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### Critical Assessment of Taiwan's Trade and Investment Relationship with ASEAN Countries in the Past, Present & Future

#### I. Introduction

Facing the new century, the international community has sought to promote political and economic cooperation at the regional and global forums such as the “European Union” (EU) in Europe, “North America Free Trade Area” (NAFTA) in the Western Hemisphere, and “Association of Southeast Asian Nations” (ASEAN) in the Asia-Pacific region. Meanwhile, the ASEAN has a combined population of more than 580 million and a total economic output of over US\$ 850 billion is widely considered to be the most effective and influential grouping of countries in Asia.<sup>2</sup> ASEAN was established in 1967 and was intended to increase the organization's international leverage and the region's economic prosperity. When the world's economic structure moves toward regional economic cooperation such as EU and NAFTA, the future development of ASEAN would deeply influence the Asia-Pacific region and even the whole world. ASEAN currently has ten members including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Traditionally, Japan, USA, P.R. China and Taiwan are some of the main investors in Southeast Asian countries. Taiwan's economic advantages are in its strong financial capabilities, broad industrial base, enterprising small and medium-sized industries and skilled technical manpower. Taiwan's foreign exchange reserves of over US\$ 330 billion ranked the fifth in the world, and it is one of the world's most important out-bound investor. As Taiwan has developed alongside Singapore, South Korea, and Hong Kong, Taiwan is one of the industrialized developed countries known as the “Four Asian Tigers.” Since 1990s, Taiwan's investment always had played one of the most important roles in total ASEAN foreign investments. For example, Taiwan's investments once exceed Japan and became the top investor in Thailand in early 1990s. In Malaysia, Taiwan investment had once made up half of all Malaysia's foreign investment in late 1990s. In Indonesia, Taiwan's investment surpassed Japan for the first time and was the biggest investor during in the early 2000s. In the Philippines, Taiwan's investment also excelled USA and Japan at the same period. In Vietnam, the investment from Taiwan had ranked first for many years.

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<sup>2</sup> Bernard Eccleston, Michael Dawson & Deborah J. McNamara (1998) “The Asia-Pacific Profile,” Routledge Publishing, London, UK.

Since Taiwan traditionally has been one of the main investors in Southeast Asian countries, how and which direction the development of trade and investment relationships between Taiwan and ASEAN countries would be in the past, present & future? Although Taiwan's government had encouraged its industries to invest in Southeast Asia; however, Taiwanese investment seemed to gravitate toward P.R. China and investments in ASEAN have declined markedly. For Taiwanese investment, P.R. China, USA, and the ASEAN countries are the three top destinations. Although the investment from Taiwan to P.R. China is the highest, Taiwan's government used to adopt the "Go-South" Policy to encourage Taiwan's industries to invest in Southeast Asia countries for the purposes of diversity investment and lowering business risk. Among ASEAN countries, Thailand, Malaysia, Indonesia, the Philippines, and Vietnam are the five major targets caught the eyes of Taiwanese investors. Statistics had once showed that Taiwan's trade with ASEAN reached US\$ 19.09 billion in 1994, an increase of 22 percent from that of the previous year. Due its rapid industrial growth and transformation, Taiwan's investor had moved its traditional labor-intensive industries to Southeast Asian countries. To encourage investment from Taiwan, most ASEAN countries such as Singapore, Malaysia, Indonesia, the Philippines, Vietnam, and Thailand had concluded investment guarantee agreements with Taiwan. These agreements would provide legal protection for bilateral trade investments and ensure Taiwan industries' interests in those countries. All this shows that the bilateral relations between Taiwan and ASEAN were growing from 1990s to nowadays.

When Asia-Pacific region gradually has played a more important and active role in the whole world, the main economies including Japan, Asian NICs (Taiwan, South Korea, Hong Kong, and Singapore), P.R. China, and ASEAN would be more delicate and influential in the region. USA, Japan, P.R. China, and ASEAN are the major economic powers to affect Taiwan's future economic development. Meanwhile, P.R. China and ASEAN countries are the most booming economies in the world and attract the interests of global investors. Based on similar cultural background, P.R. China had been the top investment destination for Taiwanese investor. It is estimated that some fifty thousands Taiwanese businesses and over one million businesspeople and their dependents are established in the P.R. China.<sup>3</sup> In contrast, ASEAN countries seem less attractive with the reasons of ethnic, religious, language or social difference. However, why Taiwan government used to adopt "Go-South" Policy for encouraging the investment in ASEAN countries and what was the status of trade and investment relationship between Taiwan and ASEAN countries after the policy? The article plans to make critical assessment of Taiwan's trade and investment relationship with ASEAN countries since 1990s and find out the answer of Taiwanese investors' choice model. The article will analyze ASEAN members' economic and investment relationship with Taiwan and conclude with several recommendations for the implementation of a more appropriate approach to the issues concerning the relationship between Taiwan and ASEAN countries.

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<sup>3</sup> Peter Morris, "Taiwan business in China supports opposition," Asia Times Online, Feb. 4, 2004.

## **II. Establishment and Development of ASEAN**

### **1. Formation of ASEAN**

The ASEAN was established on 8 August 1967 in Bangkok, Thailand, with the signing of the “Bangkok Declaration.” The five original members were Indonesia, Malaysia, Singapore, Thailand, and the Philippines. Brunei joined ASEAN in January 1984. Vietnam became the seventh member of ASEAN in July 1995. Laos, Myanmar, and Cambodia were admitted as new members after 1997. The Bangkok Declaration united ASEAN members in a joint effort to promote economic cooperation and the welfare of the people in the region. The Declaration set up guidelines for ASEAN’s activities and defined the aims of the organization. The ASEAN countries came together with three main objectives: 1. to promote economic, social and cultural cooperation in this region; 2. to safeguard the political and economic stability in this region; and 3. to serve as a forum for the resolution of inter-regional differences. The First Summit Meeting of ASEAN was held in Bali, Indonesia in 1976 with the achievement of “the Treaty of Amity and Cooperation in Southeast Asia” and the “Declaration of ASEAN Concord.”<sup>4</sup> The agreements signified ASEAN aims towards ensuring regional peace and stability, fostering economic and social growth and enhancing the need for cooperation with all peace-loving countries. At this meeting, a permanent secretariat was also established in Jakarta to provide administrative dealings and to assist coordination of ASEAN’s activities.

