

## The Scrooge Effect: Taiwan's Economic Diplomacy Toward Central Europe, 1988-2005

CZESLAW TUBILEWICZ

*This article examines Taipei's evolving diplomatic goals toward post-communist Central Europe, defined as encompassing Czechoslovakia (the Czech Republic and Slovakia), Hungary, and Poland. It argues that Taiwan pursued economic diplomacy toward Central Europe, aiming at either identifying new diplomatic allies or, if this primary objective proved impossible to achieve, establishing semiofficial "substantive" relations with the Central European nations. It was intended that Taiwanese economic diplomacy in the post-communist region should take the form of trade and aid (i.e., grants, soft loans, investments, technical assistance, and humanitarian aid). In practice, however, it consisted chiefly of promises of economic assistance and occasional soft loans, dispensed in exchange for particular political concessions. Such a quid pro quo policy succeeded in generating "substantive" relations with the region, which engendered neither the political nor economic cost of alienating China. It failed, however, to entice Central European nations into a diplomatic partnership or sustain their support for Taipei's efforts to expand its international space, as such moves would have explicitly recognized Taiwan's sovereignty and provoked diplomatic and economic retribution from China. Given a multitude of unrealized grand economic projects and the relative insignificance of approved economic aid, the Central Europeans were well aware that Taiwan was unlikely to compensate them for any*

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CZESLAW TUBILEWICZ is an Assistant Professor in the School of Arts and Social Sciences, Open University of Hong Kong. He has published widely on Taiwan's relations with the post-communist states. He can be reached at <ctwicz@ouhk.edu.hk>.

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*economic losses they incurred through their support—implicit or explicit, bilateral or multilateral—of Taiwanese sovereignty claims. Taiwanese economic diplomacy in post-communist Central Europe, therefore, demonstrated the limitations of a foreign policy strategy based on negligible economic assistance in advancing Taipei's diplomatic objectives.*

**KEYWORDS:** Taiwan; Central Europe; economic diplomacy; foreign policy.

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Relations between Central Europe (comprising Czechoslovakia/ Czech Republic and Slovakia, Hungary, and Poland) and the Republic of China (henceforth ROC or Taiwan) date back to the interwar period. With the exception of dynamic Czechoslovak economic cooperation with the ROC, however, they were relatively uneventful.<sup>1</sup> The establishment of communist rule in Central Europe and the People's Republic of China (PRC) in the late 1940s set Central Europe on a path of close political, ideological, and economic collaboration with Beijing (北京), while it suspended all contacts with the Kuomintang (KMT, 國民黨; or the Nationalist Party) regime, which had resettled in Taiwan. Given the ideological hostility between the two sides and the resulting absence of any contacts, it is not entirely surprising that Central Europe's relations with Taiwan (or rather their absence) attracted little scholarly attention. Only in the late 1970s, following the ROC government's decision to allow direct trading with nonhostile communist states, did Taiwanese academics begin researching the communist states with the purpose of influencing Taipei's strategy toward communist Europe.<sup>2</sup> Beyond Taiwan, however, the gradual emergence of Taiwanese-Central European relations continued

<sup>1</sup>Apart from exporting arms, electronics, and machinery to the ROC, Czechoslovak companies also built industrial plants in China, among others, a power station in Shanghai (上海), the largest and most modern in the Far East at that time. See I. Bakesova, *Taiwan, Jina Cina* (Taiwan, different China) (Havířov-Praha: Nakladatelství Peter P. Pavlík, 1992), 154-63; and N. Silna and J. Skvaril, *Cínská Lidová Republika* (The People's Republic of China) (Prague: Svoboda, 1988), 460-61.

<sup>2</sup>Pi Ying-hsien and Chao Chun-shan, *Dong'ou guoqing fenxi yu woguo duiwai guanxi* (Analysis of East European national characteristics and the ROC's foreign policy) (Taipei: Research, Development, and Evaluation Commission, Executive Yuan, 1989), 273-79.

to be largely ignored, as most students of Taiwanese foreign policy either relegated Taipei's interaction with the communist and post-communist states to a footnote or, at most, dedicate a couple of paragraphs to the issue.<sup>3</sup> The primary purpose of this article is, therefore, to fill the gap in our knowledge of Taiwan's diplomacy toward Central Europe during the Lee Teng-hui (李登輝) period and beyond. The article will examine the scope and dynamics of, and the factors affecting, Taiwan's diplomatic offensive in Central Europe, paying particular attention to the effectiveness of economic diplomacy in furthering Taipei's diplomatic goals in the post-communist geopolitical arena. It will argue that Taipei resorted to economic diplomacy, primarily in the form of trade, supplemented with promises of economic assistance and occasional soft loans, in order to establish closer—preferably diplomatic or, at least, semiofficial "substantive"—relations with the Central European nations. In the first stage of the Taiwanese diplomatic offensive, Central European nations, all eager to gain access to the ROC's market, tenders, investments, and developmental aid, responded enthusiastically to Taiwanese promises of economic assistance. Yet they soon discovered that Taiwan's promises were rarely honored, while Taipei's *quid pro quo* policy, where economic aid was dispensed in exchange for specific political concessions, gave rise to the political and economic repercussions of alienating China, which appeared significantly more serious than the meager benefits ensuing from their support for Taiwan. Thus, although Taipei—for a negligible financial cost—fostered "substantive" ties with Central Europe in the early 1990s through bilateral offices, cultural and scientific agreements, and visits by government officials and parliamentarians, it failed to generate long-term support from Central Europe for its efforts to expand its international space. Taipei neither won new allies nor convinced Central Europe of the desirability of

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<sup>3</sup>The rare exceptions are Jan Rowinski, "China and Central and Eastern Europe: A New Relationship," *Issues & Studies* 30, no. 2 (February 1994): 50-73; Czesław Tubilewicz, "Promising Eldorado: Taiwan's Diplomatic Offensive in East Central Europe, 1989-1999," *East Asia* 18, no. 1 (Spring 2000): 41-46; and Tang Shaocheng, "The Relations between Poland and China/Taiwan: As Seen from Taiwan," *Acta Asiatica Varsoviensia*, no. 16 (2003): 77-85.

direct political dialogue, official accords, or long-term support in international forums. While they were willing at first to interpret the "one China" principle creatively in Taiwan's favor, by the early twenty-first century the Central European nations had abandoned their maverick policies on Taiwan in favor of strictly unofficial relations with the ROC.

### Economic Diplomacy and Taiwan

Economic diplomacy (經貿外交, *jingmao waijiao*)—defined by David Baldwin as attempts to influence other states or nations, relying primarily on resources, which have a reasonable semblance of a market price in terms of money<sup>4</sup>—falls into two categories: positive (promising or granting specific rights and privileges in order to achieve desired goals) and negative (threatening, withholding, or ending specific privileges or relations, or the imposition of particular constraints). Economic diplomacy is broadly aimed at accomplishing two goals: (1) to enhance domestic economic growth through international economic transactions, and (2) to advance foreign policy goals—be they diplomatic, military, or expressive.<sup>5</sup> It is difficult to separate the political from the economic purposes for which economic instruments are used, as economic diplomacy often serves both political and economic ends.<sup>6</sup>

Taiwan—due to its international isolation—relies primarily on the positive instruments of economic diplomacy, resorting to negative ones only when positive sanctions fail. Diane Kunz sums up positive economic statecraft in the term "trade and aid." Trade relations refer to such benefits as favorable tariff discrimination, granting most-favored-nation (MFN) treatment, tariff reductions, direct purchases, subsidies to exports or im-

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<sup>4</sup>David A. Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton University Press, 1985), 13-14.

<sup>5</sup>K. J. Holsti, *International Politics: A Framework for Analysis* (Englewood Cliffs, N.J.: Prentice-Hall, 1995), 166-67.

<sup>6</sup>John Pinder, "Economic Diplomacy," in *World Politics: An Introduction*, ed. James N. Rosenau, Kenneth W. Thomson, and Gavin Boyd (New York: Free Press, 1976), 314.

ports, granting export or import licenses, or promises of the above. Foreign aid—defined as a concessionary transfer of resources from one government to another—may take the form of direct grants, soft loans, encouragement of private capital exports (investments), technical assistance, humanitarian (relief) assistance, bribery, or promises of the above.<sup>7</sup> David Baldwin asserts that even though negative sanctions have more intrinsic effectiveness than positive sanctions in deterrence situations, the positive sanctions are more likely to have the "spillover effect" of enhancing the recipient state's willingness to cooperate with the donor on other issues. Baldwin also cautions, however, that habitual use of positive sanctions is more likely to encourage blackmail attempts from the recipient states than the habitual use of negative sanctions.<sup>8</sup>

The ROC's use of positive economic diplomacy is aimed at accomplishing two goals: (1) advancing the economic and security interests of Taiwan through establishing and strengthening "substantive" (nondiplomatic) relations with states that matter politically and economically in the Asian and global political economy, and (2) breaking out from diplomatic isolation through maintaining and gaining diplomatic allies among the states where Taiwan's foreign aid can make a difference to the recipients' economic development.

Klaus Knorr has argued that "the power to give foreign aid only has ordinarily uncertain effectiveness and decidedly low utility when used for purposes of coercing other states or establishing a position of unequal influence over them."<sup>9</sup> Students of Taiwan's foreign policy, however, do not see the relationship between aid and Taiwan's diplomatic achievements in such a negative light. They note that, thanks to economic diplomacy pursued in the framework of "flexible diplomacy" (彈性外交, *tanxing*

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<sup>7</sup>Diane B. Kunz, "When Money Counts and Doesn't: Economic Power and Diplomatic Objectives," *Diplomatic History* 18, no. 4 (Fall 1994): 451; and Baldwin, *Economic Statecraft*, 42.

<sup>8</sup>David D. Baldwin, "The Power of Positive Sanctions," *World Politics* 24, no. 1 (October 1971): 32, 36.

