

APEC as a Regime for Taiwan's Interdependence with the United States and Mainland China

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In this paper, it will be argued that Taiwan's interdependence with the Asia-Pacific Economic Cooperation (APEC) forum will be consolidated only if it can strike a balance between political and economic relations with the United States and mainland China. The economic development of Taiwan provides a material base for its cooperation with APEC. To utilize its economic strength in a regional setting, it must maintain the seesaw balance of its relations with Washington and Beijing in a way that will not hamper its striving for internationalization. This paper, therefore, details to what extent that it has achieved the balance.

Keywords: cooperation; engagement; interdependence; internationalization; regime

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The marriage between Taiwan and the Asia-Pacific Economic Cooperation (APEC) forum in 1991 harmonized Taiwan's enormous economic capability with its goals for internationalization. This move enabled it to extend its trade activities with member countries as well as aid its painstaking endeavor to achieve higher international status in the long run. The more Taiwan integrates with regional organizations, the more its international political status can be secured. Taiwan's position and connections with APEC therefore serve as a good testing point for its internationalization, with the support of gigantic economic backup.

The importance of interdependence and economic cooperation was stressed by recent developments, as People's Republic of China

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(PRC) President Jiang Zemin announced a large reduction on tariffs of most imported goods¹ in the November 1995 Osaka summit. This move has two profound implications. First, China will rely on this trump card to increase its possibility of joining the World Trade Organization (WTO). Second, the tariff cut was undeniably initiated by the rules and binding forces of international regimes (WTO, APEC, the United Nations, etc.), which have modified, recontextualized, and changed the foreign policies of member countries.

APEC was established, with strong initiatives from the Australian government, in November 1989, a year marked by the demise of socialism in Eastern Europe and the beginning of the post-Cold War era. Mainland China, Taiwan, and Hong Kong joined APEC in 1991. The September 1992 APEC summit held in Bangkok was highlighted by an Eminent Persons Group which strived to "enunciate a vision for trade in the Asia-Pacific region,"² and a successful conference followed suit. A Seattle summit in November 1993 crystallized the intense cooperation among member countries in preparing for future integration.³ A subsequent summit in Bogor, Indonesia paved the way for the development of a free trade area by the year 2010 (for developed countries) or 2020 (for developing countries).⁴ Currently, APEC has eighteen members⁵ which comprise half the world's gross national product (GNP) and generate more than 40 percent of world trade.⁶

The most recent APEC meeting took place immediately after U.S. general elections in November 1996 and was held in the Philippines. Some initiatives were made, particularly in the reduction of tariffs on information technology products and the establishment of the "Manila Action Plan." U.S. President Bill Clinton was the chief advocate for a comprehensive plan of the tariff reductions, with free trade in computers and telecommunications projected by the year 2000.⁷ In

¹*The Honolulu Advertiser*, November 20, 1995, 1.

²United States Information Services (USIS), *New Release*, November 23, 1993, 1.

³*China News Digest* (News Global), November 20, 1993. See also *Far Eastern Economic Review*, December 2, 1993, 12-14.

⁴Nobutoshi Akao, "Strategy for APEC: A Japanese View," *Japan Review of International Affairs* 9, no. 3 (Summer 1995): 169.

⁵They are: Australia, New Zealand, the United States, Japan, South Korea, Canada, the ASEAN (except Vietnam), China, Taiwan, Hong Kong, Mexico, Papua New Guinea, and Chile.

⁶USIS, *News Release*, November 1, 1993, 2.

⁷*International Herald Tribune*, November 29, 1996, 1, 4.

addition, the Manila Action Plan called for a 92-point statement in the areas of economic and technical cooperation.⁸

As a forum for exchanging opinions, APEC has achieved at least three major functions. First, it has encouraged the incentive for cooperation and coordination in terms of a collective trade policy. Second, it has redefined and aggregated the diffuse interests of different countries, as individual countries' wants are being rearticulated in a more manageable fashion. Finally, the achievements that APEC has facilitated can be the building blocks for nurturing further cooperation in larger projects such as the WTO.

Taiwan's economy is robust and consolidated: its foreign reserves reached US\$84.9 billion in March 1994,⁹ and its gross domestic product (GDP) growth rate in the same year was 6.2 percent, with zero foreign debt.¹⁰ Economically, Taiwan's relations with Asian countries have been intensifying. For instance, the major countries comprising the Association of Southeast Asian Nations (ASEAN), including Indonesia, Malaysia, the Philippines, and Thailand, have received the largest share of Taiwan's investment in manufacturing industries.¹¹ Moreover, from 1989 to 1993, Taiwan and ASEAN member countries witnessed a gradual increase of intra-industry trade.¹² In 1993, the trade dependency ratio between Taiwan and APEC was 73.3 percent,¹³ indicating that both of them have become mutually interdependent in trade activities. More importantly, Taiwan has become the fourteenth largest trading country in the world.¹⁴

Militarily, Taiwan is at the mercy of a possible military attack from the mainland. The PRC's missile tests between July and August 1995 north of Taiwan (hairpin-close to its coast on a world-map scale) clearly portrayed the Chinese government's wrath with Republic of China (ROC) President Lee Teng-hui's visit to his alma mater, Cornell

⁸*South China Morning Post* (Hong Kong), November 24, 1996, 1.