The Second Summit Meeting of ASEAN was held in Kuala Lumpur, Malaysia in 1977 to celebrate the Tenth Anniversary of ASEAN and to assess the progress in the implementation of the decisions taken at the First Summit Meeting. The Third Summit Meeting took place in Manila, Philippines in 1987, and signed the “Manila Declaration” as well as set up “the ASEAN Plan of Action.” The members also signed “the Protocol Amending the Treaty of Amity and Cooperation in Southeast Asia” to enable non-ASEAN countries to accede the treaty as well as an Agreement for the Promotion and Protection of Investments. In the 1992 Fourth Summit Meeting in Singapore, ASEAN countries further signed the “Singapore Declaration” and the “Framework Agreement on Enhancing ASEAN Economic Cooperation” with the ambition of creating the “ASEAN Free Trade Area” (AFTA) within 15 years. For this goal, a main instrument to establish the AFTA, “the Agreement on the Common Effective Preferential Tariff Scheme” was made. The Meeting also enhanced the role of the Secretary General of ASEAN and enlarged the functions of the ASEAN Secretariat to carry out its mandate. At the Singapore Summit Meeting of 1992, ASEAN members decided to dissolve the five Economic Committees on Food, Agriculture, and Forestry (COFAF), Finance and Banking (COFAB), Industry, Minerals and Energy (COIME), Transport and Communications (COTAC), as well as Trade and Tourism (COTT) and all their subsidiary bodies and committees. The work and activities of the five defunct economic committees and their subsidiary bodies were taken over by the Senior Economic Officials Meeting (SEOM) which meets at least once per year.<sup>5</sup>

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<sup>4</sup> See [http://www.aseansec.org/about\\_ASEAN.html](http://www.aseansec.org/about_ASEAN.html)

<sup>5</sup> S. Rajaratnam (1992) “ASEAN: The Way Ahead,” Institute of Southeast Asian Studies, Singapore.

The Fifth Summit Meeting was held in Bangkok, Thailand in 1995. In the Bangkok Summit Declaration of 1995, ASEAN countries agreed on the significant progress and accomplishment of ASEAN. They were encouraged by the admission of Vietnam and the participation of Laos and Cambodia as observers. Besides, all ten countries of Southeast Asia including Myanmar signed “the Southeast Asia Nuclear Weapon Free Zone Treaty.” They declared their goal to work towards the speedy realization by the ASEAN region of a common spirit and sense of community, bringing shared prosperity to all its members and cultural, humanitarian and other fields that would enhance peace, security and prosperity in Asia and the Pacific. The Sixth Summit Meeting was convened in Kuala Lumpur, Malaysia in 1997. The major target of the Kuala Lumpur Meeting of 1997 was to admit two new members, Myanmar and Laos to full membership. However, Cambodia, because of its internal conflict, had its entry into the regional grouping postponed by ASEAN. In addition to the formal admission of Myanmar and Laos, other members signed four protocols involving the amendment of existing ASEAN accords along with other agreements on the group’s secretariat in Indonesia, regional energy cooperation and the group’s food security reserve. In 2001, it was decided to meet annually to address urgent issues affecting the region. Member nations were assigned to be the summit host in alphabetical order except in the case of Myanmar which dropped its 2006 hosting rights in 2004 due to pressure from USA and the EU.<sup>6</sup> By December 2008, the ASEAN countries had adopted the “ASEAN Charter” to model the EU-style integration. Under the ASEAN Charter, the ASEAN Summit will be held twice in a year. In sum, the establishment and development of ASEAN had more concentrated on economic cooperation and enlargement since 1990s. Without considering whether political and social differences between members, ASEAN’s admittance to dictatorship and troublesome nations had caused criticism theoretically and empirically. Some scholars had argued that new comers to ASEAN delayed the process of future integration. However, those criticisms seem not to constitute an obstacle for ASEAN’s future development.

## **2. Goals of ASEAN Cooperation**

### **a. Political and Security Cooperation**

The original goal of establishment of ASEAN was aimed at political and security cooperation. Under “the Treaty of Amity and Cooperation in Southeast Asia” (TAC) and “the Declaration of ASEAN Concord,” ASEAN members had agreed to establish an association that consisting of all Southeast Asian countries. ASEAN would continue to play an active role in the cooperation of ASEAN participants in developing “the ASEAN Regional Forum” (ARF) to maintain peace and security in the Asia-Pacific Region, reaffirming its commitment to “the Zone of Peace, Freedom, and Neutrality” (ZOPFAN), and calling upon the nuclear-weapon states to extend their

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<sup>6</sup> Denis Hew (2005) “Roadmap to an ASEAN Economic Community,” Institute of Southeast Asian Studies, Singapore.

cooperation by acceding to the Protocol of the Treaty. In addition, ASEAN had actively participated in the “Asia-Europe Meeting” (ASEM).<sup>7</sup>

## **b. Functional Cooperation**

Cooperation in industrial development had been an important cornerstone of ASEAN economic cooperation. Various industrial cooperation initiatives had been pursued with the goal of enhancing the industrial competitiveness of the region. Industrial cooperation schemes included “ASEAN Industrial Project,” (AIP) “ASEAN Industrial Complementation,” (AIC) “Brand-to-Brand Complementation,” (BBC) and “ASEAN Industrial Joint Venture.” (AIJV)<sup>8</sup> Industrial cooperation in ASEAN had been widened by ASEAN members to increase cooperation in research, technology transfer, human resources development and other related economic issues. ASEAN had embarked on new initiatives to achieve global competitiveness in agriculture and forestry while actualizing AFTA. Various measures had been implemented to promote the production and trade in agriculture and forestry products given that these sectors were still significant to many ASEAN economies. A Memorandum of Understanding on ASEAN Cooperation and Joint Approaches on Agriculture and Forest Products Promotion Scheme had been designed for this goal. ASEAN also had implemented the Medium-Term Program of Action on Energy Cooperation to support the rapid increase in the demand for energy.<sup>9</sup> ASEAN’s collaborative efforts in transportation and communications had promoted trade, investment, and industrial linkages. The Plan of Action in Transport and Communications had designed to develop multi-modal transport and trade facilitation, achieve inter-connectivity in telecommunications and coordinate road transport regulations.

ASEAN had strived towards technological competitiveness by regional strength and cooperation in science and technology that was self-sustaining and driven by private sector participation. Economic prosperity had been advanced in a sustainable manner for the benefit of future generations, and the cultural and artistic heritage will be an integral part of its life and spirit. ASEAN also had worked towards the equitable and effective participation of women in all fields and levels of society, and further enhance cooperative efforts to combat drug abuse and trafficking. For example, tourism was one of the most important sectors in ASEAN with large foreign exchange earning potential. ASEAN promoted tourism development, preservation of cultural and environmental resources, the provision of transportation and other infrastructure, and simplification of immigration procedures. An “ASEAN Framework Agreement on Services” had been established to conduct negotiations on specific commitments in services. An ASEAN patent and trademark system also had been explored consistent with the establishment of an ASEAN investment region to implement an ASEAN Plan of Action on Cooperation and Promotion of Foreign Direct Investment and Intra-ASEAN Investment.

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<sup>7</sup> Lay Hwee Yeo (2003) “Asia and Europe: the development and different dimensions of ASEM,” Routledge Publishing, London, UK.

<sup>8</sup> Carolyn L. Gates, Mya Than (2001) “ASEAN Enlargement: impacts and implications,” Institute of Southeast Asian Studies, Singapore.

<sup>9</sup> Ibid.

