down on by the police. Some other

newspapers also claimed that Vietnamese girls in Taiwan were sexually abused and traded between men like goods. Nevertheless, all this information could not stop the upsurge of Vietnamese girls wanting to marry Taiwanese men. When Vietnamese women chose to marry foreign husbands and emigrate, Taiwan was by far the most popular country, with America a poor second. If a girl married a Taiwanese man, the hut of her family could be transformed into a concrete house immediately. According to Vietnamese analysis, economic pressure made the attractions of marriage to a Taiwanese almost irresistible, but Vietnamese people were very angry about the situation and resentful towards Taiwanese men. The contradiction between what Vietnamese women were actually doing and what Vietnamese opinion thought about it created conflict within the society. This was also harmful to Taiwan's image.³⁶

³⁶ <http://udn.com/NASApp/rightprt/prtnews?newsid=1154517> (2003/1/12)

Table 7.3 Taiwan-ASEAN Trade Statistics										
Unit: US\$ Billion; %										
Year	Total Trade		Year % +/-	% of Total trade		Exports		Imports		Surplus or Deficit
	Amount					Amount		Amount		
1989	8.60	15.2		7.3	5.49	33.3	8.3	3.11	8.0	5.9
1990	10.80	25.6		8.9	6.79	23.6	10.1	4.01	29.0	7.3
1991	12.28	13.7		8.8	7.37	8.5	9.7	4.91	22.3	7.8
1992	14.21	15.7		9.3	8.15	10.6	10.0	6.06	23.4	8.4
1993	15.67	10.3		9.7	8.90	9.1	10.5	6.77	11.6	8.8
1994	19.32	23.3		10.8	10.83	21.7	11.6	8.49	25.3	10.2
1995	24.14	25.0		11.4	13.92	28.5	12.5	10.22	20.5	9.9
										3.70

Note: ASEAN trade statistics only include the six countries of Malaysia, Thailand, Singapore, Indonesia, the Philippines and Brunei. They do not include Vietnam, which joined the ASEAN in July 1995. Source: Directorate General of Customs, Ministry of Finance, ROC.

7.4 The Relationship Between Investment and Trade

7.4.1 Trade Ties Between Taiwan and Vietnam

The Taiwanese government promoted the Southward Policy of strengthening investment and trade relations from 1993 on. Taiwan's trade in 1995 with the Association of Southeast Asian Nations (ASEAN) increased by 25.0% to achieve a total of US\$ 24.14 billion. Within this figure, exports totalled US\$13.92 billion, an increase of 28.5%, while imports totalled US\$10.22 billion, an increase of 20.5%, resulting in a trade surplus of US\$3.7 billion. From the perspective of the regional composition of Taiwan's trade, Taiwan's economic and trade relations with ASEAN have grown increasingly close, with Singapore, Malaysia, and Thailand all among Taiwan's ten largest trading partners. With the exception of a 25.9% increase in exports to Thailand, Taiwan's exports to the members of ASEAN all increased by over 30% in 1995. (See Table 7.3.)

The shipping link between Taiwan and Vietnam was cut in 1976. In 1982, trade between the two countries was also forbidden. In August 1989 direct trade between both sides resumed.³⁷ According to the data of the Directorate General of Customs,

³⁷ Board of Foreign Trade, Ministry of Economic Affairs, ROC, Bilateral Economic Data Between Taiwan and Vietnam. Taipei: MOEA, 2000, pp. 4-5. (經濟部國貿局, 中越兩雙邊經貿資料, 台北: 經濟部)

Ministry of Finance of Taiwan, the total amount of bilateral exports and imports between Taiwan and Vietnam rose greatly from US\$ 41,348,465 in 1989. Only in 1998 was the growth rate negative, -7.835%, due to the Asian Financial Crisis. In 1999, the amount of exports and imports totalled nearly two billion US dollars, 46 times what it had been a decade before. This indicated that the complementarity between Taiwan and Vietnam was very high. As regards the balance, Taiwan enjoyed a tremendous surplus over the period. Only in 1989 was the balance unfavourable to Taiwan. (See Table 7.4.)

Table 7.4 Taiwan Trade with Vietnam, 1989-1999									
Unit: US\$									
	Total Trade			Exports			Imports		
	Amount	Growth Rate%		Amount	Growth Rate%		Amount	Growth Rate%	Balance
									Amount
1989	41348465	Not Available	8800195	Not Available	606.558	32468270	Not Available	71.109	-23588075
1990	118299859	186.105	62743712	606.558	142.711	55556147	71.109	44.111	7187565
1991	232348445	96.406	125285716	142.711	82.858	80062729	44.111	53.505	72222987
1992	401366439	72.743	278466298	82.858	80.013	122900141	53.505	25.418	155566157
1993	655413750	63.296	501274729	80.013	48.136	154139021	25.418	42.044	347135708
1994	961513464	46.703	742567748	48.136	36.504	218945716	42.044	23.445	523622032
1995	1283912827	33.530	1013635117	36.504	15.952	270277710	23.445	17.184	743357407
1996	1492049335	16.211	1175326777	15.952	10.368	316722558	17.184	23.582	858604219
1997	1688599718	13.173	1297187017	10.368	-6.468	391412701	23.582	-12.367	905774316
1998	1556290113	-7.835	1213285170	-6.468	22.078	343004943	-12.367	23.002	870280227
1999	1903062359	22.283	1481159185	22.078		421903174	23.002		1059256011
Source: Directorate General of Customs, Ministry of Finance, ROC.									

In Vietnam, foreign trade and investment were obviously linked. Foreign trade followed Vietnam's foreign direct investment. Especially in exports, large amounts of capital goods, components and primary materials were imported from other countries. Taiwanese business people exported mainly machinery equipment, plastics, fibre, components, etc. to Vietnam. The main crop is rice, of which it is the world's fifth-largest producer. Other crops include bananas, coffee, groundnuts and rubber. In addition to its traditional exports of agricultural and forestry goods, fish, crude oil, phosphates coal and natural gas resources, Vietnam increasingly exported products manufactured by foreign-owned enterprises, accounting for roughly 20% of total exports. Taiwan largely imported wooden products, processed agricultural products, crude oil, coal, etc from Vietnam. Taiwanese business people imported from Vietnam clothing and shoes, which had been produced in that country by Taiwanese companies.³⁸ This kind of interaction between investment and trade was the key characteristic of Vietnam's trading structure.³⁹

³⁸ Board of Foreign Trade, MOEA, *Annual Report of Overseas Market – Vietnam 1997/1998*. Taipei: MOEA, 1998. (經濟部圖資局, 1997/1998 海外市場經營年報-越南, 台北:經濟部, 1998) Also, Luck, Steve, ed., *Philip's Compact Encyclopedia*. London: Chancellor Press, 1999, p. 659.

³⁹ <http://www.gcbn.net/Economic/new/Vietnam09.htm> (2003/1/21)

Table 7.5 Statistics of Taiwan's Industries Investment in Vietnam (1988-1998)				
Unit: US\$ million				
Rank	Category	Project No.	Total Amount	Percentage(%)
1	Office, Flat Building	12	1111.8	23.5
2	Construction	26	708.7	15.0
3	Light Industry	171	674.1	14.2
4	Heavy Industry	84	498.9	10.5
5	Food Processing	8	439.0	9.3
6	Agriculture & Forestry	71	373.6	7.9
7	Hotel & Tourism	11	317.5	6.7
8	Transportation & Post	2	242.8	5.1
9	Export Processing Zone Construction	2	109.7	2.3
10	Fish	14	39.0	0.8
11	Culture, Health & Education	5	5.8	0.1
12	Finance & Banking	2	30.0	0.6
13	Service	5	12.0	0.3
14	Others	56	172.6	3.6
	Total	469	4736.0	100.0
Source: Foreign Investment Department, Ministry of Planning and Investment (MPD), Vietnam.				

7.4.2 The Structure of Taiwanese Investment and Trade in the 1990s

As regards the categories of Taiwan's investment in Vietnam in the 1990s, construction (including the building of office and apartment blocks) formed a large element, accounting for 38.5% by value, even though the number of projects was not great. All these, together with the construction of export-processing zones, represent 40.89% of the total investment. Manufacturing industries, with the highest number of projects, included shoes, umbrellas, clothing, textile, food processing, motorcycles, automobile components, cement, etc., accounting for 34%.⁴⁰ (See Table 7.5.)

About the same time, imports into Vietnam reflected the structure of Taiwanese investment, including machinery, steel, raw materials for textile-production, fertilisers, cement, automobile components and construction materials; and exports included clothing, shoes, crude oil, rubber, rice, coffee, fish, etc.

In general, Taiwanese business people's foreign direct investment can be classified into three categories: First is the horizontal cross-border transfer of production strongholds, which produced the same products as their parent-factory. This was aimed at reducing production costs and maximising profits. Second was the vertical division of labour for

⁴⁰ Industrial Development & Investment Centre, MOEA, Bilateral Investment Between Taiwan and Vietnam. Taipei: MOEA, 1999.

international industries, aimed at spreading the risk in primary materials and making profits by division of up-stream, middle-stream and down-stream. Third was diversification by investing in completely different types of enterprises. In the early 1990s, most Taiwanese businesses in Vietnam were small, medium-sized enterprises, engaged in the horizontal cross-border transfer of production strongholds. These enterprises were confined by the production techniques, internal management resources, capital, etc. of their parent companies. Therefore, there was a lack of ability in large-scale cross-border resource management and production integration.⁴¹

In view of the limited foreign exchange reserves and unfavourable balance in foreign trade, Vietnam levied high tariffs and imposed barriers on the importation of consumer products, including domestic electronics, motorcycles and automobiles, etc. Therefore, many foreign businesses, especially Japanese and Korean, went to Vietnam and invested in order to break through tariff barriers.⁴²

The nature of Taiwanese exports to Vietnam reflects this strategy. According to figures

⁴¹ Chen Tian-Zhi & Gu Ying-Hua, "The Characteristics of Overseas Investment of Taiwanese Small and Medium-Sized Enterprises", *Economic Prospect*, No.40, 1995, pp. 26-30. (陳添枝&顧瑩華, "台灣中小企業海外投資的特徵", *經濟前瞻*, No.40, 1995, pp. 26-30.)