⁹*Asiaweek* (Hong Kong), March 30, 1994, 82.

¹⁰*Ibid.*, 82.

¹¹Yu Chin Chang, "Taiwan's Direct Investment in ASEAN: The Impacts on Trade" (M. Phil. thesis, Chinese University of Hong Kong, 1995), 23.

¹²*Ibid.*, 89.

¹³ROC Ministry of Finance Department of Statistics, *Zhonghua minguo Taiwan diqu jinchukou maoyi tongji yuebao* (Import and Export Trade Statistical Monthly Report, Taiwan Area, ROC), 1993.

¹⁴Gary Klintworth, "China's Evolving Relationship with APEC," *International Journal* 50, no. 3 (Summer 1995): 503.

University.¹⁵ Faced with this potential threat from the mainland, the ROC government's immediate response was to consider rearmament, as it bought more Patriot anti-missile defense systems from the United States and tried to develop a satellite network to reinforce its defensive capability.¹⁶

Nevertheless, these short-term measures cannot change the asymmetrical military establishments between Taiwan and mainland China. For instance, mainland China has an army of 2.2 million, 4,500 combat aircraft, and most important of all, nuclear capability, while Taiwan has an army of 289,000, 400 combat aircraft, and no nuclear capability.¹⁷ Although it is limited in conventional forces, Taiwan remains under the United States' military umbrella due to the Taiwan Relations Act (TRA) signed on April 10, 1979.¹⁸ The TRA enables the United States to supply armaments to Taiwan for a "sufficient self-defense capability."¹⁹ Given the support of the TRA, then, a better alternative to enhance Taiwan's international political power would obviously be to skillfully maintain a balance between Taiwan's economic capability (as a tool to offset its military inadequacy) coupled with the United States' security support. A close connection with APEC was thus logical and feasible.

In order to enjoy a happy marriage with APEC, Taiwan has to overcome three major challenges. First, it must determine to what extent that APEC, as a regional regime, can actualize its internationalization through interdependence and cooperation. Second, relations with the United States should be enlarged in the sense that Taiwan is allowed, albeit tacitly, to gain higher international status. Finally, Taiwan's international political status has been (however reluctantly) affected by mainland China, as Taiwan is still regarded as a renegade province.

According to Deng Xiaoping's comment on June 26, 1982, the formal position of the mainland on the Taiwan issue is that there cannot be "complete self-determination"; however, internal and

¹⁵*Far Eastern Economic Review*, September 14, 1995, 22.

¹⁶The Economist Intelligence Unit (London), *Country Report: Taiwan*, Third Quarter 1995, 8.

¹⁷*South China Morning Post*, November 4, 1995, 15.

¹⁸Thomas B. Gold, *State and Society in the Taiwan Miracle* (New York: M. E. Sharpe, 1986), 99.

¹⁹*Ibid.*, 107.

municipal policy has been left to the Taiwan people's jurisdiction.²⁰ In the case of Taiwan's internationalization process and its international status, the mainland government has been extremely cautious. Immediately after President Lee Teng-hui's visit to Cornell University, the *People's Daily* and the New China News Agency (NCNA, Xinhua) released four serious personal criticisms of Lee and warned that the Taiwan independence movement would lead to consequences from which it would be impossible to return.²¹ The mainland government demonstrated its resolve by launching continuous military exercises in conjunction with Taiwan's first direct presidential election in March 1996.

Therefore, it would behoove the Taiwan government to pursue economic development and internationalization through substantial political skill at the negotiation table as well as expanding trade and economic relations. Moreover, this salient movement toward internationalization will not create the wrong impression of seeking independence (from the mainland's point of view). These are the major points that this author will substantiate throughout this paper.

The paper will be divided into six sections. To begin, I will argue that APEC represents a regime that can facilitate Taiwan's internationalization process, as it encourages high interdependence and cooperation through economic activities in the Asia-Pacific region. In connection with Taiwan's global reach, the second part of the paper gives more concrete examples of its pursuit of international status. The third section of the paper examines the special security and economic relations between Taiwan and the United States, and the following section analyzes the subtle economic and political relations between Taiwan and mainland China. The penultimate section extrapolates foreign policy implications from the perspective of quadrangular relations, specifically in light of future issues such as WTO membership and the imminent return of Hong Kong to China in 1997.