### **c. Economic Cooperation**

To promote and enhance inter-ASEAN trades had been an important way relating to ASEAN economic cooperation. ASEAN had accelerated the progress towards actualization of AFTA by reducing tariff down to 0-5% in year of 2008.<sup>10</sup> ASEAN had intensified its cooperative relationships with its dialogue partners and other regional groups such as CER, EU, and NAFTA. ASEAN also promoted sub-regional arrangements including the three growth triangles and the greater Mekong region and strengthened its links with the ASEAN Chambers of Commerce and Industry, and cooperated closely in the fora of WTO and APEC, as well as “the East Asia Economic Caucus” (EAEC). A “General Dispute Settlement Mechanism” (DSM) had adopted for all disputes arising from ASEAN economic agreements. Within economic cooperation, the most significant step of ASEAN’s economic development was the decision to establish “the ASEAN Free Trade Area.” (AFTA) In 1994, the ASEAN countries had agreed to accelerate the establishment of AFTA by reducing the initial period of 15 years to 10 years.<sup>11</sup> The main goal of AFTA is to advance greater foreign direct investment and inter-ASEAN investment in the region. AFTA also aims to promote ASEAN as a competitive production area geared towards serving the world market. The Common Effective Preferential Tariff Scheme (CEPT) that was launched in January 1993 is the main mechanism for realizing AFTA. The Scheme had covered wide-ranging production including manufactured and agricultural products. This product coverage was the most wide-ranging agreement in ASEAN’s related schemes. It included more than ninety percent of the total ASEAN tariff lines as well as over eight-five percentage of inter-ASEAN trade values. Meanwhile, there were some provisions in the AFTA agreement for products to be placed under the Temporary Exclusion List and Exception List, nonetheless by 1998, all existing products on the Exclusion List would have to be transferred to the Inclusion List.<sup>12</sup>

In the year of 2000, over ninety-five percent of the total ASEAN tariff lines had been paced under the CEPT Scheme. The CEPT Scheme had entailed tariff reduction exercises across the board and the elimination of quantitative restriction and non-tariff barriers (NTBs).<sup>13</sup> In 2003, ASEAN had reached a tariff regime of not more than five percent tariff rate. To ensure that AFTA could be realized promptly, other trade facilitation measures had been undertaken contemporaneously to speed the AFTA process. Although ASEAN’s future cooperation in economic issues is promising, there are still many political and economic problems within ASEAN. First, there are enormously complicated characters among ASEAN members. The differences of cultures, races, regimes, and religions among those countries often make accidental disputes and quarrels and also diminish their compliance to cooperate farther. Further, ASEAN members’ economic structures and development levels also varied different. At the same time, many member states seek for foreign

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<sup>10</sup> Sheldon W. Simon (2002) “Evaluating Track II approaches to security diplomacy in the Asia-Pacific: the CSCAP Experiences,” 15(2) *The Pacific Review* 168.

<sup>11</sup> ASEAN Secretariat (1993) “AFTA Reader Volume 1,” November 1993, available on <http://www.aseansec.org/9103.htm>. It could be figured out that the progress in intra-ASEAN trade was clearly dismal from ASEAN Trade Statistics from 1995 to 2005.

<sup>12</sup> Emiko Fukase & L. Alan Winters (2003) “Possible Dynamic Effects of AFTA for the New Member Countries,” 26 *World Economy* 853-871.

<sup>13</sup> See *supra* not Hew.

capital and technique to develop their domestic industries and they depend on foreign investments heavily. Basically, ASEAN countries experience strongly economic competition and lack mutually beneficial conditions. This is also why most ASEAN countries insist upon national protectionism and departmentalism as well as delaying the process of economic cooperation and reducing the tariff scheme. Those problems hinder ASEAN countries' future economic cooperation and exchanges.

### **3. Impacts of ASEAN in the Asia Pacific Region**

ASEAN had initiated linkages with the "Australia–New Zealand Closer Economic Relations Trade Agreement" (CER) to promote trade and investment flows between the two regions.<sup>14</sup> In this regard, various measures had been identified for cooperation in facilitating trade and investment flows. Besides, the ASEAN Economic Ministers and Japan dialogue had made a positive contribution towards the strengthening of supporting industries, quality control, development cooperation and technical assistance between ASEAN and Japan.<sup>15</sup> ASEAN also had regular consultations with "the United States Trade Representative" (USTR) with a US– ASEAN Alliance for Mutual Growth. ASEAN has extensive economic linkages with its dialogue partners and international organizations through various economic cooperation programs and activities. ASEAN had used its established channels of consultation, negotiation and cooperation with its dialogue partners in trade, investment, and other economic-related matters, including developmental cooperation. In 1990s, ASEAN had five dialogue partners including Australia, Japan, P.R. China, the European Union, and USA. ASEAN had taken jointed approaches on some regional and international economic issues and coordinates its position in various international fora such as APEC and WTO. To strengthen linkages with its neighbors and major trading partners, ASEAN had tried to raise its influence in the Asia-Pacific region and international community. For example, ASEAN had tried to establish three "growth triangle" to enhance regional economic cooperation. When the global economic trend goes forward to regional economic cooperation, the ASEAN would further guide Asian countries' economic development and cooperation and deepen Southeast Asian countries' influences in the world's economic structure.

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<sup>14</sup> Merit E. Janow (1997) *Assessing APEC's Role in Economic Integration in the Asia-Pacific Region*, 17 *Nw. J. Int'l L. & Bus.* 947-982.

<sup>15</sup> Björn Hettne (1996) "Globalization, The New Regionalism and East Asia" in *Globalism and Regionalism*; Toshiro Tanaka & Takashi Inoguchi (ed), *Selected Papers Delivered at the United Nations University Global Seminar '96 Shonan Session*, Hayama, Japan.

### III. Taiwan's Role and Its Interactions with ASEAN Countries

#### 1. Possibility of Taiwan as a Dialogue Partner in ASEAN

To expand its influences, Taiwan had joined the APEC and WTO, and planned to play a more active role in international and regional organizations. Not only in economic organizations but also in political activities, Taiwan had stressed its participation and heightened its international position, including the efforts to become an ASEAN dialogue partner. During the period of 1990s, Malaysia had supported Taiwan's becoming a dialogue partner of ASEAN, as well as Singapore and the Philippines had privately backed admitting Taiwan as an ASEAN dialogue partner.<sup>16</sup> However, Taiwan's efforts on the international stage seem futile with Beijing opposition. For example, under Beijing's pressures, "the ASEAN Regional Forum" (ARF) had agreed to restrict future participants to sovereign states, ruling out the admission of Taiwan. In 1990s, under the tension between Beijing and Taipei, Taiwan was not acknowledged as a sovereign state by the current ARF members, which comprise 18 countries including P.R. China and the EU.<sup>17</sup> Without Beijing's tolerance, the possibility of Taiwan as a dialogue partner of ASEAN seems slight even the relaxation of cross-strait relations after Taiwan's new elected Ma Administration in 2008.

Although Taiwan does not have diplomatic relations with any ASEAN countries, the non-official economic and cultural relations between Taiwan and ASEAN countries still express well-developed. Taiwan's export to ASEAN countries had increased sharply in 1990s. During this period, of Newly Industrialization Countries (NIC), Taiwan ranked second in exports to ASEAN, only behind Singapore.<sup>18</sup> For example, Taiwan's two-way trade with the ASEAN countries hit a record US\$ 14 billion in 1995. ASEAN also had become Taiwan's third largest export outlet, next to USA, and P.R. China in 1990s.<sup>19</sup> ASEAN also is Taiwan's fourth largest import source, behind Japan, USA and the EU. Taiwan had become the major foreign capital sources in Southeast Asian countries. Taiwan government also had encouraged its enterprises to step up activities there and to disperse the concentration of rapidly increasing China-bound investment such as so-called "Go-South Policy." The accumulated capital investments from Taiwan to ASEAN exceeded US\$ 30 billion and include 4,460 projects at the end of June 1996.<sup>20</sup> Indonesia is so far the biggest attraction for Taiwan capitals in ASEAN countries, followed in order by Malaysia, Thailand, Vietnam, Singapore, and the Philippines. Therefore, as one of the most important trade partner and investors in ASEAN, Taiwan's status as dialogue partner should be hopeful despite political consideration.