<sup>9</sup>Klaus Knorr, *The Power of Nations: The Political Economy of International Relations* (New York: Basic Books, 1975), 205.

waijiao), international isolation has not crushed Taiwan, while foreign aid helped Taipei not only to achieve its foreign policy goals, but also to compete with the PRC in a peaceful way.<sup>10</sup> Many observers, however, could not fail to notice the ineffectiveness of economic diplomacy in keeping allies firmly in the Taiwan camp, as many defected to Beijing, due to dissatisfaction with the level of the ROC's assistance, greater inducements from China, or a combination of both.<sup>11</sup> Various commentators also noted the irrelevance of these small, often impoverished states in international politics and the low political returns alliances with such states had to offer to Taiwan.<sup>12</sup> Above all, however, the critics of Taiwan's economic diplomacy point out its ineffectiveness in addressing Taiwan's greatest diplomatic challenge: Beijing-enforced isolation of Taiwan in international affairs.<sup>13</sup>

<sup>10</sup>Teh-chang Lin, "Taiwan's Foreign Aid: An Instrument of Foreign Policy," *New Zealand Journal of East Asian Studies* 4, no. 1 (June 1996): 77; Wang Chian, *The Republic of China's Foreign Policy 1949-1988: Factors Affecting Change in Foreign Policy Behavior* (Ann Arbor, Mich.: University Microfilms International, 1995), 76; Murray A. Rubinstein, "Political Taiwanization and Pragmatic Diplomacy: The Eras of Chiang Ching-kuo and Lee Teng-hui, 1971-1994," in *Taiwan: A New History*, ed. Murray A. Rubinstein (Armonk and London: M.E. Sharpe, 1999), 462-65; Michael Yahuda, "The International Standing of the Republic of China on Taiwan," *The China Quarterly*, no. 148 (December 1996): 1331; Chen Jie, *Foreign Policy of the New Taiwan: Pragmatic Diplomacy in Southeast Asia* (Cheltenham, UK and Northampton, Mass.: Edward Elgar, 2002), 53. Samuel S. Kim, "Taiwan and the International System: The Challenge of Legitimation," in *Taiwan in World Affairs*, ed. Robert G. Sutter and William R. Johnson (Boulder, Colo.: Westview, 1994), 152; Samuel C.Y. Ku, "The Political Economy of Taiwan's Relations with Southeast Asia: The 'Southward Policy'," *Contemporary Southeast Asia* 17, no. 3 (December 1995): 285; Weichin Lee, "ROC's Foreign Aid Policy," in *Quiet Revolutions on Taiwan, Republic of China*, ed. Jason C. Hu (Taipei: Kwong Hwa Publishing Company, 1994), 346-47; and Francoise Mengin, "The Foreign Policy of the ROC on Taiwan since 1971: An Overview," in *The Republic of China on Taiwan in International Politics*, ed. Marie-Luise Nath (Frankfurt: Peter Lang, 1998), 33-35.

<sup>11</sup>Lee, "ROC's Foreign Aid Policy," 351; and Deon Geldenhuys, *Isolated States: A Comparative Analysis* (Cambridge: Cambridge University Press, 1990), 421.

<sup>12</sup>Yui-sang Steve Tsang, "Calculated Ambiguity: The ROC in International Politics Today," in Nath, *The Republic of China on Taiwan in International Politics*, 42; Gerald Chan, "Taiwan as an Emerging Foreign Aid Donor: Developments, Problems, and Prospects," *Pacific Affairs* 70, no. 1 (Spring 1997): 56; Mengin, "The Foreign Policy of the ROC on Taiwan since 1971," 32; Dan Biers, "Can't Buy Me Love," *Far Eastern Economic Review*, June 28, 2001, 14; Lee, "ROC's Foreign Aid Policy," 331, 350; and Chen, *Foreign Policy of the New Taiwan*, 106.

<sup>13</sup>Tuan Y. Cheng, "Foreign Aid in ROC Diplomacy," *Issues & Studies* 28, no. 9 (September

Most of these criticisms were formulated in the mid to late 1990s, when Taipei launched a campaign to establish relations with Central Europe. President Lee Teng-hui's "flexible diplomacy"—meant to expand Taiwan's official and unofficial relations with various states all over the world, irrespective of their ties with China<sup>14</sup>—celebrated its first achievements as Taipei gained seven new allies in 1989-90, while losing only one. "Flexible diplomacy" played on the ROC's strengths, namely, Taiwan's growing international status as a trading power and major foreign investor. By the late 1980s-early 1990s, Taiwan's economy had grown strong enough to sustain vigorous economic diplomacy. By the early 1990s, the island had the world's second largest foreign exchange reserves, was the world's fourteenth largest trading nation, and the ninth largest investor. Taiwan's per capita gross national product (GNP) exceeded US\$10,000, placing the island twenty-fifth in the world.<sup>15</sup> Full of confidence in the effectiveness of positive instruments of economic diplomacy, the Taiwanese attempted to identify prospective allies in the ruins of Central European communism, or—if that proved unfeasible—"substantive" partners. The island also hoped that the success of post-communist regimes in Central Europe would exemplify to the PRC the benefits of abandoning communism and that the Chinese Communist Party (CCP) would share the European communist parties' fate. Aiding post-communist economies was, therefore, an indirect investment in the peaceful collapse of the CCP. There was also a third dimension to Taiwan's economic diplomacy toward Central Europe: the region was to be transformed into a new export destination in order to offset the losses the Taiwanese traders registered in their long-established

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1992): 78; and Chueiling Shin, "Development of ROC-France Relations: Case of an Isolated State and Its Economic Diplomacy," *ibid.* 37, no. 1 (January/February 2001): 159.

<sup>14</sup>Chiao Chiao Hsieh, "Pragmatic Diplomacy: Foreign Policy and External Relations," in *Take-off for Taiwan*, ed. Peter Ferdinand (London: Royal Institute of International Affairs, 1996), 76; and Linjun Wu, "Does Money Talk? The ROC Economic Diplomacy," *Issues & Studies* 31, no. 12 (December 1995): 31.

<sup>15</sup>Yvonne Yuan, "A Pragmatic Vision. Interview with Fredrick F. Chien, Minister of Foreign Affairs," *Free China Review* 43, no. 2 (February 1993): 18; and Bernard T.K. Joei, "Pragmatic Diplomacy in the Republic of China: History and Prospects," in Hu, *Quiet Revolutions on Taiwan*, 313.

American and Japanese markets.

### Failure of the Primary Objective

For forty years, the Central European nations avoided any direct contacts with Taiwan, adhering to both the letter and spirit of the "one China" policy. Similarly, despite Taipei's 1979 announcement that it would permit direct trading with communist Central Europe and Yugoslavia, Taiwan maintained a principled anti-communist foreign policy, which precluded any relations (including direct trading) with Central European and other communist states. Only in the area of sports did Taipei sanction direct contacts with the Central Europeans, as ROC teams were seen participating in selected sports events in Poland in the late 1980s.<sup>16</sup> When the PRC normalized relations with communist Central Europe in the mid-1980s, the ROC's limited contacts with the Soviet Union's allies were insufficient to challenge the reemerging camaraderie between China and Central Europe.<sup>17</sup> The shift in Taiwanese-Central European ties had to wait until 1988, when the ROC—concerned over the prospects of South Korean and Japanese firms gaining a competitive edge in the communist markets—decided to open direct trade with all Soviet allies, excluding Albania.<sup>18</sup> However, it was the systemic changes in 1989, rather than a gradual relax-

<sup>16</sup>Zuo Ya and Li Fanghua, "Zongdong'ou guojia yu Taiwan de guanxi" (Relations between East/Central Europe and Taiwan), in *Zhongguo duiwai guanxi zhong de Taiwan wenti* (The Taiwan problem in China's external relations), ed. Lu Xiaoheng (Beijing: Jingji guanli chubanshe, 2002), 206.

<sup>17</sup>Central Europe's relations with the PRC followed the trajectory of the Soviet ties with China. When the latter reached their nadir in the early 1960s, the Central Europeans had no choice but to follow suit and distance themselves from China and its socioeconomic experiments. Similarly, when Moscow initiated a policy of rapprochement with China in the early 1980s, Central Europe made concerted efforts to reestablish party relations and revitalize state-to-state cooperation with Beijing. Their efforts succeeded following the official visits to China by the Central European party-state leaders in 1986 and 1987. See Harish Kapur, *Distant Neighbours: China and Europe* (London and New York: Pinter, 1990), 164-70.

<sup>18</sup>Government Information Office, *The Republic of China Yearbook 1989* (Taipei: Kwang Hua Publishing Company, 1989), 239.



ation of economic relations, that accelerated the tempo of Taiwan's interaction with Central Europe. The crumbling of the communist regimes in Czechoslovakia, Hungary, and Poland removed Taipei's ideological prejudices and provided the island with an option to pursue both political and economic goals in Central Europe. The combined effect of the anti-communist euphoria in Central Europe, China's negative image after the June 4th suppression of the student movement, and Central Europe's need for loans and investments created a favorable environment for diplomatic or "substantive" relations between Taiwan and the post-communist states.

As a newcomer to the region, Taiwan was ill-prepared for a victorious campaign in Central Europe. The PRC's ties with Central Europe dated back to 1949, while Taiwanese decisionmakers knew little about Central European history, cultures, and peoples.<sup>19</sup> Similarly, the Central Europeans—denied any objective information about the ROC for over forty years—knew little, if anything, about Taiwan. Finally, Taiwan lacked an organizational structure to deal with Central Europe. The "Central and East European Section" (東歐小組, *Dong'ou xiaozu*) within the Foreign Ministry's Department of European Affairs was set up only in January 1991. Its desk officers could not speak any of the necessary languages and had no relevant expertise.<sup>20</sup> Taipei's initial communication with Central European elites was, therefore, carried out by Taiwanese businessmen, as well as through the ROC's trade offices in Germany and Austria.