⁴² Chen Tian-Zhi & Gu Ying-Hua, "The Characteristics of Overseas Investment of Taiwanese Small and Medium-Sized Enterprises", *Economic Prospect*, No.40, 1995, pp. 26-30. (陳添枝&顧瑩華, "台灣中小企業海外投資的特徵", *經濟前瞻*, No.40, 1995, pp. 26-30.)

published by the Taiwanese customs service, the top 20 exports to Vietnam in 1998, ranked by value, included raw materials for textile production, shoe materials, machinery, steel, plastic materials and automobile components. These products closely reflect the main industries in which Taiwanese business people have invested in Vietnam. In effect, a large proportion of these industries were concerned with the production of textiles, clothing and shoes. Textiles and clothing were represented by over 100 Taiwanese-owned factories, and shoe manufacture by a similar number. Second to this was the furniture industry, with about over 40 enterprises. In addition, the machinery and construction materials for setting up and equipping factories were largely imported from Taiwan, so that Taiwanese exports to Vietnam and Taiwanese investment in Vietnam were very closely linked. At that time, export-oriented Taiwanese businesses in Vietnam imported primary materials and semi-products from Taiwan largely for re-export as finished goods. The quantity depends on the orders for exports to other countries. Therefore, we cannot entirely determine the size of Vietnam's domestic market using only the statistics of Taiwan's exports to Vietnam. Of all the imports of machinery, primary materials and semi-products, the proportion brought in by foreign business people for processing and re-export represented from 20% to 25%. The rest was for the use of Vietnamese business people.⁴³

⁴³ Ibid.

Vietnam exported agricultural produce, fish, clothing, shoes and furniture to Taiwan. The reason Taiwan became the third largest exporting market was largely that Taiwanese business people re-exported their products back to Taiwan; and clothing, textiles, shoes, and furniture became increasingly important elements in this trade year by year.⁴⁴

In 1990, Taiwan began to enjoy a favourable surplus of more than US\$ 7 million in its trade with Vietnam. Since then the surplus has increased every year except 1998, when it experienced some fall-out from the Asian Financial Crisis. In 1999, the surplus reached over US\$ 1 billion. In some years, the surplus grew by more than 100%; in the single year 1990 to 1991 it multiplied tenfold. This trend was greatly related to local investment by Taiwanese business people.

In 2000, Taiwan's investment in Vietnam was mainly in manufacturing industries, including shoes, clothing, textile, seasoning, cement and motorcycles, totalling 464 projects. In addition, there were agriculture, forestry, infrastructure (in the export-processing zone and industrial zone), hotels, tourism, etc. 70% of Taiwan's

⁴⁴ Ibid.

investment was in southern Vietnam, including Ho Chi Minh City, Dong Nai, etc. Business people from other foreign countries also invested mainly in Southern Vietnam because the infrastructure was relatively good and near their market. With regard to Taiwan's investment, the Tan Thuan Export-processing zone, Chinfon Group and Vedan Group are among the most successful in Vietnam.⁴⁵

Due to Taiwan's effort in investment and foreign trade in Vietnam from its initial opening under the 'Doi Moi' Policy up to the end of the twentieth century, Taiwan enjoyed a prominent status in both investment and trade with Vietnam. The main reason for this situation was investment that pulled in trade. According to the data of the Vietnamese government, Taiwan was the third largest trading partner of Vietnam in 1999. When only imports are considered, Taiwan ranks in second place. Vietnam imported goods worth US\$ 1,497 million from Taiwan, accounting for 12.9% of its total imports amount, US\$ 11, 636 million, second only to Singapore's exports to Vietnam, US\$ 1,883 million. As regards exports, Taiwan was the fifth largest exporting market. Vietnam exported US\$ 682 million to Taiwan in 1999, which was 5.9% of its total exports, US\$ 11,523 million. Taiwan was behind only Japan, China, Singapore and Australia. For Vietnam, Taiwan was a major trading partner and one of the most

⁴⁵ Industrial Development & Investment Centre, MOEA, Investment Guide to Vietnam. Taipei: MOEA, 2001.

important overseas markets and suppliers.⁴⁶

7.4.3 Vietnamese Labour in Taiwan

Since 15 November 1999, Vietnam has exported labour to Taiwan. Up to 31 August 2000, the Vietnam Economic and Cultural Office in Taipei had confirmed 3,810 labour contracts, including 10,154 Vietnamese labourers. Among these, 6,025 Vietnamese labourers have been working in Taiwan, contributing to Taiwan's economy. On 28 August 2002, Mr Wang San-Chong, Vice Chairman of Labour Council of the ROC, pointed out that since November 2000, most employers had formed a good impression of Vietnamese workers. Therefore, he predicted that more and more Taiwanese employers would introduce Vietnamese labourers under the free market system.⁴⁷

Some Taiwanese business people expressed the view that Vietnamese and Taiwanese share similar customs and beliefs, and almost all people from both sides believe in Confucianism, Taoism and Buddhism, so the cohesion between the two nations is relatively high. In addition, Vietnamese labourers can usually pick up Mandarin easily, whereby they can communicate with Taiwanese effortlessly.⁴⁸ However, all this happened because Taiwanese business people could make profits in Vietnam in general.

⁴⁶ Ibid.

⁴⁷ Interview with L, Vietnam Economic and Cultural Office in Taipei, 27 June 2002.

On the whole, the advantages of employing Vietnamese labourers have been that they are more disciplined, easily organized, highly pliable, hard-working and more efficient, and they hardly ever run away. Many of them were trained to be fishermen because there are over three thousand miles of coast in Vietnam. Therefore, they made good sailors for Taiwan. They are also present in large numbers in the following industries:⁴⁹

- (1). Production: electronics, rubber, and metallurgy.
- (2). Construction: moulding, carpentry, and cement laying.
- (3). Service: maids, caretakers, etc.

7.5 International Pressure, Enterprises, States and Institutions

7.5.1 International Pressure

Businesses in China, Vietnam and Taiwan are also subject to pressures from the international system. For example, there is a trend for customers from western countries to make certain demands with regard to the human rights of factory workers when placing orders in Mainland China. Similarly Pou-Chen, a leading OEM company for famous western brands of footwear, was reluctant to set up a factory in Vietnam but eventually did so under pressure from Nike, which believed that the political economy

⁴⁸ Interview with S in Taichung 3 March 2002.

⁴⁹ Ibid.

of China was not stable and urged Pou-Chen to spread its risk and invest in Vietnam and Indonesia.⁵⁰ Fortunately, since the US granted Vietnam most favoured nation (MFN) status, Pou-Chen has benefited greatly.⁵¹

In Vietnam and Mainland China, when the customers are from western countries, the human rights of the employees in the factories are essential to their order; this is a new trend. Like those with China, the relations between Taiwanese business people and Vietnam are conditioned by factors of the international system. Trainers-companies like Nike, Adidas, and Reebok, and casual shoe-companies like Timberland and Rockport, are all customers of Pou-Chen, which is one of the leading OEM companies for these famous Western brand shoes companies. Nike was embarrassed at being condemned by *Time* magazine and the International Labour Organisation for the practice of its OEM supplier, Pou-Chen.⁵² In 2001, even though Pou-Chen occupied

⁵⁰ Initially, China was the only Asian country outside Taiwan where Pou-Chen invested. Pou-Chen was an OEM company for Nike, Reebok, New Balance, Adidas, Timberland, Skechers, And 1, Asics, Avia/ASQ, Saucony, Converse, Puma, Airwalk, Hi-Tec, Lotto, LA Gear, Etonic, Mitre, Ryka, etc. Interview with J in Lugang in 2002.

⁵¹ http://archive.cw.com.tw/88_86 February 2001. Furthermore, to meet the necessity of North America Free Trade Agreement, Pou-Chen also established companies in Mexico, abiding by the advice and meeting the need of its customers, especially Nike. It was the reason why Pou-Chen's CEO asserted that he learned from Americans.

⁵² In 1997, a female Taiwanese manager in Vietnam's Pou-Chen factory compelled 56 female workers to run around the building complex because the shoes they wore were against the regulation, thus leading to twelve female workers fainting and being sent to hospital afterwards. *Time* magazine reported this as an 'abusing employees' incident. In order to conciliate the anger of people, Pou-Chen fired the female manager in the end. Later, Pou-Chen reinforced its flexible management. Now, the weekly menu has to be passed by the cuisine committee elected by the employees. Even a portion of the annual bonus has to be discussed and decided by the employees. http://archive.cw.com.tw/88_86/90年02月第237

期.doc/157848897.16.htm

15% of the world market, which made it the largest single OEM company in the world, it had to bow to pressure and increase its efforts to improve the welfare of its employees. Pou-Chen used to treat its workers in an authoritarian way, which could be deliberately harsh from the perspective of Vietnamese people.

Other companies, great and small, have had to make similar changes in response to similar pressures from international lobbyists for human rights, working through western customer companies such as Nike. Therefore, it is obvious that customers from the Western international brand companies have had a great influence on their OEM businesses in East Asia, whether small or great, even like Pou-Chen.⁵³ Although these improvements have been made under pressure, companies like Pou-Chen have experienced benefits in the form of better relations with their host countries.

In such situations, companies like Pou-Chen have to pay close attention to international, especially American, pressure. However, its chief executive officer, Cai Nai-Feng, has not always been correct in his analysis of American motives and intentions. This was especially true when Pou-Chen decided to invest further in Vietnam. The general manager of Pou-Chen, Mr Cai Nai-Feng, analysing the psychology of Americans, said

⁵³ Interview with W in Taipei on 31 May 2002.

that they wanted to invest in Vietnam in order to improve the economy of Vietnam and restore American-Vietnamese relations after the disastrous Vietnam War period. Another strong motive was to build up a defence chain of Pakistan, Thailand, Vietnam, Taiwan, Japan and Korea. Therefore, the CEO asserted that the American customer (Nike) was guided by both strategic and economic considerations, and that Pou-Chen had retained a portion of land for expansion purposes when it built its industrial park in Vietnam in 1997 as soon as the US granted Vietnam MFN status and lowered the tariff on Vietnamese imports from 20% to 3%. Thus, Pou-Chen could meet the new needs of their American customers. Cai Nai-Feng went on to say that America is the 'Dragon Head' of the global economy; and consideration of its politics, economics, and security will guide its commercial behaviours so we can surely have a vision of opportunities if we follow its needs.⁵⁴

However, Cai Nai-Feng was incorrect when he mixed the motives of Nike and those of the American government. The US government might have a national strategic purpose in granting Vietnam MFN status to link the defence chain for containing China, but Nike would never contain China by demanding that Pou-Chen build companies in Vietnam. Nike would simply spread its risk and take advantage of Vietnamese MFN

⁵⁴ http://archive.cw.com.tw/88_86/90年02月第237期.doc/157848897.16.htm

status granted by the US. Before this, Nike could still share Vietnam's unlimited quota in Europe because China's exports of shoes to Europe are limited by quota but Vietnam can sell as many shoes as it likes to Europe without quota. Coincidentally, Cai Nai-Feng made a right decision, but with fallacious reasoning.