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<sup>16</sup> "Malaysia backs Taiwan's becoming ASEAN dialogue partner," Deutsche Presse Agentur, May 23 1997.

<sup>17</sup> "ASEAN Regional Forum to close door to Taiwan," Nikkei English News, Jul. 22 1996.

<sup>18</sup> "Taiwan trade with ASEAN nations rising," Tradewinds, Jul. 28 1997.

<sup>19</sup> Taiwan: Bureau of Foreign Trade (2006) "Taiwan External Trade Development Overview," available on <http://cweb.trade.gov.tw/>

<sup>20</sup> Ippei Yamazawa (1993) "Dynamic Interdependence among the Asia-Pacific Economies," 129 Economic analysis 3-189.



## **2. Importance of ASEAN to Taiwan's Economic Development**

In fact, the non-official relations between Taiwan and ASEAN had become closer and closer. For Taiwan, to reinforce bilateral relation with ASEAN not only would conform to its actual economic benefits, but also strengthen its international political influences. Thus the importance of ASEAN to Taiwan's future development is considerable. In geographic location, ASEAN countries had access to Taiwan and are convenient to investors' dealings. ASEAN countries' abundant natural resources, rich and low-priced labor, and huge markets also make an excellent environment for Taiwan's traditional labor-extensive industries. In addition, ASEAN countries had provided many investment incentives such as preferential taxes and financial inducements to attract foreign investors since 1990s.<sup>21</sup> Some ASEAN countries still enjoy special custom and imported quotas in USA and many Western countries. Taiwanese industries that invest in ASEAN countries can also enjoy the same treatment. Those advantages had deepened Taiwan investors' interests. Since the 1990s, Taiwan's internal economic environment had also changed. Going through high-price labor and land, and high-standard environmental requirement, Taiwan had lost some international competition and no longer had the position to provide a better environment for labor-intensive industries. Being a developed country, Taiwan no longer enjoyed the Western countries' preferential customs. The world's economic trend had urged Taiwan to seek regional economic cooperation and rid itself of international isolation. Taiwan's neighbors, ASEAN countries, could furnish a better investment environment for Taiwan's traditional industries and could assist Taiwan to conform to international economic fashion. Using Taiwan's huge capital to approach ASEAN and AFTA would bring into play mutual benefits for Taiwan and ASEAN. Therefore, due to Taiwan's internal changes and international economic trends, the importance of ASEAN to Taiwan seems obvious from 1990s till today.

## **IV. Taiwan's Investment and Trade Relationship with ASEAN Countries**

### **1. Taiwan's Trade Relationship with Thailand**

Thailand was Taiwan's ninth biggest trading partner in 1994, with Taiwan's exports to Thailand totaling US\$ 2.44 billion and imports reaching US\$1.2 billion. In addition, Taiwan had invested US\$ 2.7 billion in Thailand at the first ten months of 1996, making it the second-largest investor following by Japan. Thai government had approved 56 investment project applications by Taiwanese and accounted for 23% of total foreign investment value during the same period.<sup>22</sup> The Kunnam Enterprise, a Taiwanese sporting goods maker and the world's largest tennis racket maker, had reshaped its corporate structure and relocated facilities in Thailand.<sup>23</sup> Thailand was gearing up to attract more Taiwan capital by offering preferential tax incentives of as long as 13

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<sup>21</sup> Siao Cyuan Jheng (2000) "East Asia "regionalism" with the development of Taiwan's role," 14 *Political Science Review*.

<sup>22</sup> F. C. Kuo & Wen-fen Lin (1997) "Taiwan retains rank as Thailand's second-largest investor," *Central News Agency*, Jan. 23 1997.

<sup>23</sup> Katsuhiko Meshino (1989) "Taiwan firms shifting production offshore island largest foreign investor in Thailand," *Nikkei Weekly*, Feb. 25, 1989, 9.

years. Thai government had offered an eight-year exemption on business taxes plus a 50 percent cut in the tax for five more years for capital and technology-intensive industries. The incentive had spurred more large Taiwan companies to follow the smaller companies in moving to Thailand.<sup>24</sup>

Meanwhile, with the implementation of the foreign investment regulations, foreign investments in labor-intensive and high-polluting industries was no longer welcome in Thailand and the investment incentives were classified into three categories in accordance with the location of investment sites. Those investments out of Bangkok had enjoyed more favorable incentives. Changes in foreign investment regulations meant some traditional industries could not hold economic advantages like before. The deteriorating investment environment in Thailand also had made many Taiwanese businesses shift their investments to other ASEAN countries and P.R. China.<sup>25</sup> Although Taiwan was one of the leading foreign investors in Thailand, Taiwan investment in this country had been declining steadily in 1990s. Moreover, after mid-1997, Thai economy had been battered by a string of financial crises, causing Thai currency to devalue drastically.<sup>26</sup> The financial problems had seriously affected Thai foreign investments and trade. The amount of Taiwanese exported to Thailand dropped six percent, and many Taiwan companies had reportedly pulled back from investing there. The last financial crises had enforced Thai government to reform foreign investment regulations and opened more economic sectors to foreign investors in the further. However, heavily depended on foreign capital had impacted on Thai economy's stability and independence.

## **2. Taiwan's Trade Relationship with Malaysia**

Trade between Taiwan and Malaysia had increased by leaps and bounds to US\$ 6.8 billion in 1996.<sup>27</sup> Taiwan had been the third major importer of liquefied natural gas from Malaysia. Thus, Malaysia's trade surplus with Taiwan had continued to grow in years. Taiwan investors had channeled US\$ 311 million into Malaysia in 1996, ranking the fourth-largest source of foreign capital for Malaysia.<sup>28</sup> From 1979 to 1994, Taiwan had contributed US\$ 7.4 billion in Malaysia, making Taiwan the second-largest foreign investor following Japan. Taiwanese investments in Malaysia were mainly in electrical and electronics products, followed by wood products and non-metallic mineral products.<sup>29</sup> The investment in the metal, textiles, and electronics and electrical appliance industries had totaled US\$ 866 million, accounting for 75% percent of its total investment in Malaysia. The Jeo-shun Group, dealing in health products, had planned to set up a health product-processing plant in Malaysia.<sup>30</sup> After the revision of Malaysia's banking law, Taiwanese commercial banks had set up branches in Malaysia to be convenient for Taiwanese

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<sup>24</sup> "Taiwan investments in ASEAN nations over US\$ 30 B.," *Tradewinds*, Sept. 16 1996.

<sup>25</sup> Flor Wang (1995) "Taiwan invest in Thailand on decline," *Central News Agency*, Mar. 4 1995.

<sup>26</sup> Fiana Kai (1997) "Taiwan trade missions to visit Thailand," *Central News Agency*, Jul. 4 1997.

<sup>27</sup> "Taiwan investment in Malaysia drops," *Central News Agency*, Feb. 18 1997.