Hungary became the testing ground for Taiwan's Central European offensive because of Budapest's courage in the late 1980s in pursuing nonconventional diplomacy and its keen interest in trading with Taiwan.<sup>21</sup>

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<sup>19</sup>Even Foreign Minister Fredrick F. Chien (錢復) perceived post-communist states (including Central Europe) as a homogenous entity besieged by economic disasters and political instability, rather than a diversified group of new democracies, each having its own unique problems. See Fredrick F. Chien, *Opportunity and Challenge: A Collection of Statements, Interviews, and Personal Profiles of Dr. Fredrick F. Chien* (Tempe: Arizona Historical Foundation, 1995), 47, 66.

<sup>20</sup>The ROC Foreign Ministry began sending young diplomats to Central Europe for language training in 1998. In 2004, in the ROC representative office in Warsaw, only one staff member could speak Polish and that was the result of his marriage to a Polish national. Interview with ROC officials, Warsaw, January 29, 2004.

<sup>21</sup>Czeslaw Tubilewicz, "Breaking the Ice: The Origins of Taiwan's Economic Diplomacy

In November 1989, tempted by a soft loan possibly amounting to US\$100 million, the Hungarians agreed to the establishment of an ROC trade office in Budapest.<sup>22</sup> Opened in March 1990, the Taipei Trade Office, nominally staffed by the semigovernmental China External Trade Relations Association (CETRA, 外貿協會), was in practice under the jurisdiction of the ROC Ministry of Foreign Affairs (MOFA), empowered to issue visas and assigned diplomatic privileges. Its expressed purpose was to facilitate economic cooperation with Central Europe; in practice, however, the office was meant to demonstrate to the remaining post-communist states that Beijing tolerated institutionalized relations between its allies and the ROC. It was essential that Budapest should receive a payoff for its courage in initiating semiofficial relations with Taiwan. Otherwise, no other post-communist state would see any benefit in following in Hungary's footsteps. Apart from increasing exports to the ROC, Budapest eyed contracts related to the construction of Taipei's subway system, suggested that Taipei deposit, in Hungary's National Bank, sums exceeding US\$60 million, to bolster its foreign currency holdings, and hoped for the arrival of sizeable Taiwanese investments. A month after the Taipei Trade Office opened, Hungarian bus manufacturer, Ikarus, won a contract to provide Taipei City with commuter buses. The ROC message was unambiguous: economic rewards follow political rapprochement.

In mid-July 1990, in order to strengthen the emerging partnership, a six-member Hungarian National Assembly delegation made the first parliamentary visit from any post-communist state to Taiwan. By the end of the year, more than ten ROC firms were expected to open offices in Hungary.<sup>23</sup> However, these small-scale trading companies invested very little, while exacerbating the growth of Budapest's trade deficit with Taiwan. With no visible benefits from trading, no promised investments, and no deposit in its National Bank, Budapest postponed opening its Taipei bureau.

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towards the Soviet Union and Its European Allies," *Europe-Asia Studies* 56, no. 6 (September 2004): 893.

<sup>22</sup>*Lianhe bao* (United Daily News) (Taipei), November 22, 1989.

<sup>23</sup>*Jingji ribao* (Economic Daily) (Taipei), August 2, 1990.

In early 1991, Taipei made a preliminary agreement to deposit US\$50 million into Hungary's National Bank in return for permission to rename its Budapest office, raise the mission's status, and elevate the exchange of delegations to higher—presumably ministerial—level.<sup>24</sup> In July 1991, Taipei City finalized the purchase of 560 Ikarus buses for over US\$43 million. This constituted Taiwan's first large-scale politically-motivated import from any former communist state. However, the Taiwanese complained about the buses' quality, forcing modifications at Ikarus' own expense and souring Taiwanese-Hungarian relations.<sup>25</sup>

Following the Taipei Trade Office's inauguration in Budapest, MOFA contacted other post-communist countries, with Czechoslovakia and Poland expressing keen interest in establishing reciprocal offices. The rise of two anti-communist leaders, Vaclav Havel in Czechoslovakia and Lech Walesa in Poland, to the highest state offices boosted Taiwanese chances to stage diplomatic victories in Central Europe.

Shortly after assuming the presidency, Vaclav Havel invited the Dalai Lama (達賴喇嘛) and Chinese pro-democracy activists to Prague, becoming Central Europe's chief critic of China's human rights record. As Czechoslovak-Chinese relations suffered, Taipei sensed an opportunity to befriend Prague. In April 1990, Foreign Minister Lien Chan (連戰) made a private visit to Czechoslovakia. In December, President Havel's wife Olga Havlova became the first-ever spouse of any European head of state to visit Taiwan. Although her primary objective was to establish contacts with charity organizations in Taiwan, Havlova also found time to meet President Lee and Foreign Minister Fredrick F. Chien.<sup>26</sup>

Warsaw was set to surpass Prague's "wife diplomacy," when in September 1990 Solidarity Trade Union leader, Lech Walesa, accepted an invitation to Taiwan, extended by ROC legislator Chang Shih-liang (張

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<sup>24</sup>Ibid., April 10, 1991; and *Zhongguo shibao* (China Times) (Taipei), February 1, 1991.

<sup>25</sup>*Zhongguo shibao*, July 3, 1991; and *Jingji ribao*, July 29, 1991. The Hungarians deny that the Ikarus deal had anything to do with political dialogue between Budapest and Taipei. Interview with a Hungarian diplomat, Taipei, June 14, 2005.

<sup>26</sup>*Zhongyang ribao* (Central Daily News) (Taipei), December 4 and 5, 1990.

世良).<sup>27</sup> Having won the presidential election, Walesa not only planned to go ahead with his Taiwan visit in mid-1991, but also told Chang that Warsaw would consider diplomatic ties with Taipei if cooperation with Taiwan proved beneficial to Poland.<sup>28</sup> The Taiwanese media doubted the prospects of Walesa's visit and Poland's diplomatic recognition, arguing that if Taipei wished to gain Polish diplomatic recognition, it would have to do more than simply express happiness over Walesa's visit.<sup>29</sup> Establishment of the temporary Taiwanese Exhibition Center in Warsaw by Taiwanese small and medium-sized companies in late December 1990 was not enough.

Encouraged by Havel and Walesa's pro-Taiwan attitudes, in early January 1991, Foreign Minister Chien announced that Poland and Czechoslovakia wished to develop official or semiofficial relations with the ROC. He expected the establishment of diplomatic ties "in the near future."<sup>30</sup> He soon discovered, however, that neither Czechoslovakia nor Poland was ready to enter a diplomatic partnership. President Walesa executed a quiet U-turn on his promised Taiwan visit, symbolically reminding Taipei that Central Europe continued to appreciate China's importance in international politics and commerce, regardless of the PRC's human rights credentials and the anti-communist convictions of the new leaders in the region. Relations with the ROC would have to be unofficial and accommodated within the "one China" policy.

### Pursuing "Substantive" Relations

Undeterred, the ROC government embarked upon its secondary objective in Central Europe, namely, the pursuit of "substantive" relations.

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<sup>27</sup>*Lianhe bao*, September 24, 1990.

<sup>28</sup>*Ibid.*, December 27, 1990.

<sup>29</sup>*Ibid.*, December 29, 1990.

<sup>30</sup>Central Broadcasting System, Taipei, January 9, 1991, in *BBC Monitoring: Far East*, no. 0969 (January 14, 1991): A2/2; and *Zhongguo shibao*, January 10, 1991.

To some extent, these were already defined by the Taiwanese-Hungarian partnership, featuring agreements on bilateral representative offices and exchanges of visits by parliamentarians. Taipei wished to inject more officialdom into "substantive" ties by promoting high-level political dialogue (including bilateral visits by high-level government officials) and intergovernmental agreements, while at the same time gaining Central Europe's support for Taiwan's efforts to reenter international organizations. These goals were to be achieved through generous economic assistance programs and mutually beneficial trade relations. In early 1991, Taipei announced soft loans for Czechoslovakia, Hungary, and Poland of US\$10-20 million for the development of small and medium-sized enterprises. The decision to grant loans coincided with the preparation of Taiwan's first official delegation to the post-communist region, led by Vice Minister of Economic Affairs Chiang Ping-kun (江丙坤). In an interview with *Zhongguo shibao* (中國時報, China Times), Chiang suggested that providing the new democracies with greater economic incentives than those offered by the PRC would predispose them to favor Taiwan over China.<sup>31</sup> Promises of economic assistance must have been sufficiently enticing as both Prague and Warsaw soon consented to the opening of ROC representative offices. The "Taipei Economic and Cultural Office" in Prague commenced operations in December 1991, enjoying selected diplomatic privileges and staffed by ROC diplomats. Taipei's office in Warsaw opened in October 1993. In return, Taiwan improved on its 1991 offer, by granting Poland a US\$20-30 million loan for the development of Polish small and medium-sized enterprises, details of which were yet to be settled.

Having established offices in Budapest, Prague, and Warsaw, Taipei checked its campaign because of budget constraints, apprehension that a diplomatic breakthrough would not be forthcoming, and because it was apparently content with its "substantive" achievements. In mid-1993, *Zhongguo shibao* complained that Taipei lacked an overall strategy (戰略, *zhanlue*) toward the post-communist states, losing many opportunities

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<sup>31</sup>Interview with Chiang Ping-kun, *Zhongguo shibao*, June 7, 1991.

through bureaucratic inertia. Approval for a U.S. dollar deposit into the Hungarian National Bank, for example, took so long that when the money became available, it was no longer needed.<sup>32</sup> Although Taipei's diplomatic strategy toward the Central European states lost its dynamism in the mid-1990s, Prague's willingness to upgrade bilateral communications—with its implications for Taiwan's international status and diplomatic competition with the PRC—reminded Taipei of the strategic value of Central Europe.

Following the breakup of Czechoslovakia in January 1993, the Czechs remained committed to economic partnership with Taiwan. To a large extent, their determination to pursue this partnership was driven by Havel's belief that Taiwan's demands for greater international recognition were justified. At the same time, however, the Czechs expected greater trade opportunities, investments, and public works contracts.<sup>33</sup> The first good news came in late 1993, when the Czech heavy industry conglomerate, Skoda Group, won a US\$41.7 million contract for the construction of part of Taipei's metro, followed by a second contract worth US\$73.4 million.<sup>34</sup> The contracts miraculously coincided with Prague's decision to open its representative office in Taipei (with visa-issuing powers) in November 1993, the first post-communist bureau established on Taiwan.<sup>35</sup> It was clear to the Czechs (as it had been earlier to the Hungarians) that injecting some officialdom into the nominally nonofficial relationship would pay off in economic terms.