Interdependence and Regime Establishment Between Taiwan and APEC

APEC's use of interdependence is compatible with Taiwan's

²⁰ *Deng Xiaoping wenxuan* (Selected works of Deng Xiaoping), vol. 3 (Beijing: Renmin chubanshe, 1993), 30.

²¹ *Ta Kung Pao* (Hong Kong), July 24, 1995, A2; July 25, 1995, A2; and July 27, 1995, A1; *Wen Wei Po* (Hong Kong), July 26, 1995, A1.

pace of economic development and cooperative attitudes in the Asia-Pacific region. According to Andrew Elex, "APEC can become increasingly effective in shaping the global economic agenda. By bridging the Pacific, APEC can provide a nonconfrontational, high-level forum to identify the strong common global economic interests of East Asia and North America."²²

In an article in the *American Economic Review*, Duk Choong Kim provides five scenarios for the future of the Asia-Pacific region: namely, the Yen Bloc, the Beijing Bloc, the Western-Pacific Community, the Pan-Pacific Community, and the Cooperative Asia-Pacific subgroup.²³ The first and second scenarios are quite unrealistic since they are dominated by a single country's hegemonic power. In addition, they neglect the existing economic strength of the United States. According to Kim's argument, the remaining three scenarios are more likely to be the future trend of Asian economic and political development, especially the last scenario, the Cooperative Asia-Pacific subgroup.²⁴ He notes, "Reality is a convincing argument, and the truth is that regionalism is happening in the Asia-Pacific region because it fits contemporary reality."²⁵

What is the contemporary reality? First, the formation of the European Union has provided a model for countries in the Asia-Pacific region to act closely together, either in individual development or regional cooperation. Second, the ending of the Cold War has paved the way for further economic development and the strengthening of countries' drives to cooperate. Third, the hegemonic power of the United States is changing. Although one might argue that this is not the case, others foresee the United States' downfall in many concrete facts and historical evidence.²⁶ Finally, mainland China's reform and opening-up policies, the successful Asian newly industrialized

²²Andrew Elex, "Trade Policy Options for the Asia-Pacific Region in the 1990s: The Potential of Open Regionalism," *American Economic Review* 82, no. 2 (May 1992): 74.

²³Duk Choong Kim, "Open Regionalism in the Pacific: A World of Trading Blocs?" *ibid.*, 80.

²⁴*Ibid.*, 81.

²⁵*Ibid.*

²⁶There are two conflicting viewpoints on the change of the United States' hegemonic power. Joseph S. Nye, Jr. is optimistic. See Joseph S. Nye, Jr., *Bound to Lead: The Nature of American Power* (New York: Basic Books, 1990). Paul Kennedy argues from the historical development that the hegemonic power of the United States is trusted by other countries. See Paul Kennedy, *The Rise and Fall of the Great Power* (London: Unwin/Hyman, 1988).

economies (NIEs), and Japan's predominant economic power have given the world a glimpse of the world's future economic and political changes.

These changes require a realistic and successful convergence among different countries' foreign policy goals. The traditional high politics-low politics hierarchical structure in foreign policy agenda settings has weakened.²⁷ Many areas originally regarded as "domestic" have become more important as the world economy has become more interdependent. According to Robert O. Keohane and Joseph S. Nye, Jr., the nature of international relations is highly interdependent.²⁸ Although both authors would not regard power politics as obsolescent, the latter's forms and instruments are being replaced by "complex interdependence,"²⁹ which includes three factors. First, there is an increase of channels to express influence and relations through "interstate" or "transnational" organizations.³⁰ Their ideas of "multiple channels"³¹ reinforce Karl Deutsch's theory of integration arising from better and more intense communication among nations.³² James Dougherty and Robert Pfaltzgraff, Jr. note that "peoples become integrated as they become interdependent,"³³ and the use of force in settling disputes becomes a secondary option.

Second, complex interdependence in economic as well as monetary issues allows "smaller and poorer states" to use "international organization as a means of agenda setting and linkage in political bargaining."³⁴ Taiwan's commitment in APEC (as an international regime) has been greatly motivated by the possibility of airing its opinions and conducting international communication in an open forum.

Third, traditional gun-boat policies are "irrelevant"³⁵ in resolving

²⁷Robert O. Keohane and Joseph S. Nye present two cases of monetary and ocean regimes to illustrate their ideas of interdependence. See Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence*, 2nd edition (New York: Harper Collins Publishers, 1989).

²⁸*Ibid.*, 8-11.

²⁹*Ibid.*, 23.

³⁰*Ibid.*, 24-25.

³¹*Ibid.*, 24.

³²James E. Dougherty and Robert L. Pfaltzgraff, Jr., *Contending Theories of International Relations: A Comprehensive Survey*, 3rd edition (New York: Harper Collins Publishers, 1990), 435-37.