<sup>28</sup> Debbie Kuo (1998) "Taiwan ranks fifth in capital investment in Malaysia," *Central News Agency*, Apr. 28, 1998.

<sup>29</sup> Kartini Abd Kadir (1995) "Call for closer business ties between Malaysia and Taiwan," *Business Time*, May 9 1995.

<sup>30</sup> "Taiwan's Jeo-Shun to set up linzhi farm, factory in Malaysia," *Business Times*, Jan. 9 1996.

doing business in Malaysia. Taiwan and Malaysia also had signed bilateral agreements of investment guarantee and double taxation relief.

Malaysia's infrastructure was as good as developed countries and there was a large Chinese population as well in the country.<sup>31</sup> Malaysia was a comparatively more stable and less costly gateway into the larger ASEAN market. Malaysia had availed itself of Taiwan's capital and technology resources during its developing process of "industrial blueprint." Taiwan, whose investments in Malaysia had kept growing in years, and outperformed Japan and USA soon to become the largest foreign capital source for Malaysia.<sup>32</sup>

### 3. Taiwan's Trade Relationship with Indonesia

Trade between Taiwan and Indonesia had increased year by year. Indonesia's main non-oil exports to Taiwan had included leather goods, coal, wood and garments. Taiwan was a major buyer of Indonesia's liquefied natural gas and some oil products.<sup>33</sup> Indonesia had emerged as the second-largest energy-supplying country to Taiwan.<sup>34</sup> Taiwan's state-run *CPC Corporation* also had teamed up with Indonesian Petroleum to set up an asphalt plant in Indonesia.<sup>35</sup> Taiwan's investment in Indonesia from 1967 to 1996 had amounted to US\$ 7.1 billion, and was third biggest investor after Japan and Hong Kong.<sup>36</sup> In 1992, Taiwan was Indonesia's largest foreign investor, replacing Japan.<sup>37</sup> As Indonesia had rich natural resources and a plentiful labor force, it was a market rife with investment opportunities for Taiwan's small and medium-sized businesses. Taiwanese capital had mainly targeted Indonesia's pulp, textile, metal and agricultural industries.<sup>38</sup>

Taiwanese government had set up an industrial park in Indonesia for Taiwanese and local firms totaling US\$ 15 million.<sup>39</sup> The complex was in Medan, on the island of Sumatra. Besides, the Taiwanese International Industrial Park at Battam Island had been developed jointly by Taiwan and Indonesian investors. The Indonesian government also had agreed to provide more incentives for Taiwan investors interested in relocating operations to Battam, and had promised that the preferential treatment for Singaporean investors covered Taiwan investors.<sup>40</sup> Aimed at the strong competition from P.R. China, Malaysia, and India, the Indonesian government had relaxed laws and regulations governing foreign investment. The incentives had included the easing of import and inspection controls, reductions in customs tariffs, and allowing wholly foreign-owned

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<sup>31</sup> Hamisah Hamid (1995) "Malaysia attracting more tourists from Taiwan," *Business Times*, Jun. 27, 1995, 3.

<sup>32</sup> "Malaysia welcomes cooperation from Taiwan," *Central News Agency*, Nov. 22, 1996.

<sup>33</sup> "Indonesia urges Taiwan to ease import rules," *The Jakarta Post*, July 31, 1997.

<sup>34</sup> Benjamin Yeh (1997) "Taiwan, Indonesia to hold energy conference," *Central News Agency*, Jan. 3, 1997.

<sup>35</sup> "Taiwan to invest in US\$24 million asphalt plant in Indonesia," *Antara Indonesian National News Agency*, Jan. 9, 1996.

<sup>36</sup> "Taiwan promotes economic role in Indonesia," *Antara Indonesian National News Agency*, May 13, 1996.

<sup>37</sup> Olivi Pristina (1992) "Taiwan becomes top investor in Indonesia," *The Nikkei Weekly*, Jan. 11 1992, 20.

<sup>38</sup> Flor Wang (1995) "Indonesia wants Taiwan agricultural help," *Central News Agency*, Aug. 15, 1995.

<sup>39</sup> "Taiwan to set up industrial park in Indonesia," *Nikkei Weekly*, Feb. 5, 1996, 18.

<sup>40</sup> Shu-mei Wu & Debbie Kuo (1995) "Taiwan investors shifting into high gear in Indonesia," *Central News Agency*, Aug. 3, 1995.

investment. The allowing of wholly foreign-owned investment ventures had benefited Taiwan businesses interested in breaking into the Indonesian market because the measure helps end complications and fraud involving joint ventures between foreign investors and their Indonesian partners. Despite these investment incentives, Taiwan's inking of investment guarantee and double taxation exemption agreements with Indonesia, and the regular ministerial-level economic talks between the two sides had made the economic and trade relations between Taiwan and Indonesia more intimate.

#### **4. Taiwan's Trade Relationship with the Philippines**

The Philippines had received the least of the US\$ 24 billion Taiwan investors had pumped into Southeast Asian countries in 1990s.<sup>41</sup> Taiwanese private-sector investment in the Philippines had surged dramatically. One of Taiwan's largest publicly listed corporations, the Goldsun Group of companies, had committed to invest over US\$ 352 million in the Philippines. Also Chinfon Group of Taiwan, one of the world's largest automobile parts and components producers, had partnered with Proton Philippines Corp. to manufacture and assemble cars in the Philippines.<sup>42</sup> Taiwan investors, many of them had committed to the Subic Bay Free Port, chose the Philippines initially as part of efforts to spread political and economic risk. In Subic Bay, the former US naval base, about 50 Taiwan enterprises in the works had planned projects there. A 326 ha industrial park in the Subic Bay Free Port dedicated to Taiwanese investors had come to life, offer close to a year of foot-dragging. As to infrastructure, it was being developed by a joint venture between the Subic Bay Metropolitan Authority and Taiwan's China Development Corp., along with a US\$ 23 million loan from the Taiwan government. Acer Information Products wanted to expand and triple its productivity. It had 15 hectares in the industrial park and would be starting construction early next year.<sup>43</sup> The Philippine government had opened new banks to foreign investment, with the proviso that foreign investment should not exceed 30 percent of the holdings of Philippine banks. The China Development Corp. (Taiwan) and the China United Trust and Investment Corp. (Taiwan) had teamed to invest in the newly established Asia United Bank in the Philippines. The Philippines had a well-educated workforce. However, the poor social order and powerful trade unions were still the main concerns for foreign investors.

#### **5. Taiwan's Trade Relationship with Vietnam**

At 1989, Taiwan had canceled the trade ban and restarted the trade and investment relations with Vietnam. Since 1990, the economic and trade relations between Taiwan and Vietnam had become closer. At the end of 1996, the total investment capital from Taiwan to Vietnam was about US\$ 3.6

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<sup>41</sup> Shu-mei Wu & Benjamin Yen (1995) "Philippines, Indonesia recommended for Taiwan investors", Central News Agency, Aug. 3, 1995.

<sup>42</sup> "The Europeans, Asians are coming: Taiwan firm to invest in Philippines," Philippines Business Report, July 1, 1997.