In 1994, the Czechs for the first time openly supported the ROC's bid to rejoin the United Nations. Prague was the second country (following South Africa) to sign the World Trade Organization (WTO) bilateral agreement with the ROC. The Czechs expected greater access to the Taiwanese market and more public works contracts. In time, however, they grew in-

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<sup>32</sup>*Zhongguo shibao*, August 24, 1993.

<sup>33</sup>*Jingji ribao*, May 3, 1998.

<sup>34</sup>*Gongshang shibao* (Commercial Times) (Taipei), June 19, 1995.

<sup>35</sup>*China Post* (Taipei), December 6, 1993.

creasingly disappointed with the tendering processes in Taiwan, which they thought favored the Americans and Japanese.<sup>36</sup> Taiwan continued to argue that the economic benefits would materialize once official communication channels were unblocked. The Czech invitation to Premier Lien Chan to Prague in June 1995 was designed to open political dialogue.

Lien started his European tour with a "sightseeing holiday" in Austria and Hungary. Prague—in sharp contrast to the feigned ennui surrounding his visit to Vienna and Budapest—gave the ROC leader a welcome reserved for foreign dignitaries.<sup>37</sup> Despite the academic nature of his visit (to accept an honorary degree from Charles University), the ROC Premier met Havel and Premier Vaclav Klaus. This was the first time the ROC leader had openly engaged in high-level talks with his European counterparts. He subsequently proclaimed, "Friendly and cooperative relations (with the Czech Republic) will become more long-term in the future."<sup>38</sup> Prague's gamble seemed to have paid off. In a meeting with Klaus at the Crans Montana Forum, Taiwanese Economic Minister Chiang Ping-kun proposed a three-stage cooperation pact, under which Taipei would send a fact-finding mission to the Czech Republic, Prague would send delegations to Taiwan to lobby for investments, and Taiwan would organize business missions to Prague. In August, Taipei announced three trade missions to the Czech Republic, the most important of which was to be headed by Chiang Ping-kun in early October 1995. Chiang's 130-member delegation was the largest ever to visit Europe. Chiang met Minister of Economics Karel Dyba, whom he reassured that Taipei would encourage Taiwanese manufacturers to switch some of their machinery orders from Japan to the Czech Republic to narrow Taiwan's trade deficit with Japan, and would designate the Czech Republic as its priority economic partner.<sup>39</sup> As a sign of future developments, the Taiwanese purchased US\$20 million worth

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<sup>36</sup>The Czech criticism mirrored the complaints made by the West Europeans. See Shin, "Development of ROC-France Relations," 155-57.

<sup>37</sup>*Zhongguo shibao*, June 19, 1995.

<sup>38</sup>*South China Morning Post*, June 23, 1995; and *Zhongguo shibao*, June 22 and 23, 1995.

<sup>39</sup>*Zhongyang ribao*, October 6, 1995.

of Czech heavy industrial products and signed a letter of intent to develop an industrial park in Pilsen, to open in March-April 1996, attract US\$100 million in investments, and accommodate 30-40 companies exporting to nearby Germany.<sup>40</sup> In mid-December 1995, the Czech Republic received Taiwan's first significant investment: the Hualon Textile Company (華隆紡織公司), one of Taiwan's largest textile manufacturers, pledged to invest US\$20 million.

In November, ROC Defense Minister Chiang Chung-ling (蔣仲苓) went on a "sightseeing" visit to Prague. According to media reports, Chiang's primary aim was to visit the troubled Czech military aircraft manufacturer, Aero Vodochody, which in October 1996 signed an agreement with a Taiwan state-run aerospace industrial development company to jointly develop a small business jet.<sup>41</sup> According to *Mlada Fronta Dnes*, the Taiwanese minister wanted to know what conditions needed to be met before Aero Vodochody, the world's largest manufacturer of trainer jet aircraft, could be privatized.<sup>42</sup> It is not clear whether Chiang met his Czech counterpart and other government officials as requested, but his visit facilitated the first significant Taiwanese-Central European joint venture.<sup>43</sup>

True to his convictions, President Havel made an unprecedented statement during a news conference at the UN's fiftieth anniversary celebrations in October 1995, acknowledging the existence of two Chinas and regretting the absence of democratic Taiwan from the United Nations.<sup>44</sup> His comments were made without consulting the Czech Foreign Ministry, which immediately issued a statement reiterating Prague's adherence to the "one China" principle. Neither did Havel consult the Foreign Ministry

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<sup>40</sup>Central News Agency, October 6, 1995, in Foreign Broadcast Information Service, *China Report* (hereafter, *FBIS-CHI*), no. 194 (1995), online edition.

<sup>41</sup>*China News* (Taipei), November 16, 1996; and *Lianhe bao*, November 15, 1996.

<sup>42</sup>"The Taiwanese Defense Minister Was Interested in Aero," *Mlada Fronta Dnes*, November 21, 1996, in *FBIS-East Europe Report*, no. 227 (1996), online edition.

<sup>43</sup>The mainland media termed Taiwan's approach a "northern policy," which used defense military cooperation as a prelude to developing "diplomatic relations" with those countries. See Xin Qi, "Taiwan's 'Pragmatic Diplomacy' Is Actually Not Pragmatic," *Liaowang*, March 31, 1997, no. 13:39, in *FBIS-CHI*, no. 74 (1997), online edition.

<sup>44</sup>Reuters, October 25, 1995; and *Zhongyang ribao*, October 26, 1995.



when censoring China for military maneuvers in the Taiwan Strait in the spring of 1996. When meeting visiting PRC Foreign Minister Qian Qichen (錢其琛)—China's first top-level visit to Prague since a series of disputes over Prague's relations with Taiwan began—Havel asked for mutual respect between the mainland and the island, telling Qian that Taiwan was a political reality that Prague could not ignore.<sup>45</sup> In late June 1998, Havel's second wife Dagmar dusted off "wife diplomacy" by visiting Taipei. In addition to meeting the wives of the president, vice president, and foreign minister, Dagmar also met their husbands.<sup>46</sup> By late 1998, however, Czech businesses, eyeing China's vast market, were increasingly critical of Havel's antagonistic China policy. In June 1998, the Social Democrats ousted the center-right coalition, forming a new Czech government which, in the aftermath of Taipei's spectacular turnabout regarding the industrial park (considered too expensive to be commercially viable), seemed to be gravitating toward China. In October, Havel admitted being pressurized by business and political leaders not to "complicate things with talk of citizenship and autonomy for Tibet or Taiwan," since "China was a big and powerful nation with vast opportunities for investment."<sup>47</sup> In no small measure, the Czech business community's dissatisfaction with President Havel's policy on China and Taiwan resulted from the fact that Prague's embrace of Taiwan generated numerous promises of greater economic cooperation from Taipei, very few of which were actually realized.

### **Polish and Hungarian Dilemmas**

As Prague appeared to be reaping the rewards of advancing relations with Taiwan, the Polish left-wing government faced the choice of either maintaining the *status quo* or following Prague's lead. By the mid-1990s,

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<sup>45</sup>*Lianhe bao*, April 24, 1996; and Reuters, April 22, 1996.

<sup>46</sup>*Lianhe bao*, June 23, 1998.

<sup>47</sup>*Scotsman*, October 22, 1998.



Poland was Taiwan's largest trade partner in Central Europe. By opting to follow Prague, Poland could challenge Czech ambitions to become Taiwan's leading regional economic partner. However, Warsaw chose a middle way: while unwilling to antagonize China on the Taiwan question, it sought stronger economic ties with Taipei. Thus, when Poland opened its representative office in November 1995, it was the city of Warsaw—which in September 1995 established sister-city ties with Taipei—that fronted the agreement. The Polish government denied the Warsaw Trade Office consular functions. In an effort to entice Warsaw, Chiang Ping-kun, visiting in autumn, presided over an agreement with the city of Lodz on the joint development of the Lodz Industrial Zone, which would become the second Taiwanese industrial zone established in Central Europe, employing over 20,000 Poles. As a result, Warsaw warmed to the prospects of reaching agreements on investment protection and avoidance of double taxation with Taipei, and arranged an annual Sino-Polish Nongovernmental Conference on Economic Cooperation. Following Chiang's visit, Poland reportedly joined the ranks of Taiwan's closest partners (親密夥伴, *qinmi huoban*) without upsetting Beijing.<sup>48</sup>

The Taiwanese side insisted that accords on investment protection and avoidance of double taxation were a prerequisite for the industrial zone and any other Taiwanese investments in Poland. During the second Sino-Polish Conference on Economic Cooperation, held in November 1995, the Polish delegation agreed to enter discussions on the taxation agreement. After tortuous negotiations over the precise wording of the document, the Memorandum on Taiwan-Polish Taxation Agreement was signed in late November, the first of its kind between Taiwan and any European country. At the third conference in 1996, the ROC delegation promised that CETRA would set up a Taiwan Trade Center in Warsaw—meant to become a coordination center of Taiwanese economic interaction with all post-communist states. In return, the Poles seemed inclined to conclude an agreement on investment protection and to open up high-level (possibly ministerial)

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<sup>48</sup>*Jingji ribao*, October 26, 1995.

channels of communication between the economic ministries of both sides.<sup>49</sup>

Polish reformed communists—their support for China notwithstanding—were not opposed, in principle, to deeper cooperation with Taiwan. It was their decision to allow ROC Defense Minister Chiang Chung-ling's three-day fact-finding mission to Poland to go ahead in November 1995. The defense minister's visit raised questions regarding Warsaw's intention to resort to the "Taiwan card" when dealing with China. By the mid-1990s, Polish exports to China had fallen to below US\$100 million, while exports to Taiwan were larger. A significant thaw in relations with Taiwan could facilitate Taiwanese investments, while prompting China to take a more proactive stand on economic relations with Poland. However, Chiang's dining with "Polish friends" in Warsaw did not amount to a Polish U-turn. A political breakthrough in Polish-Taiwanese relations had to wait until the Freedom Union and Electoral Action Solidarity regained power following the September 1997 parliamentary elections. In late June 1998, ROC Foreign Minister Jason C. Hu (胡志強) visited Warsaw to participate in the Conference on International Relations and Democracy. The conference was attended by Polish politicians and academics (including Foreign Minister Bronislaw Geremek and Zbigniew Brzezinski). Foreign Minister Hu was not only the first ROC foreign minister to visit Poland, but most importantly, he participated in the conference as the "ROC Foreign Minister."<sup>50</sup> His visit to Warsaw coincided with the formation of the Taiwan Club in the Polish parliament.<sup>51</sup> The ROC Legislative Yuan (立法院) formed a corresponding grouping in 2002. Shortly after Hu's return to Taiwan, Taipei announced a US\$20 million soft loan for Polish small and medium-sized enterprises, the same loan promised back in

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<sup>49</sup>Ibid., October 12, 1996; and *Gongshang shibao*, November 2, 1996.