7.5.2 Pou-Chen's Experience in China and Vietnam

The practice of Pou-Chen in Vietnam was based on its experience in Taiwan and China. The Nomura Soken (a Japanese Research Institute, 野村総合) had said that Pou-Chen's success was a result of the advantage it gained from its vertical integration of up-stream shoe manufacturing. Pou-Chen, together with its coordination factories (Xielichang 協力廠) that produced shoe-material and glue, has formed a petal-type industry, which has collected and integrated all the knowledge from different places, thus forming a new type of industrial structure. This way of combining and utilising skills helps the company to maintain its competitive advantage. Pou-Chen's reputation for effective management has enabled it to expand its coordination business. For example, Pou-Chen's branch in Vietnam, Pou-Chen, acquired a coordination factory, Israeli Orisol, because Israeli Orisol was impressed by the reputation for efficient management gained by the Pou-Chen branch operation in China. A Pakistani manager said that the reason he cooperated with Pou-Chen was because Pou-Chen occupied a large share of

the world's market.⁵⁵

Another example of Pou-Chen's efficiency in winning the company a valuable reputation is provided by its relations with the Chiya company from Singapore. Some parts of shoe-material can easily catch fire, and, because of poor management, Chiya's branch factory in Zhong-Shan, China, had burnt down and had had to be rebuilt. In Vietnam, Chiya rents its factory from Pou-Chen. Inflammable shoe-material is stored separately from other operations on the floor with distinct operation lines. Moreover, it is a strict regulation that any employee coming into the factory with a lighter will be dismissed. Therefore, nobody has to live in constant fear of fire any more. Chiya has benefited from Pou-Chen's excellent management and experience, and Pou-Chen's reputation has been further enhanced.

Because Pou-Chen has been able to assemble the best coordination factories in China, Indonesia and Vietnam, it has become the largest OEM company in the world, with many different world-renowned brand customers.⁵⁶

Cai Qi-Rui points out that a single level of OEM production can be replaced easily by

⁵⁵ http://archive.cw.com.tw/88_86/90年02月第237期.doc/157848897.16.htm 2002/10/8

⁵⁶ Ibid.

competitors, but the OEM production of multi-layer petal-type can resist challenges. For example, Pou-Chen, after running in China for years, has not only produced no enemies but has also cultivated a cadre of talented middle-ranking employees whom they have subsequently appointed to positions in their operations in other countries. After running over ten years in China, Pou-Chen has employees in that country who are hard-working, capable and happy to be sent overseas. When they go abroad with much better pay (three times as much as the pay in China), though only one-third of that of their Taiwanese counterparts, they become a resource in Pou-Chen's global strategy.

Likewise, Pou-Chen has learnt important lessons in Vietnam, which it is applying in other countries, including China. Vietnamese people are assertive and sometimes stubborn and have not accepted Pou-Chen's traditionally patriarchal management practices (e.g. compulsory haircuts for female workers whose performance was unsatisfactory).

The company modified its management style in response to Vietnamese anger following an incident in which female employees were forced to run round the perimeter of their complex.⁵⁷ Ironically, another result was that Pou-Chen also changed

⁵⁷ http://archive.cw.com.tw/88_86/90年02月第237期.doc/157848897.16.htm

its management style in China to meet international criticism. For example, there are now very strict standards regarding even the distance between beds and other facilities of the Pou-Chen dormitory in China. Nowadays, Pou-Chen has met international standards in all its branch factories and has improved its relations with all the governments and people in the host countries.⁵⁸

7.5.3 States and Institutions Still Matter

In general, the Vietnamese government holds a fair and unbiased attitude towards the Taiwanese business people. Because there were more and more foreign business people, the Vietnamese government passed a law to allow foreign people to organise an association in 1998. Taiwanese business people had privately organised an association in 1994, and in 1998 this was transformed officially into the Council of Taiwanese Chambers of Commerce in Vietnam, including seven branches in Hanoi, Hai Phong, Da Nang, Ho Chi-Minh City, the Tan Thuan Export-processing zone, Binh Duong and Dong Nai. By April 1999, 368 Taiwanese enterprises had become members. By early 2003, there were already roughly 1000 members. Therefore, the expansion was very fast.⁵⁹

⁵⁸ Interview with Pou-Chen's cadres.

⁵⁹ Telephone Interview with E, Assistant of the Council of Taiwanese Chambers of Commerce in

Although Chinese represent no more than 2% of the population in Vietnam, their economic strength might account for 20% of the Vietnamese economy.⁶⁰ It is noteworthy that most Taiwanese business people in Southeast Asia have been able to make close networks with local Chinese.⁶¹ By contrast, the Taiwanese business people in Vietnam do not link closely with local Chinese. Interaction between them is rather rare. Some of the research indicates that the export-led Taiwanese enterprises do not want to cooperate with local Chinese.⁶² However, others expressed the view that because local Chinese in Vietnam did not enjoy high political privilege, no advantage was to be gained by Taiwanese business people from seeking closer links with them. In addition, local Chinese might use their advantage and encroach on Taiwanese business people's rights. For example, initially Vietnamese law stipulated that only joint ventures between local people and foreigners were allowed for FDI. That is, Taiwanese business people could not run an enterprise on their own. Local Chinese thus became figureheads in the beginning. However, in the end, local Chinese took advantage of their position and seized the property. Therefore, Taiwanese business people gradually

Vietnam, 28 January 2003.

⁶⁰ Gong Yi-Jun, *The Economic Achievement and Cross-Border Network of Chinese in Southeast Asia*. Taipei: Academia Sinica, 1997, p. 11. (圖宜君, 東南亞華人經濟成就與跨國商業網路初探, 台北: 中央研究院東南亞研究計劃論文系列 No.6, 1997)

⁶¹ Hsiao Hsin-Huang & Gong Yi-Jun, *The Business Network Between Taiwanese Business People and Chinese in Southeast Asia*. Taipei: Academia Sinica, 1998, p. 11. (蕭新煌 & 圖宜君, 東南亞台商與華人之商業網絡關係, 台北: 中央研究院東南亞研究計劃論文系列 No.17, 1998, p. 11)

⁶² Chen Homin & Liu Meng-Chu, "Noneconomic Elements of Taiwan's Foreign Direct Investment" in Chen Tain-Jy, ed., *Taiwanese Firms in Southeast Asia: Networking Across Borders*. Glos: Edward Elgar, 1998, pp. 101-105.

began to keep their distance from local Chinese on the principle of 'once bitten, twice shy'.⁶³ Also, unlike other countries in Southeast Asia, the overseas Chinese alumni from Taiwan did not usually go back to Vietnam, because it was a closed Communist country. Otherwise, these alumni were more familiar with both Vietnam and Taiwan, and thus might have helped Taiwanese business people.

7.6 The Role of Taiwanese Companies in Vietnam Diplomacy

7.6.1 Chinfon's Role in Vietnam

The Chinfon Group found Vietnam had great potential in 1989, especially in the motorcycle market. Therefore, it dispatched many investigators to do research on Vietnam's market and established connections (*Renmai Guanxi*, 人脈關係). Initially, Chinfon invited Vietnamese officials, including deputy ministers, to visit Taiwan. However, the Taiwanese Foreign Minister, Dr Fredrick F. Chien, pointed out that the US had imposed sanctions on Vietnam and that Taiwan should show respect for American foreign policy. Therefore, Chien expressed the view that Taiwanese businesses had better not take on large-scale investment in Vietnam.⁶⁴

However, business people followed only business opportunities, and the Taiwanese

⁶³ Interview with II, United Daily News (Vietnam Office) on 3 April 2002.

⁶⁴ Interview with X on 28 May 2002 in Taipei.

government did not categorically forbid Vietnamese investment. Because it also found that Vietnam could not produce motorcycle components, Chinfon wanted to establish a factory there. In 1992, Chinfon got the investment licence. Chinfon also helped Taiwanese officials meet their Vietnamese counterparts in order to set up the Taipei Economic and Cultural Office in Vietnam. In 1993, it began to produce motorcycles. All these things happened before the Taiwanese government found that the 'Go West' trend had gone increasingly wrong and thus proclaimed the Southward policy. Chinfon opined that the Southward policy did not influence it at all.

At the same time, Chinfon found that investment in motorcycle production involved complicated large-scale measures, laws and policies. Chinfon provided copies of the Taiwanese laws on motorcycles to the Vietnamese government and translated them into English and Vietnamese. Chinfon again invited a number of Vietnamese economic officials to visit Taiwan and to understand the successful experience of Taiwan's motorcycle development. Therefore, Chinfon persuaded the Vietnamese government to introduce Taiwanese capital and techniques in order to develop a component industry. Chinfon also persuaded the Vietnamese government to protect Chinfon as the first Vietnamese motorcycle production company, initially in order to cultivate Vietnamese

competitiveness in motorcycle industry. Therefore, during the first three years, Chinfon was the only motorcycle company in Vietnam.⁶⁵

The brand of its motorcycles was VMEP and was mainly for the domestic market. Its share of the market soon reached roughly 15%. In order to meet the demands of the Vietnamese government for the setting-up of a full manufacturing industry (not just assembly), Chinfon also induced some middle-stream and down-stream components suppliers (coordination companies) to move from Taiwan to Vietnam. Thirteen companies cooperated with Chinfon. They also acted as original equipment manufacturers (OEM), producing motorcycles to Japanese designs in order to expand market in Vietnam.⁶⁶

It also set up a branch of the Chinfon Bank in 1993. Soon there were two branches, in Hanoi and Ho Chi-Minh City. Customers were still Taiwanese business people. Moreover, Chinfon Cement started up in 1997 and soon became the largest provider in Northern Vietnam, producing 1.4 million kilotons per year. Chinfon also expanded into raising livestock, fish farming and producing forage. In addition, Chinfon became

⁶⁵ Honda joined the competition afterwards. Interview with X, 28 May 2002 in Taipei.