<sup>43</sup> "Philippines sees influx of Taiwan investors," Straits Times, Sept. 23 1995, 45.

billion higher than other countries. It held a quarter of the total foreign investment capital in Vietnam. Trade ties between the two countries were complementary and there was ample room for bilateral trade growth since Vietnam is endowed with natural resources and manpower and has a similar traditional cultural background. Taiwan's imports from Vietnam comprised lumber, coal, iron, and agricultural products. Exports were mainly machinery equipment, textiles, and consumer products. Two-way trade between Taiwan and Vietnam reached US\$ 1.3 billion in 1995, making Taiwan the fifth largest trading partner of Vietnam.<sup>44</sup> Taiwanese had begun to tap the vast Vietnamese market as early as 1990 while other investors were still wary of investing in this communist country.<sup>45</sup> Taiwan's investment in Vietnam had concentrated on textile and footwear, wood-processing, cement, and motor-vehicle industries. Chinfon had entered Vietnam's financial, livestock, motorcycle, and liquefied petroleum gas markets since 1990. Besides, Taiwan's state-run CPC **Corporation** was cashing in on an oil refinery, the first and biggest ever to be developed in Vietnam.<sup>46</sup>

Vietnam was particularly keen to attract light industrial manufacturers to make products for export. The Vietnam government was planning to set up a special economic zone in central Vietnam for Taiwan industries. The planned economic zone was aimed at encouraging Taiwan's agricultural, lumber, steel and sugar-refining sectors to establish bases there. Vietnam had approved a Taiwan-initiated Hanoi industrial park development project, effectively lowering risk for Taiwan investors. A Taiwan-invested industrial park in Tan Thuan, near Ho Chi Minh City, had begun operation in 1992. Taiwan was cooperating with the Vietnamese government to develop industrial zones in Hanoi, Haiphong and Hai Hung province. The three industrial zones would be used to provide better government-sponsored protection to individual Taiwan investors who previously had to strike out on their own.<sup>47</sup> Vietnam and Taiwan also had agreed to sign a bilateral trade agreement and a temporary admission of goods agreement in the near future to strengthen trade and cultural exchanges. The two governments had agreed to exchange most-favored-nation (MFN) status to further accelerate business and trade relations during the Taiwan-Vietnam ministerial-level consultations in 1995.<sup>48</sup> That was the first MFN agreement Taiwan had signed with an ASEAN member since Taiwan launched its "Go-South" policy in late 1993 to boost investment and business activities in the region. Also, Vietnam was required to lower its customs tariffs to fewer than 5 percent by 2003 as part of its ASEAN membership requirements.<sup>49</sup> That meant Taiwanese-owned factories in Vietnam could export their products to other ASEAN countries at lowered tariffs. However, the Vietnam government had adopted of tougher laws and regulations including restrictions on the rezoning of farmland for industrial use and a requirement that joint ventures

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<sup>44</sup> Danielle Yang (1996) "Taiwan leading foreign investor in Vietnam," Central News Agency, Feb. 1, 1996.

<sup>45</sup> "Taiwan still largest investor in Vietnam: Despite interference from Beijing, investments climb 132 percent," China News, Feb. 3, 1996.

<sup>46</sup> "Taiwan to build oil refinery in Vietnam," Central News Agency, Jan. 5 1996.

<sup>47</sup> Debbie Kuo (1995) "Taiwan to help develop 3 industrial zones in Vietnam," Central News Agency, Mar. 8, 1995.

<sup>48</sup> Shi-mei Wu & Debbie Kuo (1995) "Taiwan, Vietnam to exchange MFN treatment," Central News Agency, July 28, 1995.

<sup>49</sup> Danielle Yang (1995) "Taiwan investors urged to use labor division plan in Vietnam," Central News Agency, Sept. 1, 1995.

needed the participation of Vietnamese citizens.<sup>50</sup> These changes meant Vietnam was no longer an investment heaven for Taiwan businesses.

## **6. Taiwan's Trade Relationship with Singapore**

Singapore does not have significant natural resources except its deep water harbor. Instead, it has an excellent geographical location with a well-developed infrastructure and communications system, political stability as well as a well-disciplined manpower. Singapore is a major transshipment hub, a global warehousing and distribution center in the Asia-Pacific area. It also poses the leading position of financial and commercial activities in Southeast Asia area. There are many international companies including banks, insurance, shipping, transportation, communication, and services to set up operational headquarters or branches in Singapore. The trade policies and regulations of Singapore are kept very liberal, with non-tariff barriers imposed to protect domestic industries. Over ninety percent of all imports enter into this country free from tariffs and other border measures. There are minimum trade restrictions and regulations. As to investment, Singapore also remains high-level attraction to foreign investors with its liberal foreign investment policies and economic growth potential. The investment incentives in Singapore aim to develop this country into an international commercial center, air and sea cargo center, as well as the regional operational headquarters for multinational enterprises and major exporter services. Foreign investors often use Singapore as their operational center to provide management services for their subsidiaries and associated companies or their branches in other Asia countries. Singapore, as one of four tigers in Asia (NICs), has the similar economic background – abundant capital and advanced techniques like Taiwan. For Taiwan, Singapore is a major competitive opponent; however, Singapore has better international commercial position since its ASEAN membership can enjoy more preferential treatment in this potential market than Taiwan. Trade between Taiwan and Singapore had been on the rise in 1990s, with the trade surplus in Taiwan's favor. Singapore was Taiwan's fifth largest trading partner in 1994, with exports to Singapore totaling US\$ 3.4 billion and imports worth US\$ 2.4 billion. Singapore's land prices and labor costs were very high. As a result, most foreign investors had focused on high-tech and service industries like electronics and petrochemicals. The Taiwanese Acer Inc., one of the top 10 PC makers in the world, was setting up their Asia-Pacific regional headquarters in Singapore. In addition, Taiwan's investors had encountered no difficulties in terms of language and living conditions in Singapore.<sup>51</sup> Singaporean investment environment and regulations were better than many countries and attract many foreign high-tech industries' interests.

## **7. Taiwan's Trade Relationship with Brunei**

Brunei's economic structure is for the most part supported by exports of crude oil and natural gas, with revenues from the petroleum sector accounting for more than 50% of GDP. The major

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<sup>50</sup> "Vietnam no longer Taiwan's investment heaven following enactment of new laws," *China News*, Aug. 22, 1996.

<sup>51</sup> Daniel Foong (1997) "Taiwan continues to enjoy trade surplus with Singapore," *Tradewinds*, Jul. 28, 1997.

customers for Brunei's petroleum products include Japan, Taiwan, Singapore, and USA. The government of Brunei also actively encourages foreign investments. New enterprises which meet certain criteria can receive "pioneer" status, exempting profits from income tax for up to five years. There is no personal income tax or capital gains tax. Besides, there are no specific restrictions of foreign equity ownership, but local participation, both shared capital and management, is strongly encouraged. Owning companies in Brunei has to be incorporated locally or registered as a branch of a foreign company and must be registered with the Registrar of Companies. Brunei has joined ASEAN in 1984 and gives its ASEAN membership the highest priority in its foreign relations. Since Brunei had some of the best oil refining and storage facilities and was the second biggest liquefied natural gas exporter. The CPC *Corporation, Taiwan* had invested in building a refinery and associated petrochemical complex with Japan and Brunei petroleum companies in Brunei.<sup>52</sup> Trade between Taiwan and Brunei had risen in 1990s.