<sup>50</sup>*Zhongguo shibao*, June 28, 1998; and *Zhongyang ribao*, June 27, 1998.

<sup>51</sup>The Polish parliamentarians were the last in Central Europe to form "pro-Taiwan" grouping. The Czechs and Hungarians established "pro-Taiwan" parliamentary friendship groups in 1994 and 1995, respectively. See *The Republic of China Yearbook*, 2002, <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/2002/index.htm> (accessed May 10, 2005). Currently, there is no pro-Taiwan grouping in the Hungarian parliament.

1993.<sup>52</sup> MOFA categorically denied that any agreement on US\$20 million in cash aid to Poland was made during Hu's visit. The Taiwanese company Acelon Chemicals & Fibers Corporation (聚隆纖維) announced plans to invest US\$200 million in Poland within five years (soon raised to US\$500 million). In late September, the Taiwan Trade Center opened in Warsaw.

By the mid-1990s, Budapest was increasingly disillusioned about its economic partnership with Taipei: the Taiwanese invested only US\$1.5 million, while the trade deficit continued. Due to Chinese exporters' practice of undervaluing their products on customs forms, the Hungarian authorities scrutinized imports from China, including Taiwan, and increased the tariffs on some products by 300 percent. At the same time, Taiwanese traders complained about the saturated Hungarian market. Amid mutual dissatisfaction, therefore, Budapest's decision to open a representative office in Taipei came as a surprise. The Hungarian Trade Office, fronted by the Hungarian Investment and Trade Development Agency, was inaugurated in May 1998 and was expected to perform semiconsular functions. In December, the ROC representative to Hungary, Rock Leng (Leng Ruoshui, 冷若水), confirmed at a Legislative Yuan hearing Budapest's desire to develop substantive relations with Taiwan (including high-level political dialogue), conditional upon Taiwanese investments in Hungary's manufacturing industry.<sup>53</sup>

### Beyond the Macedonian Deal

Until January 1999, when Taipei struck a diplomatic deal with Macedonia, the Central European nations were Taiwan's priority partners in the post-communist region, while Balkan states prioritized relations with China and avoided contacts with Taiwan.<sup>54</sup> The Central Europeans worried

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<sup>52</sup>*Zhongguo shibao*, June 29, 1998.

<sup>53</sup>*China News*, December 15, 1998.

<sup>54</sup>Czesław Tubilewicz, "Taiwan's Balkan Option: A New Chapter in Republic of China 'Dollar Diplomacy'," *Diplomacy & Statecraft* 12, no. 1 (March 2001): 169.

that the Macedonians would replace them as the recipients of Taiwanese limited economic assistance to the post-communist economies. Despite Taipei's assurances to the contrary, the East European section of MOFA did indeed devote 80 percent of its efforts to developing relations with Macedonia.<sup>55</sup> The remaining 20 percent were most probably channeled into promoting ties with the Czech Republic, which—unlike Poland (agonizing over the decision to reach an investment protection agreement with Taiwan) and Hungary (distancing itself from any appearance of official contacts with Taipei during Foreign Minister Jason Hu's private visit in February 1999)—seemed keen on promoting substantive ties with the ROC. Moreover, Prague was the only one of the post-communist states that officially rejoiced over the news of Taiwan's success in Macedonia. In June-July 1999, Czech Minister of Culture Pavel Dostal visited Taipei and met President Lee Teng-hui. Head of the ROC Government Information Office Chen Chien-jen (程建人) visited Prague, while President Lee's wife, Tseng Wen-fui (曾文惠), made a private, five-day trip to Prague. In July, an ROC delegation, led by Legislative Yuan President Wang Jin-pyng (王金平), visited the Czech Senate. The Czech parliament reciprocated in March 2000. In October 2000, Lee Teng-hui attended the fourth "Forum 2000" conference in Prague, his second overseas visit after stepping down from the ROC presidency in May 2000. Lee met President Havel at a cocktail reception in honor of the participants. In an interview with the daily *Lianhe bao* (聯合報, United Daily News), Havel reiterated his belief in Taiwan's right to enter the UN, peaceful reunification, and the further strengthening of political relations between the Czech Republic and Taiwan.<sup>56</sup> Following Chen Shui-bian's (陳水扁) victory in the presidential election, Taipei and Prague considered a visit by Chen to the Czech Republic. These plans did not materialize, however, as President Chen did not

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<sup>55</sup>Informal conversation with an ROC diplomat, Taipei, in June 1999.

<sup>56</sup>*Lianhe bao*, October 16, 2000. The treatment accorded to Lee Teng-hui by the Czech authorities contrasted strongly with the British government's efforts to avoid any contacts, official or social, with Lee, when he visited the United Kingdom in June 2000. According to the UK Foreign Office, Lee's visit was a "private visit by a private citizen," who attended his grand-daughter's graduation. See *BBC News Online*, June 27, 2000.

keep an unspecified promise, fulfillment of which was a precondition for his visit.<sup>57</sup> Instead, his wife Wu Shu-chen (吳淑珍) visited Prague in November 2001. Invited for a two-day "private" visit, Wu met Havel and his wife after accepting, on behalf of her husband, the 2001 Prize for Freedom at a ceremony held in Strasbourg. She also donated US\$2 million to Dagmar's "Vision 97."<sup>58</sup> With Havel's departure from the Czech presidency in 2003, Taipei lost its most reliable and influential supporter in the Czech Republic. Havel's successor Vaclav Klaus, known more for pragmatism than defense of human rights, led a delegation to China in mid-April 2004, accompanied by a large delegation of business leaders. Prague's rekindled friendship with Beijing effectively ruled out any further high-profile support for Taiwan's struggle for international recognition, but it neither stopped regular consultations between vice-foreign ministers of the Czech Republic and the ROC (held every year since 2000) or between department heads of the ministries of economic affairs (commenced in 2003), nor occasional visits by Taiwanese high-level officials, such as ROC Foreign Minister Mark Chen Tan-sun (陳唐山), who in 2004 convened a conference in Prague of all the heads of ROC representative offices in Europe.<sup>59</sup>

Unlike Prague, Warsaw and Budapest chose not to anger China with any public meetings with currently serving or former high-ranking officials of the ROC. Former President Lech Walesa attended President Chen Shui-bian's inauguration ceremony in May 2000 in a private capacity. When the KMT acting chairman, Lien Chan (former premier and vice-president), visited Poland in late May 2000, at the invitation of the Stefan Batory Foundation, to speak on the universal values represented by the democratization process in Taiwan, he did so as a private citizen.<sup>60</sup> On the one hand, Polish

<sup>57</sup>Informal conversation with a Czech diplomat, Hong Kong, February 7, 2004; and interview with a Czech diplomat, Taipei, June 14, 2005.

<sup>58</sup>*Lianhe bao*, November 17, 2001. When Wu Shu-chen visited France to accept the award in Strasbourg on her husband's behalf, she was not allowed to stay in Paris and no French government official met her.

<sup>59</sup>Interview with a Czech diplomat, Taipei, June 14, 2005.

<sup>60</sup>*Zhongyang ribao*, May 30, 2000.

Foreign Ministry spokesman Grzegorz Dziemidowicz's call for more Taiwanese investments in Poland revealed Warsaw's continuing interest in economic interaction with Taiwan, while on the other hand, an apparent unwillingness to enter into semiofficial direct communication with ROC officials indicated Warsaw's uneasiness regarding substantive ties with Taiwan.<sup>61</sup> Hungary pursued a similar policy. When ROC Vice President Annette Lu Hsiu-lien (呂秀蓮) visited Budapest in March 2002 to attend the Fifty-first Congress of the Liberal International, grouping liberal parties from sixty-seven countries, the Hungarian Foreign Ministry spokesman emphasized the private nature of her visit.<sup>62</sup>

Following its independence in January 1993, the Slovak Republic, under the leadership of Prime Minister Vladimir Meciar and his Movement for a Democratic Slovakia, was relatively isolated from the West, which condemned Bratislava for its slow pace of democratization and weak rule of law. Unlike its Czech neighbor, Slovakia did not actively seek membership of either the European Union (EU) or the North Atlantic Treaty Organization (NATO), and reoriented its foreign policy toward the East. In this context, Premier Meciar became a staunch ally of China and avoided communication with Taiwan. His political opponent, President Michal Kovac, appeared more interested in developing all-round cooperation with Taiwan. He even reportedly asked Meciar to extend diplomatic recognition of Taiwan, whether politically or economically, in exchange for US\$500 million, allegedly promised by Taipei.<sup>63</sup> In April 1996, Kovac, more realistically, told the visiting Chinese parliamentary delegation that Bratislava did not rule out a development of trade links, but it did not plan to pursue government-to-government contacts with Taipei.<sup>64</sup>

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<sup>61</sup>Ibid., November 23, 2000.