⁶⁶ <http://www.gcbn.net/Economic/new/vietnam09.htm> Also interview with X, 28 May 2002 in Taipei.

involved in insurance in association with a Canadian Manulife company.⁶⁷

Chinfon also provided the Vietnamese police with driving training in the Sanyang Safety Training Driving Centre. Up to 2002, sixty policemen had come to Taiwan for training. In addition, Chinfon also offered two hundred motorcycles as gifts to the Vietnamese government. Chinfon's CEO had access to the Vietnamese Prime Minister, which none of the Taiwanese officials had. Chinfon built very good connections with both the central and local governments of Vietnam.⁶⁸

In addition, for business purposes, Chinfon sometimes had to serve as a middleman between the governments of the two countries. Chinfon helped the Taiwanese Economic Minister, Chiang Pin-kung, meet for the first time with the Vietnamese Minister of Planning and Investment, Do Ngoc Xuan. The Chairman of Chinfon Global Corporation, Mr Huang Shi-Hui, was the Chief Delegate of the Taiwanese Delegation to the Annual Joint Business Council Meeting between CNAIC (Chinese National Association of Industry and Commerce, 中華民國工商協進會) and VCCI (Vietnam Chamber of Commerce and Industry), where minister-level officials and representatives of both countries meet regularly. Mr Harrison Wu-Hsiung Liu, the

⁶⁷ Ibid.

⁶⁸ Interview with X, 28 May 2002 in Taipei.

Director of Chinfon Global Corp., was the secretary general of the meeting. In 2001 Lin Hsin-I, the Taiwanese Economic Minister, met with a Vietnamese minister, Tran Xuan Gia, and former Deputy Prime Minister, Doan Duy Thanh. Through the annual meeting, the official was able to arrange the gathering of higher-ranking officials. Vietnamese officials were able to meet the Taiwanese president and premier but because of the pressure of the Beijing government, Taiwanese officials could only visit the Vietnamese Deputy Prime Minister.

Through the official contact, the Taiwanese government offered financial training to the Vietnamese financial officials and also some other training to Vietnamese customs officials. This was because only the Taiwanese government could offer this kind of training.

Chinfon achieved many firsts in Vietnam. In Vietnam, Chinfon was the first foreign FDI motorcycle company, the first FDI cement company, the first Taiwanese bank, the first 100% FDI company with an insurance licence, and for a time the largest Taiwanese investor. The Chairman of Chinfon, Mr Huang Shi-Hui, won the first Vietnamese Third Grade Labour Medal. In addition, Chinfon paid regular taxes, won prizes for its high quality products, participated in charity activities, etc. Chinfon played one of the major

roles in Taiwan's economic diplomacy. When the Taiwanese government concluded the investment guarantee agreement and double-taxation agreement with the Vietnamese government, it served as only a subsidiary in Taiwan's economic diplomacy.⁶⁹

7.6.2 Vedan

Vedan also arrived in Vietnam during the early stages of Doi Moi. After a short time it was producing monosodium glutamate (MSG), mainly for the domestic market, and only secondly for the foreign market. Vedan captured 70% of Vietnam's MSG market. In 1998, its revenue was nearly US\$ 200 million. Recently, it has also invested in cassava starch, modified starch, hydrochloric acid, amino acid, glutamic acid, lysine and other primary materials, which have not only helped to reduce the production cost of MSG but also provided for the domestic market. It was estimated that Vedan had invested US\$ 350 million in Vietnam. Vedan found Vietnam a good place to invest because of its vast domestic market, consumer habits and abundance of agricultural products that could be used as primary materials. Nevertheless, Vedan faced many difficulties. To make itself and its products known to the Vietnamese public required

⁶⁹ For some years, Chinfon did not earn profits, so it did not pay taxes. But afterwards, it had to pay double taxes in Vietnam and Taiwan before the two governments concluded the agreements. In addition, without the agreements, neither could Chinfon enjoy the privilege of MFN. Interview with X, 28 May 2002 in Taipei.

huge expenditure on advertising and public relations. However, because Vedan came to Vietnam very early, with a large amount of advertisement, it became well respected and enjoyed a great share in the market.⁷⁰

7.6.3 The Tan Thuan Export-Processing Zone

Among the many successful Taiwanese businesses, the Tan Thuan Export-processing zone was one of the most outstanding. It was built by the CT&D Group, set up in 1989 for international development and investment in Vietnam after evaluating various countries in the world and finding that Vietnam was the best for investment. Initially, the Taiwanese government provided talented people, techniques and advice based on its own experiences, all of which were very beneficial to the export-processing zone because the CT&D was a Kuomintang Party business. However, at this time, the Taiwanese government still had no clear policy towards Vietnam. It was long before the beginning of the Southward Policy of the Taiwanese government.

One of Taiwan's most successful experiments during its period of rapid economic development was the setting up of export-processing zones. The first one was established in Kaohsiung in 1966, and the model was later introduced to Vietnam. The

⁷⁰ Interview with B, Vedan (Vietnam) Enterprise Corporation Limited, 7 June 2002.

Tan Thuan Export-processing zone was set up in 1991 according to the blueprint of Taiwanese Export-processing zones, to offer Taiwanese business people investment opportunities and promote economic exchanges between Taiwan and Vietnam. In 2002, there were 163 businesses in Tan Thuan, 48% of which were Taiwanese and 33% Japanese, employing nearly one hundred thousand local people and with a capital investment of US\$ 1 billion. The overseas market of Tan Thuan included more than 80 countries and regions, totalling US\$ 5 billion in exports and imports. Tan Thuan not only provided good infrastructure, communication systems and high-tech software but also took the initiative in supplying information and necessary assistance, thereby producing more added value for the businesses in the zone. Tan Thuan had already reached breakeven point after three years of running. At that time, it was the most successful export-processing zone out of six in Vietnam. It was also the only Vietnamese member of the world organisation for export-processing zones. In 1999 the Corporate Location Magazine elected Tan Thuan as the best export-processing zone in Asia. Tan Thuan thus became the propaganda model of the Vietnamese government. When American President Clinton and the Japanese Prime Minister (小淵惠三) visited Vietnam, the Vietnamese government escorted them to see Tan Thuan.

The effort of the CEO of the CT&D Group (Mr Ding Shang-Li) was crucial. Ding was

in charge of the building of the Tan Thuan Export-processing zone and negotiating with the Vietnamese government. In the end, the Vietnamese government agreed that if the military, police and customs officials, etc. entered or left the export-processing zone, they had to do so together with zone control bureau staff. Therefore, the zone could avoid administrative red tape and requests for bribes and thus attract many foreign business people.

The Vietnamese government helped the CT&D Group establish the zone and provided the businesses in the zone with many tax benefits, a 'single window' service, export-processing zone regulation, procedure-simplification and a security squad, but it regarded the zone as a 'foreign area', so that the goods it produced were subject to taxes if sold in Vietnam. So, as regards domestic sales, the zone was at a competitive disadvantage. However, because of its excellent performance, the Vietnamese government used it as a flagship of economic reform.

Most of the primary materials and semi-products the zone processed were imported from Taiwan. In addition, the Tan Thuan Corporation also participated in many Taiwan-Vietnamese economic seminars, supplying advice to companies wishing to invest in Vietnam. It is also interesting that the Tan Thuan Corporation expressed the

view that both the Southward Policy and the Policy of 'No Haste, Be Patient' had very little influence on it. On occasion, the Tan Thuan Corporation provided the venue for the officials of Taiwan and Vietnam to meet together. Therefore, by providing employment, promoting the economy of the local area, improving Vietnam's balance of payments and enhancing the international image of both countries, Tan Thuan played a good role in Taiwan's economic diplomacy.

In addition, Taiwanese business people also invested in insurance, banking and trading, etc. Because of Vietnamese law, the Taiwanese companies in the insurance sector had at first to cooperate with Vietnamese companies. After undertaking the business in Vietnam, they also re-insured in parent companies in Taiwan. With regard to banking, the customers were usually foreign business people, especially Taiwanese business people. The banks operated as offshore banking units (OBU), offering to parent companies with headquarters in Taiwan services such as offshore finance for investing in Vietnam. Regarding trading, over ten companies were looking for Vietnamese customers on behalf of parent companies in Taiwan. Some of them also offered services such as maintenance of equipment, technical guidance, marketing, etc. Several trading representative offices were also in charge of buying agricultural

produce in Vietnam.⁷¹

7.7 Conclusion

In a country like Vietnam, Taiwanese businesses have been leading the Taipei government to 'Go South'. They serve as pioneers, middlemen of Taiwan's economic diplomacy in Vietnam, promoters of regionalisation in East Asia and promoters of globalisation. Compared to China, Vietnam enjoys its privilege of a European market. Although its size is relatively small, it still has its own domestic market, cheaper labour and copious raw materials. Therefore, Taiwanese business people have alternatives other than China. This is also the reason Vietnam becomes the only one country in Southeast Asia that can parallel China when China absorbs most Taiwanese investment.

States and institutions still matter. Vietnam's 'Doi Moi' Policy has transformed the country into an open, market-oriented and globally integrated model, suitable for Taiwanese businesses to survive. In the end, the 'Doi Moi' Policy benefits both Taiwan and Vietnam. The Taipei government followed the steps of the Taiwanese businesses to 'Go South'. Vietnam has been included in the Southward Policy of the Taipei government. In addition, the Taiwanese government concluded international

⁷¹ <http://www.ecbn.net/Economic/new/vietnam09.htm> 14/03/2003

agreements with Vietnam to protect Taiwanese business people. In terms of this protection, the Taipei government cannot conclude international agreements with China.

On the other hand, although the Vietnamese government tried to improve its national image, avoiding 'exporting girls' to Taiwan, the Taiwanese economy proved to be a strong force in strengthening the trend of 'importing' Vietnamese brides. Taiwanese investment in Vietnam is closely linked with Taiwan's trade with Vietnam. Taiwan exports raw materials and semi-products to Vietnam for processing and re-exports products back to Taiwan and other countries. Further, Taiwan imports Vietnamese labourers, who are cheaper and harder working.