³³*Ibid.*, 435.

³⁴Keohane and Nye, *Power and Interdependence*, 120.

³⁵*Ibid.*, 25.

problems generated from economic and trade issues. Military means are becoming less and less workable, if not impossible, when trade and economic issues are involved. The post-Cold War atmosphere has also encouraged the use of economic leverage in superseding military hegemony.

Hence, APEC monitors the economic development, trade activities, and market openness of its member countries, with a spirit of cooperation. Commonly acknowledged norms and regulations that govern the behavior and relations among participants have been created. Currently, APEC relies on "consensus"³⁶ and member countries' own initiatives for discussing free trade areas and tariff reductions. The emphases on voluntary action have created genuine cooperation and realized the definition of interdependency. The 1995 APEC summit also put forward a plan to strengthen the patent systems of developing countries and industrial product standards.³⁷ In the step-by-step process to reduce differences among member countries in terms of standardization, APEC has thus been succeeding.

Taiwan's Evolvement with International Organizations

According to the *Yearbook of International Organizations 1996/97*, Taiwan has gained membership in more than 1,248 international governmental and nongovernmental organizations.³⁸ Some are well known, such as the Asian Development Bank (ADB), the Asian Development Fund (ADF), the Pacific Basin Economic Council (PBEC), and the Pacific Economic Cooperation Council (PECC). Some are specialized, such as the International Seed Testing Association (ISTA) and the International Sericultural Commission (ISC).

Significantly, the equal status of Taiwan and mainland China in APEC (both having the same ministerial status)³⁹ has paved the way for a more independent economic policy as well as formal relationships with member countries. Moreover, APEC's economic nature

³⁶Ippei Yamazawa, "Implementing the APEC Bogor Declaration," *Japan Review of International Affairs* 9, no. 3 (Summer 1995): 180.

³⁷*Wall Street Journal*, November 16, 1995, A17.

³⁸Union of International Associations, ed., *Yearbook of International Organizations*, vol. 2: 1996/97 (Munich: K. G. Saur, 1996), 1392-1400.

³⁹Klintworth, "China's Evolving Relationship with APEC," 505.

favors Taiwan's strong economic structure and its close connection and integration with Asian trade activities. More recently, the Taiwan government boldly offered a US\$1 billion donation to the United Nations in return for membership.⁴⁰ However, the gesture resulted in China accusing Taiwan of "trading money for principle."⁴¹ This ultimately abortive attempt indicates that Taiwan is actually playing in the international political arena by using its economic advantages to "purchase" memberships from international organizations with strong status.

The Enlargement of Taiwan-U.S. Relationship

According to Winston Lord, U.S. Assistant Secretary of State for East Asian and Pacific Affairs, the formal position of the United States on the Taiwan issue will be "friendly but unofficial."⁴² In terms of relations with China, engagement and enlargement remain the principles, as conveyed by Joseph S. Nye, Jr., the former Assistant Secretary of Defense for International Security Affairs.⁴³ Relations between the United States and Taiwan are still governed by the TRA and the three joint communiqués.⁴⁴ Nevertheless, to fully understand U.S.-Taiwan relations, we must begin with some historical facts.

Taiwan and the United States have consolidated their cooperation in many facets. Militarily, U.S. President Harry S. Truman's launching of the Seventh Fleet in 1950 demonstrated the United States' determination to oppose communist attempts at occupation.⁴⁵ This move also intensified hostile feelings between the United States and mainland China, particularly in the late 1950s.⁴⁶ Further twists and turns took place when mainland China and the United States

⁴⁰*Country Report: Taiwan*, Third Quarter 1995, 10.

⁴¹*Ibid.*

⁴²"Lord: U.S. Seeks to Engage, Not Contain China," *USIS Foreign Policy Backgrounder*, July 5, 1996, 1.

⁴³Joseph S. Nye, Jr., "The Case for Deep Engagement," *Foreign Affairs* 74, no. 4 (July/August 1995): 94.

⁴⁴"Lord: U.S. Seeks to Engage, Not Contain China," 5.

⁴⁵Simon Long, *Taiwan to 1993: Politics Versus Prosperity*, Special Report no. 1159 (The Economist Intelligence Unit, 1989), 14.

⁴⁶John W. Garver, *Foreign Relations of the People's Republic of China* (Engle Cliffs, N.J.: Prentice-Hall, 1993), chap. 2.

bridged their gap through President Richard Nixon's February 1972 visit to China, which resulted in the Shanghai Communiqué. Eventually, U.S.-Taiwan relations were "denormalized" by 1979 when the PRC and the United States established formal diplomatic relations. The United States embassy in Taipei was "degraded" into the American Institute in Taiwan (AIT), but has still continued to function as an unofficial link in foreign relations. In addition, both countries' political relations were solidified in the TRA, which has been in effect since 1979. The significance of the TRA, according to Harry Harding, is that "from the Chinese perspective, [it] simply perpetuated the American commitment to the island's security in a slightly different form."⁴⁷

The TRA has become an instrument for the United States in manipulating its China policies. By the same token, it has also bolstered Taiwan's security and inevitably increased its drive for democratization at home and internationalization abroad. The TRA has been a thermometer to test the two sides' relations, and recent indications suggest that closer relations have indeed been reached. Taken together with the following reasons, they hint at enlarged future relations.