<sup>62</sup>*Lianhe bao*, March 19, 2002. Yet, Budapest's decision to grant Annette Lu a visa was a significant gesture. The Canadian government denied Lu a visa in order to make it impossible for her to attend the Fiftieth Congress of the Liberal International, held in Ottawa/Hull in October 2000.

<sup>63</sup>Ibid., March 12, 1994.

<sup>64</sup>Slovakia Radio 1, April 11, 1996, in *BBC Monitoring: Central Europe and Balkans*, April 13, 1996.

Slovak-Taiwanese relations were thus left entirely to nongovernmental trade bodies. In October 1998, the ROC National Association of Industry and Commerce (工商協進會) and the Slovak Chamber of Commerce and Industry signed a cooperative agreement to bolster business and industrial cooperation. The first conference on economic cooperation organized by both trade associations took place in October 1998. The need for representative offices to facilitate trade with Slovakia was apparently so great that in September 2000, the Taiwanese business community established a bogus "Slovak Economic and Cultural Representative Office in Taiwan," which MOFA soon denounced.<sup>65</sup> Only after Meciar's departure from the premiership in 1998, and particularly in the aftermath of the parliamentary elections in September 2002, which resulted in the formation of a right-of-center government in Slovakia, did Bratislava warm to Taipei. Three years after negotiations on the reciprocal offices began, Taiwan opened the "Taipei Economic and Cultural Office, Bratislava, Slovak Republic" in August 2003. Envious of the flow of Taiwanese investments to the neighboring Czech Republic and encouraged by the EU's decision to open a representative office in Taipei, in November 2003 the Slovaks became the nineteenth European nation to establish a local office in Taiwan. The "Slovak Economic and Cultural Office, Taipei"—officially opened by the Slovak Chamber of Commerce and Industry, headed by an experienced diplomat, a former director of the Department of Africa, Asia, and Latin America at the Slovak Foreign Ministry, and empowered to issue visas—took energetic steps to attract Taiwanese investors eyeing the lower labor costs in the economies of Central Europe.<sup>66</sup> In April 2004, the first Slovak parliamentarian, Maros Kondrot, visited Taipei.<sup>67</sup>

<sup>65</sup>*Ziyou shibao* (Liberty Times) (Taipei), September 15, 2000.

<sup>66</sup>*Taiwan News*, November 7, 2003; and interview with the Slovak diplomat, Taipei, June 14, 2005. The first Taiwanese investor in Slovakia, TECO Electric and Machinery (東元電機), invested in an assembly line for LCD screens. Testing of the production line began in February 2005.

<sup>67</sup>*Taipei Times*, April 25, 2004.



## **Big Brother**

Shortly after President Lee launched "flexible diplomacy," mainland commentators admitted that Taiwan's diplomatic achievements in 1989-90 owed much to the island's "financial-aid offensive" toward those states that faced economic difficulties. They alleged that Taipei took advantage of the mainland's "temporary difficulties" and utilized foreign exchange reserves to buy off countries in need. The *Beijing Review* warned that the mainland's difficulties "will soon be overcome."<sup>68</sup> Officially Beijing did not object to Central Europe's interaction with Taiwan, as long as it was restricted to economic or cultural exchanges; in practice, however, Beijing attempted to contain any development of closer Taiwanese-Central European cooperation, be it economic, cultural, or political. China intensified its high-level dialogue with Central Europe, pressuring the Central European governments to repeatedly restate their "one China" policies.<sup>69</sup> Beijing also adopted a strategy of quiet diplomacy, through intensive lobbying, to preempt any possible contacts between Central European and Taiwanese officials. Beijing lodged complaints against any Taiwanese activities in Central Europe, including academic conferences. Finally, Beijing retaliated against those Central European states that had the temerity to engage in political dialogue with Taiwan.

In 1990, this quiet diplomacy failed, as Budapest, Prague, and Warsaw were tempted by Taipei's promises of economic rewards, subject as they were to "substantive" ties with the ROC. Despite China's protests, the first Hungarian parliamentary delegation visited Taiwan in July 1990, followed six months later by Olga Havlova. After Walesa confirmed his visit to Taiwan, Beijing reiterated its opposition to any official communication between China's allies and the ROC.<sup>70</sup> Eventually, the Polish Foreign Ministry convinced President Walesa to cancel his Taiwan visit. The

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<sup>68</sup>Li Jiaquan, "Essential Elements," *Beijing Review*, February 26-March 4, 1990, 29.

<sup>69</sup>Czeslaw Tubilewicz, "Comrades No More: Sino-Central European Relations after the Cold War," *Problems of Post-Communism* 46, no. 2 (March/April 1999): 4-6.

<sup>70</sup>*Zhongguo shibao*, December 28, 1990.

opening of a trade office in Budapest and advanced negotiations on the establishment of the office in Prague convinced Beijing that efforts had to be doubled in order to forestall Taipei's diplomatic offensive in Central Europe. As a result, Beijing resumed high-level political contacts—suspended in 1989—with post-communist Czechoslovakia, Hungary, and Poland. In March 1991, PRC Foreign Minister Qian Qichen visited Warsaw and Budapest, while in September he went to Czechoslovakia.

Having received the Central Europeans' confirmation of their continued adherence to the "one China" principle, Beijing began obstructing Taiwanese diplomatic activities in the region. While protests behind closed doors were successful in most cases, they failed spectacularly in the Czech Republic, primarily due to President Havel's conviction that Taipei's claims to statehood were justified. Facing Havel's pro-Taiwan policy, Beijing resorted to economic and political punishments. Thus, in response to Lien Chan's visit to Prague in mid-1995, Beijing expressed its "extreme displeasure" and lodged a protest with the Czech Foreign Ministry. China cut short a visit by a PRC State Education Commission delegation, postponed a planned agreement on academic exchanges, and implied that more sanctions were forthcoming.<sup>71</sup> When Chiang Ping-kun visited Prague in October 1995, the Czech government decided not to send a ministerial level official to sign a memorandum on investment protection between the Czech Republic and Taiwan.<sup>72</sup> Eventually, however, the document was signed by the Czech minister, which demonstrated to Beijing the ineffectiveness of its deterrent. China was waking up to the fact that more punitive measures against the Czech Republic would only push Prague further into Taiwan's arms. Therefore, the policy had to include carrots as well as sticks in order to produce the desired effects. Havel's second wife Dagmar's visit to Taipei in late October 1997 was canceled following protests from Beijing. According to the Taiwanese media, Dagmar's visit coincided with the final stage of negotiations between an unnamed Czech company and its PRC

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<sup>71</sup>*China Post*, June 21, 1995.

<sup>72</sup>*Lianhe bao*, November 4, 1995.

counterpart on the construction of a power station in China.<sup>73</sup> In response, the ROC representative in Prague, Hsieh Hsin-ping (謝新平), suggested that Taipei should encourage state-run enterprises to cooperate with the Skoda Group in order to help Havel convince Czech businessmen and politicians of the benefits in developing closer ties with the ROC.<sup>74</sup> Havlova went ahead with her Taiwan visit a year later.

Following the reformed communists' rise to power in September 1993, Warsaw responded more favorably to China's quiet diplomacy, hoping that Beijing would notice its efforts to downplay relations with Taiwan. Poland delayed the opening of its representative office in Taipei, named it the "Warsaw Trade Office," and denied the office consular functions. Poland edited agreements with the ROC, deleting all implications that the accords were reached by the two governments.<sup>75</sup> Warsaw fully supported the PRC in various international forums whenever the ROC's membership was considered. Nevertheless, by the late 1990s, the fear of Chinese retribution was overwhelmed by Poland's huge trade deficit with the PRC and the failure of President Aleksander Kwasniewski's 1997 China visit to increase Polish exports to China. The lack of economic benefits for Polish loyalty led to a quiet U-turn in Warsaw's policy toward the ROC. By mid-1998, the "Warsaw Trade Office" commenced consular services and, following Jason Hu's visit, political communication channels were opened. Moreover, Poland unofficially hinted that it would no longer veto Taiwan's membership of international organizations. After their return to power in September 2001, however, the Social Democrats, while not necessarily

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<sup>73</sup>*Zhongguo shibao*, October 13, 1997.

<sup>74</sup>*China News*, October 23, 1997.

<sup>75</sup>During discussions on the agreement on preventing tax evasion, the Polish side requested substituting the term "country" with "territory." Taipei agreed to the revision. Shortly before the signing ceremony, however, the Polish side refused to sign the document because the term "government" appeared in an article concerning "government service revenue." The wording was considered inappropriate by the Polish representative, whose stated reasoning was that the agreement was to be signed by the "representative offices" of the two countries, not their governments. Eventually, however, Warsaw accepted use of the term "government" in the document. In the sister-city agreement between Warsaw and Taipei, the Polish side insisted on deleting all references to the Republic of China and Republic of Poland. See *Lianhe bao*, November 22, 1995.

hostile to Taiwan, saw in China a vast market and decided that playing the "Taiwan card" made neither geopolitical nor economic sense. Polish loyalty to China was rewarded in June 2004, when President Hu Jintao (胡錦濤) visited Warsaw, becoming the first Chinese party and state leader to do so. While President Kwasniewski acknowledged "differing opinions concerning value systems and human rights," he reiterated Warsaw's support for the "one China" policy, noting that "Poland still considers that there is a single Chinese state and supports the process of reunification."<sup>76</sup> Hu Jintao's European tour also included Hungary, but most tellingly excluded the Czech Republic, reminding Prague that Havel's "pro-Taiwan" policy was not forgotten in Beijing.

### The Scrooge Effect

With token economic assistance in the early 1990s (see table 1), Taipei successfully established contacts with the newly democratized states of Central Europe, as well as institutionalized relations via representative offices. The import of Hungarian buses and Skoda's tendering success gave a face to the economic opportunities flowing from political communication with Taiwan. In September 1991, Taiwan set up a fund, in cooperation with the European Bank for Reconstruction and Development (EBRD) to aid post-communist economies (Taipei China-EBRD Cooperation Fund).<sup>77</sup> An initial contribution of US\$10 million was expanded to US\$20 million in early 1994. Against the background of increasing bilateral trade between Taiwan and Central Europe—with the latter enjoying sizeable trade surpluses (see table 2)—China had reason to be concerned that Taiwan's economic diplomacy toward the region had the potential to erode its own influence in Central Europe. Beijing's concerns increased when, in August 1997, Taipei announced plans to divert part of its overseas

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<sup>76</sup>*South China Morning Post*, June 10, 2004.