Taiwanese businesses play a crucial spearheading role. In a country like Vietnam where the role of the state and institutions is important in setting the basic framework, business has nevertheless taken the initiative and led state and institutions in serving the interests of the businesses.

Chapter 8

Conclusion

8.0 Introduction

After a brief review of the methodology that I used, I conclude by reviewing the original hypothesis and highlight my contribution in terms of how this work has modified the original hypothesis. This general discussion of my contribution is followed by a succinct summary of the research contribution. Then I turn towards the future, by highlighting 'lessons' for two groups of actors and by giving some future research directions

8.1 Methodology

Thinking in terms of three levels of analysis is now firmly established as part of international relations theory. It has proven to be a powerful and useful heuristic tool, even though the concept of 'levels' itself has still not been adequately clarified in its own right. Levels of analysis have defined a way of thinking about the international system that has dominated theory in this discipline for several decades. It has thus shaped the work of several generations of academics.¹

Waltz's restriction of the levels of analysis debate to the confines of the

¹ Barry Buzan, "The level of Analysis Problem Reconsidered", in Ken Booth and Steve Smith, ed., *International relations Theory Today*. Cambridge: Polity Press, pp. 214-15.

reductionist/holist alternatives had serious distorting effects. His theory is also too narrow, in part because it is confined to the international political sector, and — within that restriction — to his definition of 'structure'. Both Ruggie and Cox argue for the need to incorporate social and economic factors into the analysis.² Waltz was fully aware that structural causes could never provide more than a limited explanation of international outcomes. The crucial issue in international relations theory concerns *which units of analysis* and *which sources of explanation* are best able to help us to come to terms with any given event or phenomenon. No one level of unit or source of explanation is always dominant in explaining international events. The international system perspective gained a boost from the Cold War, because its concern with polarity (viz. the structural effects of the number of great powers in the system) in general; and Waltz's statement in particular that bipolarity was a desirable structure echoed with the world events going on around the theory.³ In the wake of the Cold War, it is easier to assert arguments from other levels. Fukuyama's famous (now notorious) writings about the triumph of the liberal state, and the supposed 'end of history', start from the unit level,⁴ and build on an argument made much earlier by Gourevitch, that potent states project their domestic characteristics out into the international system.⁵

The question of which level is most important is really of interest only to the extent

² Ibid. 209.

³ Ibid. pp. 208-13.

⁴ Francis Fukuyama, *The End of History and the Last Man*. London: Penguin, 1992.

⁵ P. Gourevitch, "The second image reversed: the international sources of domestic politics", *International Organisation*. Vol. 32, No. 4, pp. 881-912.

that it relates to some specific phenomenon requiring explanation. In international relations, generally *all* the levels are simultaneously and powerfully in play. The important theoretical question is this: If two or more units and sources of explanation are operating together, how are the different analyses offered by each to be assembled in order to produce a comprehensive and coherent understanding of the whole? Waltz's position, probably extensively shared, suggests that explanations on different levels can be added together and assigned relative weights in relation to any given analysis. But it is not clear how this weighting must be carried out, or even whether it is methodologically sound.⁶ For example, it is difficult to maintain the general proposition that Taiwanese business people should weigh more heavily because the contradictory policies of the Taiwanese government counteract one another and are thereby rendered ineffectual. *In this particular case* of Taiwan's economic diplomacy, Taiwanese business people have indeed played a major role. However, during the peak of the 1996 Taiwan Straits Crisis, for example, when the PRC employed missile exercises against Taiwan, Taiwanese business people could do nothing to relax the simmering tensions across the Taiwan Straits. In this case, only international intervention proved effective (when the US intervened and the crisis died down).

⁶ Barry Buzan, "The level of Analysis Problem Reconsidered", in Ken Booth and Steve Smith, ed., *International relations Theory Today*. Cambridge: Polity Press, p. 213.

8.2 The Hypothesis: Original, Modified and the Contribution

8.2.1 Original Hypothesis

The original hypothesis was that, since the beginning of the 1990s, Taiwan's economic diplomacy has achieved significant international space. Taiwan uses foreign trade, foreign investment and foreign aid to break through diplomatic isolation and obtain international recognition. Although this has not resolved the question of sovereignty, Taiwan's international standing has been ameliorated to a certain degree. At first, the Taipei government tried to improve bilateral trade and economic cooperation, and then endeavoured to cultivate political connections, frequently making use of Taiwan's entrepreneurs as intermediaries in setting up the links. The China External Trade Development Council (CETRA) and the Ministry of Economic Affairs (MOEA) are usually the initial people to associate with foreign government officials or non-official partners.

As Robert Gilpin puts it, "In every area of international economic affairs, economic and political issues are deeply entwined".⁷ Françoise Mengin adds that there is an interweaving of the economic and political spheres in the nature of the decision-making mechanism at the national level.⁸ After the establishment of economic relations, many countries find that these ties evolve naturally into political links with Taiwan.

⁷ Robert Gilpin, *The Political Economy of International Relations*. Princeton: Princeton University Press, 1987, p. 24.

⁸ Françoise Mengin, "The Prospects for France-Taiwan Relations", *Issues & Studies*. Vol. 28, No. 3, March 1992, p. 46.

At the **international system level**, as the Cold War ended and the structure of the global system fundamentally changed, the debacle of international communism meant that Western countries became more concerned about their general domestic unemployment and declining military-industrial complexes rather than with security issues. The People's Republic of China's (PRC) declining political leverage in the international society was enhanced by the coincidental Tiananmen Massacre, which betrayed its non-compliance with international humanitarian norms. Meanwhile, the prominence of economic issues offered Taiwan a good opportunity to deploy its accumulated wealth as a tool to achieve its international space. The easing of tensions across the Taiwan Straits led foreign countries to re-evaluate their relations with Taiwan, because the PRC's 'engagement' with Taiwan — the second major investor in Mainland China — undermined its attempts to stop other countries from having full official contacts with Taiwan. The growth of 'Greater China' made Taiwan a good partner for Japan and Western countries, whose advanced level of technology and global brands promised to match well with Taiwan's capital and management expertise and the cheaper labour, abundant land and massive market of China.

Taiwan has also been able to use foreign aid as a means of enlarging its network of relations with friendly countries. It is noteworthy that despite the growing affluence of the world, the existence of mass poverty has not substantially changed. According to World Bank figures, the proportion of people living in poverty has

scarcely decreased — 29.4 per cent of the world's population lived on under \$1 a day in 1993, compared with 30.1 per cent in 1987. In the late 1990s nearly 90 countries were worse off than they had been ten years before, according to the United Nations Development Programme's (UNDP) human development index. This provides the setting for Taiwan's role as an aid donor in the effort to tackle poverty in the developing countries. Since the late 1980s, Taiwan's foreign aid programme has been more large-scale than before. Technical and agricultural assistance projects are still part of aid projects, but financial loans, grants and contributions to multilateral organisations have also been included.

Some scholars and politicians believe that integrating the PRC in the international system is the best strategy for maintaining international order. Proponents of this view include John King Fairbank, Michael Oksenberg, Andrew Nathan, Robert B. Zoellick, Richard Nixon and Edward Heath. This point of view will contribute to a more cautious attitude towards Taiwan and is apparently unfavourable to Taiwan's economic diplomacy.

At the **state level**, the pragmatic diplomacy of Taipei has pushed for dual recognition and a substantive relationship between Taiwan and other countries without official relations. Since the 1980s, Beijing's diplomacy in economic issues has become increasingly more pragmatic through coexistence with Taipei within international organisations, such as Asian Development Bank (ADB) and Asia-Pacific Economic Cooperation (APEC). The democratisation of Taiwan has promoted its image and

justified its interaction with Western countries, which often take democratic progress and respect for human rights into account when dealing with bilateral relations.

In order to break through its diplomatic isolation, Taipei has used its economic strength to win friendship because of its great financial resources and economic clout. The 'Six-Year National Development Plan' (1991-96) — which involved investments of US\$300 billion — has temporarily attracted many suitors, including foreign companies and high-ranking visitors. Consequently, many countries competing for economic favours have been upgrading their Taipei trade offices, which was the legacy of the fleeting 'bubble diplomacy'.

Foreign aid is a technique of economic statecraft whereby aid is used as an instrument of policy in order to achieve certain goals. Foreign aid implies a relationship between two actors, who may be designated on the one hand as 'donor' and on the other as 'recipient'. In a nutshell, foreign aid may be regarded as a form of power relationship. Hence, the donor must possess a capability that can be converted into an aid relationship. The exact political functions served by aid relationships are not always easy to specify. The most apparent political function of aid will be clear from an examination of the conditions as laid down by the donor. Foreign aid relationships can also serve a coercive function. Once a reward has been offered and accepted, the donor has the power to punish the recipient by withdrawing the reward in the future. Because the aid relationship exists over time, the opportunity for the donor to assume an intrusive and even coercive role vis-à-vis the recipient will

increase. Moreover, the donor may attempt to link the aid relationship with other foreign policy issue areas.

In 1961, the Committee of International Technical Cooperation (CITC) of the ROC was established to provide agricultural technical assistance to African and Latin American countries. In 1988 Taipei's government set up the International Economic Cooperation Development Fund of the Republic of China (IECDF) (amounting to about US\$1.2 billion) to assist friendly developing countries in their economic development and to intensify bilateral economic co-operative relations. Offered through the IECDF, Taiwan's economic assistance package consists largely of loan extensions, technical assistance on a project basis, and technical training. In addition, Taiwan has been providing international disaster relief aid since 1981. Recently in particular, there has been a large surge in Taiwanese humanitarian contributions since the International Humanitarian and Relief Fund was formally established in 1990. In the period from 1990 to 1995, the Taiwanese government had contributed a total of US\$124 million in humanitarian aid to disaster areas in more than 60 countries. The offer of aid has helped secure diplomatic relations with several states in Africa and in Latin America.

Since the late 1980s, Taiwan's foreign aid to the Asia-Pacific region has been concentrated on countries that have formal relations or substantive relations with Taiwan. In Southeast Asia, only Brunei, Laos and Cambodia have not received Taiwan's aid.