First, the aforementioned TRA has been upgraded during the Clinton administration. The 104th Congress passed a bill on April 6, 1995 which added section 19, clearly declaring that "there are no legitimate foreign policy grounds for preventing members of the government chosen by the people of Taiwan from making private visits to the United States."⁴⁸ Apparently, ROC President Lee Teng-hui's visit to Cornell University was based on this amendment.

Second, according to Michel Oksenberg, the United States government will not allow "any unilateral action by Washington, Beijing or Taipei to alter this framework—such as through threats or use of force, excessive arms purchases or seeking change in formal status—would jeopardize American objectives."⁴⁹ These objectives include maintaining a peaceful Asia-Pacific region and fostering the economic growth of mainland China and Taiwan.

⁴⁷Harry Harding, *A Fragile Relationship: The United States and China Since 1972* (Washington, D.C.: The Brookings Institution, 1992), 113.

⁴⁸Section 1, Public Law 96-8 (22 U.S.C. 3301-3316), "Taiwan Relations Act," Section 19. More details on U.S.-Taiwan relations can be located in Stephen P. Gilbert and William M. Carpenter, eds., *America and Island China: A Documentary History* (New York: University Press of America, 1989).

⁴⁹*The Honolulu Advertiser*, November 12, 1995, B4.

Table 1
The United States Trade Balance in May 1994

Countries/Areas	(in US\$ Million)		
	Bilateral balance	Export	Imports
Hong Kong	232	935	703
South Korea	-298	1,347	1,645
Singapore	-118	1,150	1,268
Taiwan	-932	1,268	2,200
Total	-1,116	4,700	5,816

Source: United States Information Service, *News Release*, July 21, 1994, 3.

Finally, Taiwan's democratization and political openness have provided it with stronger bargaining power in requesting support from the U.S. Congress for military intervention, as in the case of a confrontation with mainland China.⁵⁰ Theoretically speaking, a belief in democracy's importance is shared by both the United States and Taiwan. When outside forces are perceived as jeopardizing the common ideal, therefore, the U.S. government is impelled to react appropriately because, according to Judith Goldstein and Robert O. Keohane, "once ideas become embedded in rules and norms—that is, once they become institutionalized—they constrain public policy."⁵¹

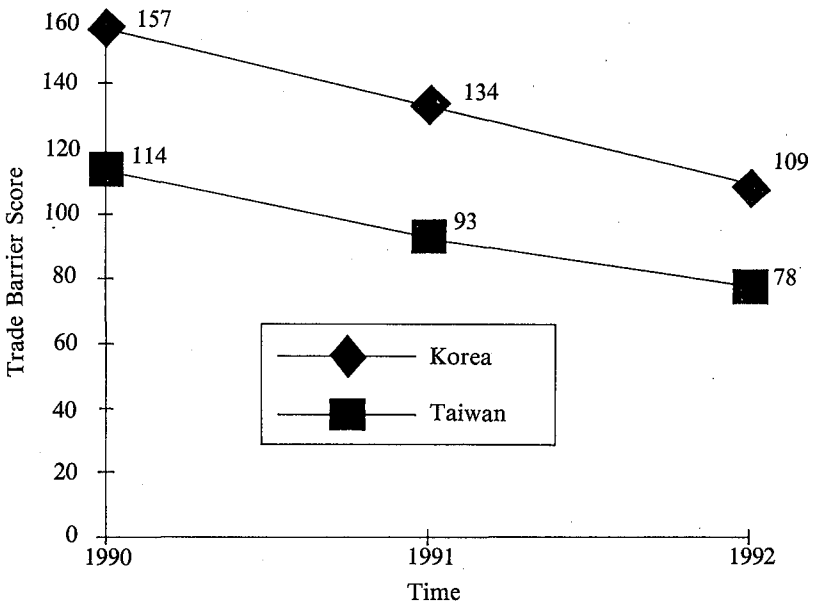
In terms of economics, Taiwan is the biggest United States importer among the Asian NIEs. Table 1 shows the huge U.S. trade deficits with Asian NIEs.