## **8. Taiwan's Trade Relationship with Myanmar**

Burma became Myanmar in 1989 after the State Law and Order Restoration Council (SLORC). Myanmar had suffered internal strife from a smorgasbord of dictators, rebels and guerrillas and most Western countries think it is synonymous with the suppression of democracy and the use of slave labor. Myanmar is an under-developed country with its economy heavily dependent on the agricultural sector, which generates about 40% of GDP and provides employment for 65% of the workforce. In 1990s, the country was also unable to achieve any substantial improvement in export earnings due to falling prices for many major commodity exports. Myanmar had been heavily isolated from international economic forces and has been trying to encourage foreign investment. Myanmar is now cementing economic bonds with ASEAN, which believes constructive engagement is a better form of diplomacy than sanctions. Myanmar's relations with ASEAN have steadily improved since 1995. ASEAN countries, especially Thailand and Singapore, have invested heavily in Myanmar. Ignoring west countries' objections, ASEAN admitted Myanmar to full membership in July 1997. As to its trade relationship with Taiwan, attracted by Myanmar's rich natural resources and cheaper labor, about two hundred Taiwanese companies had invested in textiles, farming, jewelry, and other businesses in Myanmar. Taiwan's trade with Myanmar, had conducted mainly through Singapore totaled US\$ 68 million.<sup>53</sup> Taiwan's interest in Myanmar was part of its overall strategy of expanding trade links with ASEAN. Rangoon, Myanmar's capital, has a large community of Chinese (Southern dialect) origin whose ties to Taiwan had always been strong.<sup>54</sup>

## **9. Taiwan's Trade Relationship with Laos**

Laos is a landlocked country between Vietnam and Thailand and it is one of the poorest countries in the world with a grossly primitive economic infrastructure, and a largely uneducated workforce.

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<sup>52</sup> "Taiwan oil firm to built joint venture oil refinery with Brunei," Deutsche Presse-Agentur, Jul. 15 1997.

<sup>53</sup> "Taiwan trade office in Burma," Asian Wall Street Journal, Apr. 11, 1997.

<sup>54</sup> "Review/Intelligence: Taiwan plans full trade mission in Burma," Dow Jones International News, Sept. 3, 1997.

It has a rudimentary road system, limited external and internal telecommunications, and electricity available only in a limited area. In 1990s, agriculture still makes up the largest sector in Lao's economy, employing 85% of the population and producing 62% of the national income. The Lao government had begun to realize that their economic policies were inappropriate, and started some economic reforms with decentralizing control, encouraging private enterprises, and privatizing public enterprises. Since 1990s, Laos had signed related agreements with the World Bank and IMF committing itself to extending and deepening the reforms. Traditionally, Laos had maintained close ties with Vietnam formalized in friendship and cooperation treaties; however, Laos had reduced its dependence on Vietnam and to improve its relations with other countries. Laos particularly had well-developed relations with Thailand, Laos' principal route of access to the sea and its primary trading partner. The Lao government had enacted a more liberal foreign investment code to attract more foreign capital. However, the poor infrastructure and low-level technical skills had hindered foreign investors' interests. In the foreseeable future, the economy of Laos would continue to depend on foreign aids as well as other international funds and sources.

#### **10. Taiwan's Trade Relationship with Cambodia**

The economy of Cambodia remains essentially rural, with the population largely living in the countryside and heavily dependent on subsistence agriculture. Economic recovery is still unexpected because of the continued political unrest and factional hostilities. Since 1990s, the Cambodian government had opened its door for business with a liberal new investment law offering foreign enterprises some most attractive incentives, including tax holiday for up to eight years, exemption from withholding tax on dividends, and no nationalization and price control, etc. With rich natural resources and abundant labor, Cambodia offers foreign investors many opportunities for producing or processing the wide variety of local products and consumer goods. Cambodia's low-cost labor, cheap land, and most advantageous investment incentives in Southeast Asia indeed attract many foreign investors' interests. However, Cambodia's political instability is a natural drawback for foreign investors.<sup>55</sup> The civil war between Hun Sen and Prince Ranariddh had delayed its admittance to ASEAN and seriously damaged the fragile economy. In 1990s, Taiwan was the largest foreign investor in Cambodia, totaled investment up to US\$ 80 million. Taiwan was also Cambodia's biggest source of tourists.<sup>56</sup> However, when the civil war broke out, Hun Sen accused Taiwan of supporting Prince Ranariddh and asked the representative of Taipei in Phnom Penh to leave.<sup>57</sup> Besides, the USA and many Western countries accused Hun Sen's actions in Cambodian civil war of 1997. However, since the joining of ASEAN and improvement of internal political situation, the economic development of Cambodia seems promising.

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<sup>55</sup> "Cambodia/Taiwan Investors -2: Attractive Incentives," Dow Jones Asian Equities Report, Mar. 26, 1997.

<sup>56</sup> "Taiwan investors will return to Cambodia this weekend," Deutsche Presse Agentur, Jul. 14, 1997.

<sup>57</sup> "Taiwan orders closure of Cambodia trade office," Japan Economic Newsier, Jul. 28, 1997.



## **V. Analysis of Taiwan's Policy toward ASEAN**

### **1. Some Concerns regarding Taiwan's Policy toward ASEAN**

In recent years, the relationship between P.R. China and Taiwan has been gradually improved. Numerous Taiwan investments and capitals all pour into P.R. China. However, the P.R. China's investment environment has several disadvantages including political instability, changeable policies, as well as a hostile and unfriendly attitude to Taiwanese investors. It would make high risks and huge losses for Taiwanese investors. Besides, enormous capital and funds flowing to P.R. China would bring negative and unfavorable effects to Taiwan's economy. To avoid the over-scale investments concentrating on P.R. China, Taiwanese government had tried to proceed many comprehensive and planned blueprints to guide its investors and develop its economy.<sup>58</sup> In addition, the global economy's development trends to regional economic cooperation like the EU and NAFTA. According to the global trend, Taiwan should approach and cooperate with its neighbor's economies. In the Asia-Pacific region, ASEAN is one of the most concrete economic cooperation organizations.<sup>59</sup> To dismiss political pressures and negative impacts, Taiwanese government had prepared some measures and to strengthen substantial relations with ASEAN countries. Under this circumstance, Taiwanese government had brought up "Go-South" Policy to suit this situation since 1990s.<sup>60</sup> Except economic considerations, Taiwan's "Go-South" Policy also hoped to raise substantial relations with all Southeast Asian countries.

Notwithstanding P.R. China owned many favorable investment advantages, the Beijing regime, in anyway, still displayed a hostile and arrogant ways in handling its relations with Taiwan. To diversity the investment scale and earn more economic profits, it is necessary to decrease the dependence on P.R. China's market. However, this kind of measure did not mean to withdraw all investments and postpone all interflows with P.R. China. In the future, to diversify Taiwan's trade markets and investment areas is the major goal for Taiwan's economic development. Although "Taiwan's developmental experience" and "economic miracle" are famous in the world, Taiwan still had suffered some levels of political difficulties in the international community. Therefore, to favor joining international organizations and getting more friendships from other countries is one of the most important aims in Taiwan's political and economic development. For the purpose, Taiwan government had planed to promote economic, technical,

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<sup>58</sup> In 1993, the Taiwan's Ministry of Economic Affairs announced "the explanation of Go-South Policy" and "the implement outline for strengthening the economic and trade relations with the Southeast Asian region. This blueprint is a global-oriented and diversified plan about Taiwan's future economic development. Meanwhile, "Go-South" Policy is one of the most important plans of blueprints. By "Go-South" Policy, Taiwan wants to constitute a better economic environment than before.