<sup>77</sup>*China Economic News Service*, September 14, 1991.

**Table 1**  
**ROC Aid Diplomacy to Central Europe**

<b>Year</b>	<b>Country rewarded</b>	<b>Form of aid</b>	<b>Value</b>	<b>Comments</b>
1989	Hungary	Soft loan	US\$100 million	Reward for Hungary's consent to an ROC office, offered by the China Import/Export Bank; MOFA subsidized the difference in interest rates; denied.
1990	Czechoslovakia	Medical equipment	Unknown	Two hundred wheelchairs given to Olga Havlova's charity.
1991	All post-communist states	Soft loan	10 million	Taipei China-EBRD Cooperation Fund; fund expanded to US\$20 million in 1994.
1991	Hungary	Commodity import	US\$43 million	Import of Ikarus buses, possibly as a payoff for Hungarian consent to the ROC trade office in Budapest.
1993	Czech Republic	Public works contract	US\$115 million	Two contracts for Skoda, possibly as a reward for Prague's decision to open an office in Taipei.
1994	Czech Republic	Bank credit	US\$1 million	Credit offered by ROC Import/Export Bank for the Czech Commercial Bank to facilitate trade between Czech and Taiwanese companies.
1997	Czech Republic	Donation	US\$20,000	Humanitarian assistance offered to flood victims.
1998	Poland	Soft loan	US\$20 million	Loan for the development of small and medium-sized enterprises; granting of the loan coincided with ROC Foreign Minister Jason C. Hu's scholastic visit to Poland; the loan was extended in 1999.
2001	Czech Republic	Donation	US\$2 million	Humanitarian assistance donated to Dagmar Havel's charity by ROC President Chen Shui-bian's wife, Wu Shu-chen, during her Prague visit.
2002	Czech Republic	Donation	US\$120,000	Humanitarian assistance offered for renovation of facilities destroyed by flooding.

**Table 2**  
**Taiwan's Trade with Central Europe, 1990-2002 (in US\$ million)**

	Czecho- slovakia	Czech Republic	East Germany	Hungary	Poland	Slovakia
<b>1990</b>						
T	22.4		62.9	57.1	171.1	
%	-33.1%		-20.7%	+12.4%	+108.4	
B	-4.4		-34.1	+38.1	-107.9	
<b>1991</b>						
T	70.8			74.1	272.7	
%	+216.1%			+29.8%	+59.4%	
B	-32.2			+34.1	-129.5	
<b>1992</b>						
T	145.7			107.5	234.5	
%	+105.8%			+45.1%	-14%	
B	-78.3			+1.3	-147.5	
<b>1993</b>						
T		157.4		87.6	327.1	0.4
%				-18.5%	+58.7%	
B		-61.2		+52.4	-251.1	+0.4
<b>1994</b>						
T		144.9		91.1	381.1	5.9
%		-7.9%		+4%	+2.4%	+137.5%
B		-20.3		+46.7	-221.7	-0.7
<b>1995</b>						
T		160.8		105.2	306.5	7.9
%		+11.0%		+15.5%	-19.6%	+33.9%
B		-7.7		+74.5	-29.1	+1
<b>1996</b>						
T		172.2		125.7	366.2	7
%		+7.1%		+19.5%	+19.5%	-13.4%
B		+0.6		+88.8	+23.6	+2.2
<b>1997</b>						
T		128.5		196.4	444	10.2
%		-25.4%		+56.2%	+21.2%	+45.7%
B		17.6		+74.2	+56.8	+0.8
<b>1998</b>						
T		99.2		237.3	321.8	13.8
%		-22.8%		+20.8%	-27.5%	+35.3%
B		+44.7		-3.9	+152.8	+0.6

**Table 2 (Continued)**

	Czecho- slovakia	Czech Republic	East Germany	Hungary	Poland	Slovakia
<b>1999</b>						
<b>T</b>		144.1		262.3	271.5	12
<b>%</b>		+45.3%		+10.5%	-15.6	-13
<b>B</b>		+33.5		+24	+165.1	+2.6
<b>2000</b>						
<b>T</b>		193.9		230.3	242.4	22.4
<b>%</b>		+34.6%		+22.1%	-10.7%	+86.7%
<b>B</b>		+39.6		+25.3	+105.5	-4.7
<b>2001</b>						
<b>T</b>		193.8		294.9	223.4	15.4
<b>%</b>		-0.1%		-7.9%	-7.8%	-31.3%
<b>B</b>		+88.1		+87.3	+99.1	+1.7
<b>2002</b>						
<b>T</b>		273.7		349.3	261.3	19.7
<b>%</b>		+41.2%		+18.4%	+17%	+27.9%
<b>B</b>		+176.4		+175.7	+95.8	+9
<b>2003</b>						
<b>T</b>		328.8		298.7	277.3	40
<b>%</b>		+20.1%		-14.5%	+6.1%	+103%
<b>B</b>		+226.6		+194.7	+156.2	+8.7
<b>2004</b>						
<b>T</b>		245.3		353.6	343	107.9
<b>%</b>		-25.4%		+18.4%	+23.7%	+169.8%
<b>B</b>		+138.7		+172.3	+162.6	+49.1

**Codes:** **T** = total trade exchange; **%** = change in trade over the previous year; **B** = trade balance.

**Sources:** *Zhonghua minguo Taiwan diqu jinchukou maoyi tongji yuebao* (Monthly Statistics of Exports and Imports, Taiwan Area, Republic of China) (Taipei: Department of Statistics, Ministry of Finance, May 1996; May 2003, and May 2005).

investments to the post-communist states. The Taiwanese defense minister's visit to Poland and the Czech Republic alarmed Beijing further, as it signaled the possibility of Taiwanese-Central European military collaboration, which, according to the PRC's weekly, *Liaowang* (瞭望), could lead the Taiwanese toward arms purchasing contracts and, eventually, diplo-

matic ties with Central Europe.<sup>78</sup>

Yet, despite the successes in the early 1990s and the momentum created by Lien Chan and Chiang Ping-kun's visits to Central Europe in 1995, the ROC's strategy evolved neither into investment nor any substantial economic diplomacy. The Hungarian company, Ikarus, got a second contract in 2001 for only 30-35 buses. Skoda was unsuccessful in its application for public works contracts in Taiwan, beyond two major contracts awarded in 1993. The projects to establish industrial parks in Poland and the Czech Republic fell through (see table 3). No arms deals between the ROC and Central Europe were recorded. The ROC government did little to facilitate investments in Central Europe, and Taiwanese-Central European trade remained largely insignificant, oscillating around 0.3 percent of Taiwan's total foreign trade. In 1995 the Czech Republic and Poland, for the first time, registered a trade deficit with Taiwan (see table 2), which subsequently became a constant feature of Taiwan's trade with Central Europe. In 1996, Czech trade with the ROC began declining, while Taiwanese-Polish trade fell by almost 30 percent in 1998 due to anti-dumping duties imposed on Polish steel. By 2002, Polish trade with Taiwan was almost 60 percent lower than in the record year of 1997, while the Polish trade surplus turned into a deficit in 1999. Neither is there evidence that Taipei pursued "cash diplomacy" in Central Europe. The Czech Republic was the main recipient of cash to cover damage caused by flooding in 1997 and 2002. Taipei's revolving loan to Poland of US\$20 million, initiated in 1999, arrived four years later and was greatly underutilized due to its inflexible interest rates. It is symptomatic that the ROC's Foreign Ministry categorically denied that Taiwan had offered Poland cash aid, rather than a commercial loan, underscoring its preference to aid developing economies with loans, rather than grants. Neither Bratislava and Budapest nor Prague received any loans from Taiwan.

The much-trumpeted Taiwanese investments were very slow in coming. The ROC government-controlled organizations or corporations did

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<sup>78</sup>See note 43 above.



**Table 3**  
**ROC Diplomacy of Promises of Aid to Central Europe**

Year	Country to be rewarded	Form of aid	Value	Comments
1990	Hungary	Foreign currency deposit in the Hungarian National Bank	US\$50 million	Time deposit by the China International Commercial Bank; decision to deposit money was made in 1991 when Hungary no longer needed it.
1991	Czechoslovakia, Hungary, USSR, Poland, Bulgaria	Soft loan	US\$100 million	Each state to receive US\$10-20 million
1992	Poland	Soft loan	US\$20-30 million	Loan for the development of small and medium-sized enterprises in exchange for Warsaw's consent to an ROC office
1994	Hungary	Interest-free loan	US\$10 million	Reminder of 1991 promise
1995	Czech Republic	Investment	US\$100 million	Industrial park in Pilsen to be opened in early 1996; to attract 30-40 Taiwanese companies
1995	Poland	Investment	US\$27 million	Lodz Industrial Zone
1996	Czech Republic	Investment	US\$5 million	Plan to set up a joint venture to carry out investments
1998	Poland	Investment	US\$200-500 million	Acelon Fibers Co. to invest in a textile factory (reportedly, politically-motivated investment)

not invest in the region. Neither did Taiwanese private businesses appear interested in investing due to the Central Europeans' lack of hard currency, the immaturity of market-oriented trade and manufacturing enterprises, and general economic and political instability caused by corruption, red tape, high unemployment, and high inflation. As a result, in Poland, Taiwanese investments were minuscule as Acelon's US\$500 million investment evaporated with the news of the Asian financial crisis. In Hungary,