Taiwan's foreign aid programme rests in the decision-making process of the Ministry of Foreign Affairs (MOFA) and the Ministry of Economic Affairs (MOEA). Although the assumption is that both the MOFA and the MOEA hold joint jurisdiction over decision-making, each ministry regards the issue of aid from a slightly different perspective. The MOEA regards it more from an economic viewpoint, examining aid proposals carefully in order to ensure efficient and effective use of money. However, the MOFA is more concerned with aid as a diplomatic lever — without, of course, denying the necessity of wise planning of aid dispensations for the economic interest and development needs of recipients. Aid programmes are sometimes used as an expedient political instrument to win diplomatic favours, thereby taking advantage of changing international circumstances or sustaining relationships with countries deemed 'politically correct' and important to Taiwan. Recently, the MOFA has played a more important role than the MOEA in the decision making process.

On the other hand, in order to avoid Taiwan's economic over-dependence on Mainland China — and to ward off the possibility of Beijing initiating unfavourable measures against Taiwan — as well as to create a suitable environment for Taiwan's investment, Taiwan has adopted a 'Southward Policy'. Also, foreign aid helps Taipei to both realise its Southward Policy objectives (through economic cooperation with the Philippines, Vietnam, Thailand, Indonesia, etc.) and to compete with Beijing in a peaceful way. When the central bank chairmen of Southeast Asia held a summit meeting in Indonesia in February 1998, Taiwan also promised to offer a loan to the

enterprises in Southeast Asia in order to tide them over during the financial crisis.

Therefore, Taiwan's southward policy is not only a means, but also an objective in itself. Taiwan has used its economic diplomacy to realise its southward policy. Southeast Asia has been the top priority of Taiwan's foreign aid programme due to its geographical closeness, cultural affinity and recent economic vitality. However, no country maintains diplomatic relations with Taiwan in this area — an area in which Taiwan has been trying to develop 'substantive' relations. Partly because geographic proximity to Mainland China makes them subject to Beijing's pressure, it is difficult for Taipei to develop official ties in this region. It is noteworthy that both in Southeast Asia and Latin America, Taiwan's aid and investment are apparently complementary to each other. Aid forwards the expansion of Taiwan's outward investment.

Clearly, Taiwan has been pragmatic and has not stipulated the precondition that new friends must first sever relations with the PRC since Chiang Ching-kuo was in power. In cases where direct aid has been politically unsuitable, Taiwan has donated to international organisations. Taiwan is also willing to accept dual recognition. Although some countries are not keen on the idea of official recognition, the Taiwanese government is still willing to employ aid to further augment official contact between Taiwan and other countries.

Although, since the end of 1980s, Taipei has also offered aid to the Mainland in cases

of floods and natural disasters in order to further the goodwill of the Beijing government and the people of the Mainland, the idea of Taiwanese independence is completely intolerable to the PRC. Beijing's obstructionism is the main reason that Taipei has been excluded from many international organisations and that many states have refrained from maintaining normal diplomatic relations with Taipei.

For instance, Taiwan's initial offer to provide assistance for the military operations in the Persian Gulf in the early 1990s was around US\$100 million. This was turned down by the United States because of its concern with the PRC's critical vote in the UN Security Council. In September 1990, Taiwan decided to donate US\$30 million to help Jordan, Egypt and Turkey, who were all hurt by the Gulf Crisis. Although Foreign Minister Fredrick F. Chien said that Taiwan expected 'nothing in return' for its financial aid to countries in the Middle East, Turkey and Egypt hesitated to accept the offer in the face of the PRC's pressure and preferred that Taiwan offer the aid through some private organisations. Consequently, Taiwan terminated the aid. Taiwan also suspended a loan of US\$8 million to Belarus after Belarus had received US\$1 million in humanitarian aid. This was because Belarus — responsive to pressure from the PRC — was reluctant to improve its relations with Taiwan.⁹

On the one hand, Taiwan's gross domestic product (GDP) shrank from US\$272 billion in 1995 to US\$269 billion in 1998. Its economic confidence has now been

⁹ Linjun Wu, "Does Money Talk? The ROC's Economic Diplomacy", *Issues & Studies*, December 1995, pp. 22-35.

undermined to a certain degree, leading to the declining effectiveness of its economic diplomacy. On the other hand, since the Taiwan Straits Crisis of 1995-96, Beijing has been more alert to Taipei's economic diplomacy and taken a tougher stance against it. Obviously, Beijing is increasingly sensitive to the gains which Taipei has made recently. President Lee Teng-hui's visit to Cornell University made Beijing believe that Taipei's economic diplomacy crossed the bottom line it had set. Accordingly, the PRC held missile exercises in order to force Lee to back down and to prevent him from achieving greater international presence. Thus came the Taiwan Straits Crisis of 1995-1996. The Beijing government will continue to be a major factor in Taiwan's foreign relations, and it is still difficult for other countries to cross the bottom line set by the PRC.

The PRC is the only bilateral aid donor in the world whose per capita gross national product (GNP) is lower than that of some of the recipients. The declared purpose of the PRC's foreign aid is to help the recipient countries become more economically self-reliant. This is welcomed by most of the developing countries. However, its foreign aid is also an instrument of foreign policy — albeit rather more 'pragmatic' than before.

The strategic and political interests of the donor — as well as an historical relationship between the donor and the recipient — are emphasised. The PRC announced that it would use all the economic and diplomatic resources available to it to reward countries that were willing to isolate Taiwan and to punish 'hostile foreign

forces' which encourage Taiwanese independence. Beijing asserted that it would use the PRC's restricted resources to hamper the development of intimate relations between Taiwan and other countries in case the economic ties became political ones.

At the **individual level**, the entrepreneurs and political elites in Taiwan are also crucial elements of Taiwan's economic diplomacy. The entrepreneurs serve as pioneers to cultivate countries with whom there are no official relations. In Taiwan, many well-established private trade associations have been encouraged by the government to hold conferences and sign agreements with foreign business organisations. These associations include the Chinese National Association of Industry and Commerce, the Euro-Asia Trade Organisation, the General Chamber of Commerce of the ROC, and the ROC-USA Economic Council.

Although Taiwan is classified under the 'Asian' model (typically presumed to be very different from the 'Western' capitalist model), where the state plays a more active role and takes necessary measures to sustain political stability and confidence in the economic future,¹⁰ Taiwanese business people have gradually regained their power in the political arena since the early 1990s. The Taiwanese government has been bargaining with companies to locate their operations within Taiwan and attempting to

¹⁰ Susan Strange, *The Retreat of the State – The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press, 1998, p. 74. Susan Strange also maintains that governments must now negotiate not only with other governments but also with firms or companies. On the other hand, companies now negotiate with governments and with one another. Therefore, the nature of competition between states has changed, as there now is greatly intensified competition among states for world market shares. See Susan Strange, "Rethinking Structural Change in the International political Economy: States, Firms, and Diplomacy", in Richard Stubbs and Geoffrey R. D. Underhill, ed., *Political Economy and the Changing Global Order*, London: MacMillan Press Ltd, 1994, pp. 103-15.

persuade them not to move to Mainland China — at least not entirely. Strange also argues that if wealth for the state (as for the company) can be obtained only by selling on world markets, then foreign policy should now start to take second place to industrial policy.¹¹ For example, Wang Yung-ching (a Taiwanese tycoon) can manipulate governments on both sides of the Taiwan Straits by means of the Hai-Cang Project. In the wake of political democratisation and economic liberalisation, the domestic elites have begun to take control of political and economic resources. Unlike in the past, when strong men dominated Taiwan, the state and the business sector are now forced to compromise and to co-operate with one another, thereby reallocating political resources.

Taiwan graduated from the generalised system of preferences (GSP) of the United States (US) in 1989. The change of comparative advantage of Taiwan's economy forces its enterprises to relocate overseas, largely to Mainland China. This is partly because Taiwanese businesses can share the export quota and most-favoured-nation treatment of the PRC.

The Taipei government proclaimed the policy of 'No Haste, Be Patient' in 1996. Increasingly, Taiwanese business people investing in Mainland China were curbed, against uncertainties, by the political leaders of Taiwan, in order to avoid economic or political absorption by the PRC. The capacity of ROC leaders to negotiate and

¹¹ Susan Strange. *The Retreat of the State – The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press, 1998, p. 74

compromise is also important. In the 1990s, President Lee Teng-hui and Premier Lien Chan (later Vice-President) visited foreign countries to enhance Taiwan's international standing, although this has been regarded as provocative as well as constructive.

In this work, three levels of analysis have been employed to analyse the achievements and restrictions of Taiwan's economic diplomacy (including foreign aid, foreign trade and foreign investment) since the beginning of the 1990s. The relationships between the government and the business people have been assessed. The effectiveness of economic diplomacy in different areas in the world has also been compared. Chapters 5, 6 and 7 contain the essence of my contribution to Politics and International Studies as a discipline.

8.2.2 What I Have Achieved – Modifications to the Original Hypothesis

I have established in this thesis that the original hypothesis needs to be revised in certain important respects. It is an overstatement to conclude that, since the beginning of the 1990s, Taiwan's economic diplomacy has achieved significant international space. It is often asserted by scholars of this subject that, since the end of the Cold War, Taiwan has used economic-related techniques to achieve its foreign policy objectives. It is also frequently claimed that the effectiveness of this economic diplomacy depends not only on wealth, but also on the global environment and the capacity of the Taiwanese government to negotiate and compromise. Furthermore, scholars have also noted that, because Taiwan's economic leverage is

decreasing and Beijing's sensitivity is increasing, the Taipei government will need all the statesmanship and leadership potential it has at its disposal if it is to implement its economic diplomacy effectively. Finally, it is claimed that economic diplomacy has helped Taipei survive as an actor in the international community and that, in the 1990s, Taipei has played this game better than in the past.¹² The fruits of 'Pragmatic Diplomacy' are often cited by various scholars.