Obviously, table 1 indicates that Taiwan relies greatly on the United States' support. Although it is understandable that the bilateral trade may reflect the political implications of their mutual relationship, it also emphasizes how Clinton's Asian economic policy has become more realistic and significant. Stressing cooperation by using intergovernmental organizations (IGOs) may be a future policy orientation.⁵² The end of the Cold War gave the United States (as well as Asia) an opportunity for peaceful development, and Clinton

⁵⁰*South China Morning Post*, November 4, 1995, 15.

⁵¹Judith Goldstein and Robert O. Keohane, "Ideas and Foreign Policy: An Analytical Framework," in *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*, ed. Judith Goldstein and Robert O. Keohane (Ithaca, N.Y. and London: Cornell University Press, 1993), 12.

⁵²Patrick G. Marshall, "U.S. Policy in Asia," *The CQ Researcher* 2, no. 44 (November 27, 1992): 1025-48.

Figure 1**Taiwan and South Korean Trade Barrier Score Toward the United States, 1990-92**

Source: Chih-jen Emile Sheng, "Content Analysis of the U.S. Attitude on Free Trade Toward South Korea and Taiwan," *Issues & Studies* 29, no. 7 (July 1993): 104.

has noted that APEC is a "vehicle for liberalization for all of the nations in the region."⁵³

Therefore, if Taiwan relies on the United States and APEC is important to the United States' economic policy, the relaxation of trade barriers in Taiwan would be a good gesture to the United States (see figure 1).

On the one hand, the relaxation of Taiwan's trade barriers may ease tensions with the United States in terms of the total trade deficits (see table 1). On the other hand, less trade barriers and a more open market would help Taiwan promote its image in APEC. The path toward a free trade area in the Pacific region could be shortened by such individual efforts in reducing tariffs and other protective obstacles.

Finally, we should note that "it takes two to tango." The engagement between Taiwan and the United States has not resulted

⁵³Winston Lord, "Prosperity in the Pacific," *Far Eastern Economic Review*, November 11, 1993, 23.

solely because of either side's dependence. It would be fairer to say that changes in the world as well as the structural alteration of the United States' economy have ignited APEC's rapid growth and the maintenance of Taiwan's position in the organization.⁵⁴

Complex Relations Between Taiwan and Mainland China

The relationship between Taiwan and mainland China is complicated as well as controversial. It is complicated because their relations have interweaved both a long cultural bondage and realistic antagonism. Historically, the bombardment of Kinmen (Quemoy) and other offshore islands in the late 1950s initiated the underlying threat of military attack from Communist China. Still worse, Taiwan lost its seat in the United Nations in the fall of 1971. Nevertheless, this motivated the ROC to regain international status in other areas or through other regional organizations. Internally, Taiwan is running its own government under a democratic system. In terms of military and public administration, it has nearly all the characteristics of a sovereign country, such as an army, military expenditures, taxation, legislative and judicial systems, etc.

Relations between Taiwan and mainland China are controversial because the economic systems, population, and levels of economic development of the two sides are strikingly different (see table 2).

Table 2 illustrates the tangible differences between mainland China and Taiwan. In addition, their intangible elements, such as the people's mentality, the democratization process, political socialization, and international perceptions, are totally dissimilar. The future road to "peaceful unification" depends on genuine and sincere talks, and will likely be a long-term development. If Taiwan's Straits Exchange Foundation (SEF) and mainland China's Association for Relations Across the Taiwan Straits (ARATS) can quickly resume contact⁵⁵ with each other, the gap between the two sides will be bridged more easily.

⁵⁴Robert B. Reich, *The Work of Nations* (New York: Vintage Books, 1992). This book surveys the future orientation of the U.S. economy in connection with changes in global society.

⁵⁵SEF and ARATS were established to settle Taiwan and the mainland's complex issues of unification. The first meeting was held in Singapore in 1993. However, Beijing canceled scheduled meetings after Lee's visit to Cornell, without announcing a date for resumption. See *Country Report: Taiwan*, Third Quarter 1995, 8.

Table 2

Basic Economic Comparison Between Taiwan and Mainland China, 1992

	China	Taiwan
Area ¹ (sq km)	9,599,000	35,989
Population ² (million)	1,174	21
GNP ³ (US\$ million)	405,200	196,830
Per capita GNP ⁴ (US\$m)	345	9,422
GNP growth ⁵	13.4%	6.2%
Gold reserve ⁶ (US\$m)	20,400	84,900
Trade total ⁷ (US\$m)	167,959	153,447
Trade reliance ⁸	41.1	78.0%
Dependency on Taiwan ⁹	3.9%	—
Dependency on China ¹⁰	—	0.5 (5.3)
Literacy rate ¹¹	73.3%	92.4%
People per telephone ¹²	76.9	2.4
People per doctor ¹³	724	910

Notes and sources:

¹William D. Coplin and Michall K. O'Leary, eds., *Political Risk Year Yearbook*, vol. 5 (Syracuse, N.Y.: Syracuse University Press, 1993), data of China and Taiwan from section FS-1.