the arrival of Taiwanese investments coincided with Budapest's prospective entry into the European Union. In 2003, Taiwanese investments stood at US\$90 million. In 2005, Hon Hai Precision Industry's (鴻海精密工業, Taiwan's largest privately-owned manufacturer) investment in a production line producing spare parts for Nokia mobile phones increased overall Taiwanese investments in Hungary by US\$82 million.<sup>79</sup> In the Czech Republic, Taiwanese private investments were substantially more significant. In October 1997, Hualon set up a fabric production facility, investing US\$22.5 million. In late 1997, Taiwan's First International Computer Company invested US\$100 million in a production plant. Its success convinced Hon Hai to invest US\$650 million in computer parts production. It subsequently became one of the leading firms in the Czech Republic, with sales exceeding US\$1 billion.<sup>80</sup> By mid-2004, the Taiwan-based IT firm ASUSTek Computer (華碩電腦) pledged to invest 20 million euros in a production and repair center in North Moravia. Most recently, BenQ (明基) Corporation announced plans to invest in the Czech Republic. The Taiwanese are currently resurrecting earlier plans to construct a science park there.<sup>81</sup> By mid-2005, Taiwan became the second largest investor in the Czech Republic (after Japan), investing an estimated US\$400 million (Czech statistics) to US\$800 million (ROC statistics) and creating 6,000 jobs in areas of high unemployment.<sup>82</sup> Thus, although the ROC government's ambitious investment plans all fell through, Taiwan's private business entrepreneurs rescued the economic partnership with the Czechs, demonstrating how a pro-Taiwan foreign policy could enable other East European countries to further their own economic objectives through a combination of government will and market economics. Yet, it could be argued that the Czech Republic's strong educational system and rising productivity, combined with its strategic location in Central Europe, investment incentives, an inexpensive and disciplined labor force, and pro-

<sup>79</sup>Interview with a Hungarian diplomat, Taipei, June 14, 2005.

<sup>80</sup>Hon Hai subsequently chose the Czech Republic for its European headquarters.

<sup>81</sup>*Zhongguo shibao*, June 13, 2005.

<sup>82</sup>Interview with a Czech diplomat, Taipei, June 14, 2005.

spective entry to the EU, made it a preferred investment destination for Taiwanese businesses, just as it was for the Japanese, German, and American business communities.<sup>83</sup>

If there was any strong interest in Central European markets, it was limited to exports to the region. However, even the Taiwanese traders complained about high inflation rates, financial instability, high shipping costs, and price competition from mainland China and other suppliers with low production costs. Complaints notwithstanding, the Taiwanese managed to expand their exports of computers, computer peripherals, bicycles, textiles, machinery, and consumer products to Central Europe, while Taiwan's hunger for Central European steel, semifinished nonmetal products, crystal and glass, lumber, chemicals, and other basic metals gradually tapered off.

Thus, despite Beijing's concern that the ROC would buy Central Europe's diplomatic recognition, Taiwan appeared unwilling to flex its financial muscle prior to the establishment of diplomatic relations. Since these were not forthcoming, Taipei pursued a policy of *quid pro quo*, where economic rewards followed political concessions made by the Central Europeans. Taipei rewarded Prague, Warsaw, and Budapest with contracts, loans, or increased imports for their decisions to open bureaus in Taiwan.<sup>84</sup> Following Lien Chan's visit to Prague, Taipei intended to forge a strong economic partnership with the Czech Republic. Semiofficial visits by the ROC ministers of foreign, defense, and economic affairs were preceded by assurances that if accomplished, such visits would contribute to Taiwan's greater economic cooperation with host nations. Taiwan's Central News Agency, for example, alleged that the Acelon's investment in Poland only

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<sup>83</sup>Czechinvest, [www.czechinvest.org](http://www.czechinvest.org) (accessed May 6, 2004). To attract Hon Hai to the Czech Republic, the Czech government, for example, offered the Taiwanese company an attractive tax incentive package. See Zhang Dianwen, "Shenru Hon Hai Ouzhou xinzang" (Enter the heart of Hon Hai in Europe), *eTianxia zazhi* (TechVantage), no. 17 (May 2002): 77. The ROC government, however, maintains that Taiwanese investments in the Czech Republic result from its encouragement of market diversification, rather than from Prague's active pursuit of Taiwanese investors. See *Taipei Times* (Internet edition), July 7, 2004.

<sup>84</sup>The opening of the Czech office was soon followed by two contracts for Skoda. The Poles received a soft loan of US\$10 million, delivered four years after the Warsaw Trade Office opened. The Hungarians registered a sudden surge of Taiwanese imports in 1998, the year when they opened the trade office. See table 2.

became possible *after* Jason Hu's visit to Warsaw.<sup>85</sup> Such a *quid pro quo* strategy, however, did not envisage any long-term economic commitment to Central Europe. In the longer term, Taipei saw its role as a facilitator, not a banker. Taipei sought agreements covering such areas as tariffs, investments, and customs clearance. Taipei organized numerous trade missions to help familiarize Taiwanese entrepreneurs with the region, and it established representative offices in the region to assist Taiwanese businessmen. Finally, the Taipei government spearheaded grand investment projects, which were to be implemented by private firms.

Taipei was more generous when trying to foster a pro-Taiwan lobby in Central Europe. Taipei assigned a quota for hosting foreign guests, many of whom were friendly politicians, journalists, public figures (e.g., Walesa visited in 1996 and 2000, while Havel followed in 2004), and academics. Taipei also organized and financed training programs for government officials. It sponsored cultural events, such as film festivals and exhibitions, academic seminars, and the publication of books and other information materials on Taiwan. Sister-city agreements were promoted, and scholarships were offered for undergraduate students. Charities chaired by President Havel's two wives also benefited from Taiwanese largesse. This low-profile aid diplomacy helped the formation of a "pro-Taiwan" lobby, which disseminated information about Taiwan, offering a challenge to the China-imposed definition of the "one China" principle. The most visible expression of that phenomenon was the emergence of Taiwan friendship groups in state parliaments, which often sympathized with the Taiwanese struggle for sovereignty, voicing support at crucial junctures in Taiwan's troubled relationship with China.<sup>86</sup>

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<sup>85</sup>Central News Agency, July 1, 1998.

<sup>86</sup>The Czech parliamentarians were the most vocal in their support of Taiwan. In 1999, for example, Michael Zantovsky, chairman of the Parliamentary Committee on Foreign Affairs in the Czech Republic, expressed his personal opinion that the Czech government should strengthen political relations with Taiwan, which he characterized as a fully sovereign country entitled to make sovereign decisions about its future. See *Ziyou shibao*, March 21, 1999.

## **Conclusion**

Following the introduction of a market economy in Central Europe, the region's need for economic assistance and its readiness to welcome aid from any corner of the world created for Taiwan a unique opportunity to flex its financial muscle for diplomatic gain. The Hungarian eagerness to strengthen economic relations with Taiwan, coupled with Presidents Walesa and Havel's friendly gestures toward Taipei, convinced the Taiwanese that the post-communist nations would be willing to accord greater political status to relations with Taiwan, possibly even diplomatic recognition, should they be given sufficient economic stimulus. The economic assistance promised in exchange for political concessions helped forge "substantive" relations with Central Europe as it brought visible results in the form of ROC offices opened in Budapest and Prague and exchanges of government and parliamentary visits.

Beijing worried over the prospects of Taiwan utilizing economic means for political ends and responded with heightened vigilance of Taipei's communication with Central Europe, as well as political and economic sanctions if vigilance failed (as it did in the Czech Republic). However, China did not attempt to better Taiwan's promises of economic assistance. In retrospect, China's avoidance of economic one-upmanship was shrewd, as Taipei appeared to balk at following through with its grand investment and economic cooperation projects in the absence of diplomatic ties with any Central European nation. By early 1991, the Taiwanese had given up hope of gaining diplomatic recognition but they still held out for high-level "substantive" ties. Taiwan would have been satisfied with official ministerial-level agreements on investment protection and avoidance of double taxation. They would have been happy to see greater support for Taipei's efforts to reenter intergovernmental organizations. The Central Europeans, however, were reluctant to sign official agreements with Taipei or vote in favor of the ROC in international forums without any guarantee of sufficient economic compensation should their actions result in Chinese reprisals and loss of investment opportunities in China. The political and economic cost of alienating China appeared significantly higher than the

hypothetical benefits ensuing from their support for Taiwan. Although Taiwan may have been able to tempt friendly nations with larger, actual disbursements, it could never match China in the long term, in either its capacity to provide financial inducements to potential supporters or economic retribution for its detractors. By the late 1990s, it was clear that Taipei, entangled in its own financial crisis, was unlikely and unwilling to stage any economic miracles in Central Europe. The Taiwanese private investments that did eventually arrive in the Czech Republic were as much stimulated by the attractiveness of the Czech economy and its prospective entry into the European Union, as by the ROC government's encouragement.

Yet, the failure to forge diplomatic relations or stronger "substantive" partnerships with Central Europe through official agreements and ministerial-level dialogue does not nullify the achievements of Taiwanese economic diplomacy in Central Europe. All Central Europeans institutionalized their ties with Taiwan through bilateral *de facto* consulates and engaged in semiofficial communication. They supported the ROC's membership of the WTO and concluded various cultural and scientific agreements with Taiwan. In the mid-1990s, Prague provided Taipei with vocal support in intergovernmental forums, including the United Nations. Budapest, Prague, and Warsaw welcomed high-ranking dignitaries from the ROC, although all such visitors were classified as tourists, traders, or scholars. The Taiwanese managed to create a pro-Taiwan lobby in Central Europe. This, together with a general perception of Taiwan as a young democracy threatened by communist China, generated public sympathy for Taiwan. These achievements expanded Taiwan's international space and facilitated its informal diplomacy. However, friendly ties with Taiwan also benefited Central Europe, which gained access to the ROC market, investors, tenders, and developmental assistance. The absence of major Taiwanese investments in Central Europe (except the Czech Republic), rising trade deficits, and insignificant loans or other developmental aid programs do not undermine the Central European perception of Taiwan as a major Asian economy. While unlikely to deviate from the "one China" policy, Central Europe will continue to pursue nonofficial relations with the ROC as long as such relations hold the promise of economic benefits.

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