Although Lee Teng-hui's leadership has led the Taipei government to expand its web of international relations, all these have focused solely on small and micro states as friends. For example, Taiwan established or re-established official ties with some small states in swift succession, including Grenada (1988), Belize (1989), Liberia (1989), Guinea Bissau (1990), Lesotho (1990), Nicaragua (1990), the Central African Republic (1991), and Niger (1992), but it lost diplomatic relations with Uruguay (1988), Saudi Arabia (1990) and South Korea (1992),¹³ which are more important than the friends the Taipei government has made. It is also emphasised that the frequency and ranking of official exchange visits between Taiwan and other countries was much greater in the early 1990s than in the period 1972-1987. For example, the year 1992 alone witnessed more than one hundred visits by foreign officials at or above vice-ministerial level.¹⁴

¹² Linjun Wu, "Does Money Talk? Taiwan's Economic Diplomacy", *Issues & Studies*, December 1995, pp. 22-35.

¹³ ROC Ministry of Foreign Affairs, *Foreign Affairs Report: Foreign Relations and Diplomatic Administration*, Taipei: Cheng Chung Book Co., 1993, p.233.

¹⁴ Su Chi, "International Relations of the Republic of China During the 1990s", *Issues & Studies*, September 1993, pp. 1-21.

However, all these are only the illusions of Taipei's 'bubble diplomacy',¹⁵ and ultimately — and inevitably — the bubble finally burst. The failure was marked by two events. First, in late 1993, Premier Lien Chan had to cut the budget of the 'Six-Year National Development Plan' (1991-1996), which had been used to attract the major companies and governments of the Western countries. For a short while, this strategy had been successful, because companies seeking contracts in Taiwan had lobbied their own governments in Taiwan's favour. However, this strategy lost its force when the development budget was cut. A sign of the failure is that, since this event, scarcely any high-ranking Western officials have visited Taiwan.

The other failure came when in 1997 Taiwan's International Economic Cooperation Development Fund ceased to aid the countries in Southeast Asia. It had started in 1988 with an appropriation of US\$1.2 billion of economic aid for Third World countries. This has been aimed at not only feeding back to the international community, since Taiwan had been an aid recipient a few decades ago, but also at breaking through China's diplomatic blockade in the international arena. The fund had succeeded in securing for Taiwan some temporary friends among the poorer countries. However, when the funds ceased to aid those countries, which had no official relations with Taiwan,¹⁶ some of these countries simply turned their backs on

¹⁵ The term is borrowed from 'bubble economy' which was used to describe the economy of some Asian countries, especially Japan.

¹⁶ Before 1996, the MOEA played a leading role in distributing the funding to other countries, thus emphasising the economic function of the funding. Since July 1996, the MOFA replaced the MOEA and has administered the International Cooperation Development Fund (ICDF), thus offering aid only to those countries with official relations with Taiwan. (Telephone interview with CC on 11 June 2003.)

Taiwan. Most of the fund has rushed into Southeast Asia, especially the Philippines, Indonesia and Vietnam. However, in the case of the Philippines and Indonesia, Taiwan has suffered a setback.

The Philippines not only opposed Taiwan's entry into the United Nations (UN) but also unilaterally abolished its aviation agreement with Taiwan. The repeated negotiation over the aviation agreement produced no resolution before the end of Lee Teng-hui's tenure in 2000,¹⁷ thus discouraging Taiwanese business people from investing in the Philippines. On the other hand, Indonesia has been infamous for its people's anti-Chinese complex, even though Taiwan has offered several aid programmes for it. In the riots of 13-15 May 1998 in Indonesia, an estimated 1,200 people were killed and over 150 ethnic Chinese women systematically raped during the riots. Taiwan's officials were compelled to scrap plans to aid and to suspend talks with Indonesia temporarily. Therefore, it is essential to find out what went wrong in Taiwan's Southward Policy, or whether, perhaps, the policy was essentially right but was hampered in practice by bad luck or bad implementation, or conditioned by external factors. In this connection, it is noteworthy that Wang Chi-kang, Minister of Economic Affairs, asserted that the Southward Policy should be re-evaluated and halted, while Dr Pin-kung, Chiang, Chairman of the Council for Economic Planning and Development (CEPD), insisted that the suspension of flight

¹⁷ The Philippine government insisted on taking measures to protect its airliners against Taiwanese ones because Taiwanese airliners were more competitive. The Philippine government asserted that Taiwanese airliners could not pick up passengers from the Philippines, stopped in Taiwan and flew to a third country because this would damage the interests of the Philippine airliners. This made the Taiwanese government unwilling to compromise.

links between Taiwan and the Philippines should not become entangled with Taiwan's 'Go South' investment policy.

Teh-chang Lin argues that the foreign strategy of the Taiwanese government towards Southeast Asia was to develop bilateral relations, mainly through the development of economic relations and under the framework of a separation of politics and economics. According to Lin, the Taiwanese government provided economic aid to some countries in Southeast Asia largely in order to strengthen substantive relations with these countries, thereby forging an appropriate environment for the investments of Taiwanese businesses. Therefore, the Taiwanese motives of political economy were clear-cut.¹⁸ However, many Taiwanese business people feel that they cannot benefit at all from the Southward Policy. Thus, we can see that scholars — and the Taipei politicians themselves — have overstated the extent of the glory of the 'bubble diplomacy' of the Taipei government in the early 1990s.

In addition, the double-track decision-making process of the Taipei government has made the politics of Taiwan even more confusing. The APROC Plan, initiated by the Executive Yuan, needs three links (commerce, mail and shipping between China and Taiwan) as subsidiaries, which is against the 'No Haste, Be Patient' Policy launched by the presidency. The Southward Policy is parallel to the 'No Haste, Be Patient' Policy but is opposed to establishment of the three links with China. Amazingly, all

¹⁸ Teh-chang Lin, *A Comparative Study of the Foreign Aid Policies across the Taiwan Straits*, Taipei: Zheng Wen, 1999, pp. 322-23. On 11 June 1994, the IECDF proclaimed that the Philippines, Indonesia and Vietnam were the main countries that were recipients of foreign aid in order to implement the Southward Policy of the Taiwanese government.

these inconsistent and mutually contradictory policies managed to co-exist in the Taipei government. Therefore, the Taipei government has not been very effective in leading the diplomacy of Taiwan. All these propositions constitute part of my dissertation's original contribution to the field.

When industries from upstream, middle-stream and downstream gather together with their satellite factories, all the Taiwanese factories are complementary with one another. Cluster condensation thus forms. Vietnam is inferior to China in terms of cluster condensation because the range of component-manufacturing factories is less comprehensive. Therefore, China is much more attractive to Taiwanese business. However, to a certain extent, Vietnam also has potential attractions when Taiwanese business people consider the European market because, whereas China needs quotas to enter the EU market, Vietnam does not. Therefore, until the WTO abolition of quotas comes into effect, Vietnam still has a distinct advantage in this respect.

While the Beijing government bids for the loyalty of Taiwanese business people, the Taiwanese businesses in China have been more vulnerable than the Taiwanese state. However, their presence and their influence did help to relax the tense relations across the Taiwan Straits. On the other hand, the Vietnamese government only asks Taiwanese business people not to interfere with Vietnam's politics. In both cases, the Taiwanese business people served as pioneers and surrogates of Taipei's diplomacy.

It is the Taiwanese business people who have been most proactive and independent in pursuing foreign trade and investment, and this has resulted in the useful by-product of helping the Taipei government break through diplomatic isolation and make friends on the international stage, even when formal recognition was denied. We can therefore conclude that Taiwanese business people have played the major role in Taiwan's economic diplomacy. The Taipei government has merely followed in the steps of the business community in order to further its own agenda.

At first, the Taipei government tried to improve bilateral trade and economic cooperation, and then endeavoured to cultivate political connections, frequently making use of Taiwan's entrepreneurs as surrogates and intermediaries in setting up the all-important links. Taiwanese business people are usually the first to make friends with foreign government officials by their own networking, very often through overseas Chinese connections. The China External Trade Development Council (CETRA) and the Ministry of Economic Affairs (MOEA) are usually the second group of people to associate with foreign government officials or non-official partners. When Taiwanese business people 'Go West', they have been regarded as hindrances to economic diplomacy by the Taipei government. However, Taiwanese business people have proven instrumental in the easing of tensions across the Taiwan Straits, usually 'root enterprises in Taiwan', as well as bring money back to Taiwan while running the risk of losing money in China and Southeast Asia. Almost all the time they have acted on their own initiatives, without the help of the Taipei government. Not only when 'Going West' but also when 'Going South', they have been proactive

rather than at the beck and call of the Taipei government.

The Taipei government has been trying to employ Taiwanese business people as a tool in its economic diplomacy. However, this attempt has usually proven futile. Taiwanese business people always invest where profits are available. Even Taiwan's state enterprises and the Kuomintang party's enterprises have acted according to this rule. Money-losing industry cannot last for long, and Taiwanese business people have been reluctant to invest in Indonesia and the Philippines; the very unstable political economy in these two countries since the late 1990s has made it difficult to make money in them. So although Taiwan has offered foreign aid to Indonesia and the Philippines, these two countries have turned their backs on the Taipei government. In the Indonesian case, this took the form of initially refusing the proposed visit of Taiwan's vice-president, Annette Lu. In the case of the Philippines, it took the form of unilaterally ending air-transport between the two countries and opposing Taiwan's entry to the UN. In both cases, Taiwan's Southward Policy suffered a severe setback. The process can be summed up like this: Instability in Indonesia and the Philippines led to a lack of Taiwanese investment; and the resultant attenuation of Taiwanese business people's presence and influence led to developments inimical to Taiwan's economic diplomacy.

Although Taiwan's economic minister, Lin Yi-Fu, called for Taiwanese business people to invest only in those countries whose governments are friendly with the Taipei government, Taiwanese business people simply *cannot afford* to follow this

advice.

In the early nineties, Taiwan's foreign minister, Dr Fredrick F. Chien, discouraged the Chinfon Group from investing in Vietnam because there were American sanctions at that time, and Taiwan 'should' respect American foreign policy. Chinfon, however, went on investing in Vietnam as it wished. In the end, the Taipei government needed the help of Chinfon to serve as intermediary when it came to the realisation that there should be connections between the two governments, as there were no official ties at that time. This state of affairs came about because Taiwanese business people had been successful in making profits in Vietnam and thus ultimately served as pioneers, surrogates and intermediaries in Taiwan's economic diplomacy with that country. These same business people are also crucial promoters of the regionalisation and globalisation of East Asia, including China and Vietnam.