²Ibid.

³Ibid., data of China and Taiwan from section FS-2.

⁴Ibid.

⁵*Asiaweek*, March 30, 1994, 82.

⁶Ibid.

⁷China's data from *Direction of Trade Statistics Yearbook 1993* (Washington, D.C.: International Monetary Fund, 1993), 5; Taiwan data from ROC Ministry of Finance Department of Statistics, *Zhonghua minguo Taiwan diqu jinchukou maoyi tongji yuebao* (Import and Export Trade Statistical Monthly Report, Taiwan Area, ROC), 1993, 13.

⁸Ibid.

⁹*Zhongguo tongji nianjian 1993* (Statistical yearbook of China 1993) (Beijing: State Statistical Bureau, 1993), 638.

¹⁰*Gang-Ao yuebao* (Hong Kong and Macao Monthly), no. 27 (January 1994): 29-31.

¹¹*Asiaweek*, March 30, 1994, 87.

¹²Ibid.

¹³Ibid.

However, if we look at the two sides' economic relationship in recent years, the picture is more promising, or even astonishing. Economic and trade relations between Taiwan and the mainland have been on the increase, especially since China launched its reform and opening-up policies in 1979. It can be seen from table 3 that bilateral trade between Taiwan and the mainland has been growing gradually.

Table 3

Trade Dependency Ratio Between Taiwan and Mainland China, 1979-94

Unit: %				
Year	Export	Taiwan with China		Total
		Import		
1979	0.13	0.38		0.25
1980	1.19	0.39		0.79
1981	1.7	0.35		1.05
1982	0.88	0.44		0.68
1983	0.63	0.44		0.55
1984	1.4	0.58		1.06
1985	2.04	0.58		2.17
1986	2.29	0.60		1.49
1987	3.7	0.83		1.38
1988	4.38	1.22		2.47
1989	4.38	1.22		2.94
1990	4.88	1.4		3.32
1991	6.12	1.79		4.16
1992	7.72	1.55		4.83
1993	9.25	1.43		5.36
1994*	15.17	1.39		8.3

Note: [*] From January to April.

Source: *Gang-Ao yuebao*, no. 33 (July 1994): 28.

The early 1990s indicate that a better relationship is forming between Taiwan and mainland China. In the first place, their equal status in APEC will contribute to international recognition of Taiwan in future foreign relations.⁵⁶ In addition, equal status has allowed other members to monitor Taiwan's legitimate participation.⁵⁷ Moreover, the huge foreign exchange reserves possessed by Taiwan have been channeled to the mainland. Up to 1995, more than US\$15 billion from Taiwan had been invested in China.⁵⁸ It thus can be seen from the evidence that Taiwan and mainland China have been conducting a colossal trade and economic relationship.

A more subtle argument behind the increase of investment in the mainland is that it could be problematic if the two sides' political

⁵⁶Yu-Shan Wu, "Taiwan in 1993: Attempting a Diplomatic Breakthrough," *Asian Survey* 34, no. 1 (January 1994): 52.

⁵⁷Parris H. Chang, "No Security Without Taiwan," *Asian Wall Street Journal*, July 21, 1994, 6.

⁵⁸*The World in 1996* (London: The Economist Newspaper, 1995), 72.

relationship encounters difficulties. This suspicion is undoubtedly Taiwan's most fundamental concern. Consequently, there has been debate over whether this kind of investment should be limited to the extent that it can be controlled by the Taiwan government.

There are more than simple investment opportunities at stake once the mainland's door has been opened. Calculations must include the economic benefits of different investors, Taiwan's foreign policy initiatives, possible effects of political relations with the mainland, and perceptions of the United States. If economic measures become the dominant foreign policy orientation, one should also weigh the risks of placing nearly all one's eggs in a single basket during a politically sensitive situation.

Quadrangular Foreign Policy Implications

Taiwan's position and relations in APEC in particular and its internationalization process in general will certainly create some far-reaching consequences in the future quadrangular relations with mainland China, the United States, and Hong Kong. Mainland China and Hong Kong after 1997 will be more persistent in using APEC as a stepping stone to enter the WTO and using APEC's functional and institutional values in handling trade and business activities with Taiwan. Although Taiwan and mainland China's economic and political matters have been separated in China's Taiwan policy, the economic leeway provided by the Chinese government in APEC will inevitably enable Taiwan to implant the idea of integration. Such economic integration, according to Ralph C. Bryant, a senior fellow in the Economic Studies Program at the Brookings Institution, will lead to mutual recognition and even strong and active coordination in economic policies and many other agendas.⁵⁹ In the short run, APEC will continue its function of interest aggregation and articulation as well as serve as a forum for initiating new ideas regarding free trade and tariff reductions. In the intermediate term, APEC's mode of policy coordination will engender "multilateral surveillance"⁶⁰ among

⁵⁹Ralph C. Bryant, *International Coordination of National Stabilization Policies* (Washington, D.C.: The Brookings Institution, 1995), 23.