On the other hand, the state level is of course not *always* irrelevant; the government and its institutions are still important. The Taipei government's actions are not always in vain. When the government concludes double taxation agreements and investment guarantee agreements with the governments of other countries, Taiwanese business people are protected and are thus more willing to invest in those countries. It is also interesting that Taiwanese business people express a view that Taiwan should preserve the status quo. This is because only for as long as Taiwan is separate from China can Taiwanese business people be regarded as people with significant politico-economic leverage. Observing the process and transition of Hong Kong's

status, they have found that the rights of Hong Kong business people have been ignored to a much more significant extent by the Chinese government since Hong Kong was handed over from Great Britain to the PRC.¹⁹

When Taiwanese business people established a Taiwanese presence in other countries, the home government's diplomatic policy aims were furthered. Conversely, when Taiwanese people declined to establish themselves in a country, the government's diplomatic plans suffered. But in either case, the business people followed their own commercial agenda and did not set out either to further or to frustrate the government's aims. Therefore, we can see that Taiwanese business people play a major role in Taiwan's economic diplomacy, the Taipei government itself playing only a subsidiary role with respect to the former.

My original hypothesis emphasised the possible effectiveness of Taiwan's foreign aid programme as a tool of diplomacy. My thesis, however, ignores this aspect because it has been the subject of a recent book, which expatiates on this topic at length.²⁰ Lin has expressed the view that foreign aid is an instrument to create a favourable environment for Taiwanese business people and to avoid over-dependence on China, on the one hand, and to further the Southward Policy by aiding the Philippines, Indonesia and Vietnam, on the other. However, Taiwanese business people actually do not significantly benefit from Taiwan's foreign aid policy towards Southeast Asia.

¹⁹ Interview with C on 21 May 2003.

²⁰ Lin, Te-Chang, A Comparative Study of the Foreign Aid Policies across the Taiwan Strait, Taipei: Zhengwen, 1999. (林德昌, 海峽兩岸援外政策之比較研究, 台北: 成文, 1999)

8.2.3 Summary of the research contribution

After I enrich 'levels of analysis' by emphasising the roles of Taiwanese business people in Taiwan's economic diplomacy, this thesis thus makes significant contributions to international relations as a discipline beyond the account of Hollis and Smith. The bottoms up momentum of Taiwanese business people in post-Cold War era should not be curbed. Chapter 7 of this thesis extends the theory of Shaun Breslin on regionalisation and globalisation to Vietnam and East Asia as a whole. This thesis, therefore, also contributes to globalisation as a general rule. This is another important contribution to international political economy on the whole.

This thesis has also contributed to analyse Taiwan's diplomacy from an economic perspective, thereby making up for the insufficiencies of those conventional approaches which have tended to focus exclusively on the political and military dimensions. Looked at from the bottom up, explanations in terms of the decisions and actions of Taiwanese business people seek to understand their influence on the international political economy beyond Taiwan *per se*. The activities of Taiwanese business people entail significant economic implications, thus becoming a special object and source of explanation and analysis. Taiwanese business people are a distinct source of shoving and shaping forces, playing alongside those at the structural level. This also demonstrates that it is not sufficient to carry out one's analyses exclusively from the perspective of states and political elites. The bottom-up influence of Taiwanese business people cannot be ignored. Conversely, no analysis

that concentrates exclusively on the activities of Taiwanese business people can hope to provide a sufficiently comprehensive picture of Taiwan's economic diplomacy. Only a study that combines all three levels of analysis can hope to provide a truly comprehensive panorama.

This dissertation is the first study in international relations to integrate an analysis of the international system, decision-making at the state level, and the initiatives of the business community in the development of Taiwan's economic diplomacy. For this reason this thesis makes an important research contribution to a study of Taiwan's economic diplomacy and Southward Policy. In so doing, the thesis contributes an important empirical study to the literature and also contributes to the development of a theoretical framework of economic diplomacy by employing a combination of all previous approaches. Three levels of analysis are employed: changes in the international system, contradictory decision-making at the governmental level, and the efforts of political elites and business networks. It thereby creates a new approach to current studies of political and economic practices in Taiwan's diplomacy. Furthermore, the thesis demonstrates how awareness of political economy can relate to the understanding of the inconsistent and auxiliary roles of governments (while admitting that go famous Western brands and marketing, raw materials from all over the world, Taiwanese capital and management, and cheap labour and land in China and Vietnam.

8.2.4 What do we learn from Taiwan?

In the post-Cold War era, the developmental state theory discussed in Chapter 2 needs to be modified. The role of the state is sometimes limited and not dependable. However, Taiwanese business people are more clear-sighted. The state should not mobilise Taiwanese business community and ask them to follow the agenda of the state. Nor can official relations and high politics, including security, be the only consideration. The state must recognise that the Taiwanese business people play a major role in Taiwan's economic diplomacy, and provide information, infrastructure and business opportunities to the Taiwanese business community. The Taipei government can only warn Taiwanese businesses where the risks are, but not forbid them to go anywhere.

In terms of cross-Straits relations, Taiwanese businesses can serve as a buffer and an intermediary. Taiwanese business people can also pass messages for national leaders on both sides in order to keep information transparent and lessen the extent of misunderstanding and conjecture on the two sides. Relations across the Taiwan Straits should not follow a set model, but should wade across the river by feeling for the stones (摸石過河).

In the future, the Taiwanese government should try to meet the needs of the Taiwanese

business community and take initiative in concluding double taxation agreements, international trade agreements, and investment guarantee agreements. Foreign aid to other countries ought to be evaluated in terms of individual projects. Foreign aid should also be assessed from the perspective of economics and be based on loans that can be recycled and used again in the future. Thus, foreign aid plans will be feasible in the long term.

8.3 Towards the Future

8.3.1 The lessons of this thesis

What lessons does this thesis offer, and for whom? Firstly, all business people — especially, of course, Taiwanese business people. They complain with a sigh that the Taiwanese government has been sleeping and does not help at all.²¹ Even in these discouraging circumstances, they should not flinch from their primary purpose — making profits — in spite of a governmental system whose policies vis-à-vis the business community have seemed to combine neglect and even hindrance. They should not be too timid to pursue their ambitions, even when these ambitions are against the policy of the government. Only when they can make profits can the businesses be competitive and further their long-term aims. Although this is clear to most business people, many of them are diffident when they are accused by the government of failing to adhere to its policies and directives.

Secondly, there is a lesson for decision-makers — especially the elites of the Taipei

²¹ Interview with S on 3 March 2002 in Taichung.

government; they ought to adopt a more liberal attitude towards the business community, since networks made up of enterprises and business people are becoming increasingly more important economically than states. Only when the interests of business people are maximised is the national interest best fulfilled. The institution of the Taiwanese government has to be consistent, which also means that double-track or multi-track decision-making has to be avoided.

8.3.2 Future Research Directions

This thesis comprises only an initial and limited study, which needs to be developed further in the future. In terms of the three levels of analysis, very few scholars have enquired about how these levels relate to the practice of dividing the international system up into political, economic, military and societal sectors. The discussion of three levels of analysis contained herein is centred mainly on the political and military fields, and thus ignores possible connections with other increasingly important bodies of international relations research areas (e.g. the international political economy, historical sociology) that deal with the economic and societal fields. Although this thesis has been the first attempt to place emphasis upon the economic perspective among the three levels of analysis (business people — individual level; economic policies — state level; and prominence of economic issues in the Post-Cold War era — international system level) in Taiwan's economic diplomacy, much remains to be done; other core issues and concepts are still poorly understood, and many serious questions remain unanswered.

In order to complement the findings of this study, further research on the practices of economic diplomacy in the Philippines and Indonesia in particular would be essential. China and Taiwan are now members of the WTO.²² China is now engaging more with its neighbours, especially though its relations with the ten-member Association of Southeast Asian Nations (ASEAN). On 3-4 November 2002, China and ASEAN established an agreement to move towards a common Free Trade Area (FTA), with the lowering of Southeast Asian tariff barriers spread out between the most developed economies (in 2010) and the least advanced (in 2015). What will be the ultimate ramifications of these developments? Will Taiwan be marginalized? Or instead, will Taiwan benefit and strengthen its role to become an APROC? Taiwanese business people are dynamic in China, Taiwan and Southeast Asia, but how will they exert their influence and survive in the new economic conditions being created by progress towards the FTA? Will they change the pattern of their investment? Some Taiwanese business people in Shanghai are changing their identity from Taiwanese to Chinese, while struggling to somehow keep their Taiwanese characteristics.²³ To what extent and in what way will such developments influence Taiwan's economic diplomacy? The double-track decision-making of the Taipei government very often leads to contradictory policies. In this thesis, the author has largely concentrated on the contradictions and conflicts between the presidency and the cabinet, but more in-depth research on the double-track decision-making of the Taipei government

²² Robert Ash & Heike Holbig, ed., China's Accession to the World Trade Organization – National and International Perspectives. London: RoutledgeCurzon, 2002. This book includes not only the economic impact, but also the political, social and legal implications of Chinese membership of the WTO.

²³ Tse-Kang Leng, "Economic Globalisation and IT Talent Flows Across the Taiwan Straits", Asian Survey, Vol. 42, No. 2, 2002, p. 233.

should no doubt be conducted. For instance, Vincent Siew (a former premier) has headed a four-member economic advisory panel. This is again another economic 'institution' created under the leadership of President Chen Shui-bian in order to boost Taiwan's economy. Is this institution really necessary? How is this complementary or contradictory to the interests and perspectives of the cabinet? Is it necessary for Taiwan to overhaul its institutions in order to devise consistent policies? For example, the presidency will sometimes make contradictory policies against the cabinet. However, the Presidency is not responsible for the Legislative Yuan. What kind of system will be beneficial to Taiwan's diplomacy and political economy as a whole? Is it essential to amend the Taiwanese constitution?

Finally, security has recently once again become a crucial issue of international social science and policy agendas. States in the past have endeavoured in theory and practice to exercise jurisdiction dimensions both within and between their territorial borders. However, globalisation is now closely connected with security issues.²⁴ Taiwanese business people are promoters of regionalisation and globalisation in East Asia, involving themselves in cross-border activities. Therefore, it would be also interesting to do research on how Taiwanese business people impact security issues in East Asia as a whole as well as individual states.

²⁴ Christopher W Hughes, "Reflections on Globalisation, Security and 9/11", CSGR Working Paper No. 105/02, August 2002.

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