⁶⁰*Ibid.*, 114.

member countries. To a certain extent, being a good member (defined as following the rules and practicing fair trade policies) in APEC will enhance chances of being accepted by the WTO.

Moreover, the post-Cold War atmosphere in the East Asian region has seen the United States encouraging the use of some economic regimes' binding forces to coordinate countries' relations. Taiwan and China's applications for WTO membership have thus harmonized the U.S. comprehensive engagement policy toward China and the continuous commercial and friendly relations with Taiwan. Specifically, China's economic development has given rise to an increasing role in international affairs. The U.S. policy toward China, according to Winston Lord, serves as a guiding principle to facilitate China's involvement in the world activities as well as "to abide by accepted international norms."⁶¹ Nevertheless, the major obstacles to China's application for WTO membership lie in its inadequate market openness, heavy tariffs, and habitual negligence of the international rules. To put it more precisely, U.S. officials have demanded that "Beijing must first reform its banking system, liberalize its financial markets, and publish its still-murky trade regulations."⁶² Since Taiwan's entry to the WTO is subject to China's entrance, policy deregulations in China and market openness are the two major problems that need resolving.

The framework of quadrangular relations among Taiwan, China, the United States, and Hong Kong will be extended when Hong Kong returns to China in July 1997. Hong Kong, under British colonial control, has achieved international standards not only economically but also in its progressive political development. Hong Kong's economy has been characterized by its government's practice of a positive nonintervention policy as well as the hegemonic legacy of the British empire. Nevertheless, the transfer of Hong Kong's sovereignty from Britain to China has captured U.S. interest since, as a U.S. news release comments, "the U.S. has a substantial stake and interest in Hong Kong's future."⁶³ For example, the United States is one of

⁶¹Senate Committee on Foreign Relations, "U.S. Policy Toward China" (Hearing before the Subcommittee on East Asian and Pacific Affairs, 103rd Cong., 2nd sess., May 4, 1994), 4.

⁶²Amy Borrus, "Clinton's U-Turn Won't Mean China Gets a Free Ride," *Business Week*, June 6, 1994, 102.

⁶³USIS, "U.S. Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs June 6 Hearing on Hong Kong," *News Release*, June 7, 1995, 1.

the top five foreign investors in Hong Kong, contributing more than US\$10 billion; the Hong Kong American Chamber of Commerce is the largest in the world; and Americans living in Hong Kong outnumber the British.⁶⁴ Under such circumstances, Winston Lord notes, "the United States will continue to support Hong Kong's participation in international multilateral fora such as APEC and GATT/WTO, as well as to maintain bilateral agreements."⁶⁵

Nevertheless, the United States is still concerned about Hong Kong's economy being subordinated into an outlet of mainland China. If it is not used correctly in constructive trade relations, the long-established openness of Hong Kong's economy could easily degenerate until it becomes a hub of international crime. To a lesser extent, the geographical connection between Hong Kong and the mainland means that it could become the center for transshipment of Chinese products without proper certificates of origin. In a nutshell, the crux of quadrangular relations will rest on the monitoring of Hong Kong under U.S. foreign policy orientations. In terms of China-Taiwan relations, entrepôt trade through Hong Kong will be reduced when Taiwan's plan to entrench itself as an Asia-Pacific Regional Operations Center materializes. However, in response to the existing relations between China and Taiwan, the leverage of U.S. stabilization policies has remained effective.

Conclusion

In conclusion, Taiwan's economic development has facilitated a consistent economic relationship with other countries which have trade, financial, and commercial linkages with Taiwan. These and many other kinds of economic activities, together with the thrust of economic integration in the Asia-Pacific region, have consolidated Taiwan's position and engagement in APEC. Moreover, the use of economic means to realize Taiwan's need of international political status requires the lubrication of the economic and political relationships with the United States and mainland China; communication breeds understanding, while hostile confrontation can result in military

⁶⁴*Ibid.*, 3.

⁶⁵*Ibid.*, 5.

confrontation and foreign policy stalemate. To seize the opportunity for regional growth in the Asia-Pacific region, Taiwan desperately needs to entrench itself in APEC through continuous ministerial meetings and annual conferences, which are the building blocks for establishing a strong family. In fact, not only Taiwan, but all the APEC member countries have profited from building interdependence and cooperation, either in economic gain or diplomatic enrichment. All in all, relations between Taiwan and APEC should resemble healthy family ties, not forceful or short-term cohabitation. In addition, the relations among Taiwan, the United States, and China need to be enlarged and rejuvenated in a way so that cooperation can be perpetuated.