<sup>59</sup> The ASEAN countries also have practiced "ASEAN Free Trade Area" which includes decreasing down the custom tariff to 0-5% for industrial and agricultural-processed products and sweep non-tariff trade obstacles. No doubt it will bring strong impact and hit to Taiwanese industries and economy.

<sup>60</sup> Among ASEAN countries, Singapore is Taiwan's biggest trading partner and owns the same rich capital and more advanced technique as Taiwan. For Taiwan, Singapore is a forceful opponent in economic competitions. Brunei holds abundant petroleum reserve; however, it is restricted by its small market. Laos, Cambodia and Myanmar are transforming economies of ASEAN and start to do favors in economic construction. Therefore, the main targets of Taiwan's "Go-South" Policy are focus on Thailand, Malaysia, Indonesia, the Philippines, and Vietnam. They posse rich natural resources, low-price labor, and huge domestic markets in order to attract foreign investments.

cultural, and even political exchanges with ASEAN countries. Indeed, Taiwan holds enormous capital, advanced techniques, and an excellent geographic location. However, following the changeable global economic tendency, Taiwan had been challenged by stronger competitors including Hong Kong and Singapore. To maintain its economic advantages, Taiwan had adopted to approach regional economic organizations and advance its technique level. Transforming labor-intensive industries to other developing countries and promoting high-technique and service industries would be suitable measures. The trade policy to link closely with ASEAN would try to attain this goal and also bring economic growth and prosperity in Asia-Pacific region.<sup>61</sup>

Compared with P.R. China, ASEAN countries have some favorable investment conditions such as more transparent stable investment legislations, and a friendly attitude toward Taiwan investors. Taiwan's policy toward ASEAN seems to assist Taiwan industries to establish industrial base and to open up much wider markets in Southeast Asia countries. In addition, the establishment of AFTA has brought different influences and impact to AFTA members and non-AFTA members.<sup>62</sup> Therefore, to invest actively and earlier in ASEAN countries can avoid unnecessary losses and bring about the same favorable treatment as members. For heightening Taiwan's international influences, Taiwanese government had planned to exert the policy to link closely with ASEAN to approach ASEAN countries and join more international activities. Following high economic growth, Taiwan's labor, immovable property and related industrial capital increased soaring in price. When Taiwan's economic environment cannot provide competitive economic profits to its labor-intensive industries, those enterprises demand a better investment environment like ASEAN and P.R. China to maintain their development. Taiwan's government considers this situation and brings up the strategy to link closely with ASEAN to assist traditional industries transferring to those developing countries. This goal would not only give wider developmental spaces for Taiwan industries but also would promote the invested countries' economic prosperity.<sup>63</sup> For Taiwanese investment, P.R. China, USA, and ASEAN countries are the three top destinations. Although the investment from Taiwan to P.R. China is the highest, Taiwan's government has encouraged Taiwan's industries to invest in Southeast Asia for many years.<sup>64</sup> Taiwanese industries also had moved its traditional labor-intensive industries to

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<sup>61</sup> When Taiwan's investment environment no longer provided similar low-price labor and immovable properties as before, traditional labor-intensive industries must seek other places to maintain their vested advantages. ASEAN countries possess abundant natural resources, low-cost labor, favorable investment incentives and a convenient location access to Taiwan.

<sup>62</sup> Within AFTA, members will enjoy special preferential treatments and members' economic growth and trade interflows will rise. In the contrast, non-members will face higher tariffs and stronger competitions from ASEAN's members.

<sup>63</sup> Under Taiwan's old "Go-South" policy, the measures and phases are taken including increasing economic representative offices in Southeast Asian countries, organizing trade-visit teams, commercial exhibitions, and investment investigative groups to strive for transactional opportunities, setting into actions to high-level and non-official visits and to strengthen bilateral dialogue's frequency and chances, cooperating with local government to set up Taiwanese special industrial zones, sponsoring public and private banks and financial institutes setting up branches and representative offices, and establishing Taiwanese investors' associations and business transactional centers, etc.

<sup>64</sup> Among ASEAN countries, Thailand, Malaysia, Indonesia, the Philippines, and Vietnam are the five major targets of "Go-South" Policy. This policy aims to help Taiwan's native businesses reduce investments in PRC and diversify

Southeast Asian countries. Moreover, most ASEAN countries such as Singapore, Malaysia, Indonesia, the Philippines, Vietnam, and Thailand had concluded investment guarantee agreements with Taiwan. These agreements would provide legal protection for bilateral trade investments and ensure Taiwan industries' interests in those countries. All this shows that the bilateral relations between Taiwan and ASEAN are growing.

## **2. Impacts of Taiwan's ASEAN Policy on Asia-Pacific Region**

Taiwan's investments in Southeast Asian countries began as early as the 1960s. Due to the governmental restriction and ban, Taiwan's investments in Southeast Asian were inappreciable at the beginning. After 1986, the rapid economic growth and abundant foreign earnings had made Taiwan's overseas investment increased speedily. ASEAN countries also posed Taiwan's fourth biggest trading partner behind USA, P.R. China, and Japan. When trade and investment between Taiwan and ASEAN rose, Taiwan's government had started to attach the importance on foreign economic policies and related issues. One purpose was to protect Taiwanese investors' legal rights and economic profits, and the other was to extend the substantial bilateral relations with ASEAN. Taiwanese government thus adopted and proceeded with more active talks and negotiations with Southeast Asian countries.<sup>65</sup> Traditionally, Taiwan's foreign trade market was mainly dependent on USA and Japan. However, due to Taiwan's rapid economic growth and the opening of P.R. China's market and the Southeast Asia countries, Taiwan's main trading partners had transformed gradually from USA and Japan to P.R. China and ASEAN countries. P.R. China particularly owned abundant natural resources, a large potential market, and the same language and culture background as Taiwan. For these advantages, Taiwan's investors had preferred to invest in P.R. China rather than ASEAN. However, P.R. China's hostile attitudes and changeable policies make the Taiwanese government had adopted so-called "Go-South" policy to link closely with ASEAN to avoid the high risk of investing in P.R. China and to transfer its capital to ASEAN countries. The Cross-Strait Relationship thus had deeply affected Taiwan's trade policy.<sup>66</sup> It seems that the improvement of Cross-Strait Relationship had been decreased the emphasis of the old "Go-South" policy since the establishment of Ma's Administration in 2008.

Indeed, Taiwan had tried to exert its governmental policy to link closely with ASEAN to seek more widely international activities spaces and enlarging its substantial contacts with other Asia-Pacific countries. In the other words, Taiwan used to exert its trade and investment relationship with ASEAN countries to strive for joining ASEAN as a dialogue partner. However, this goal would suffer hindrances and pressures from P.R. China. The Beijing regime regards Taiwan as one province of "the People's Republic of China." From Beijing's point of view, Taiwan's policy to link closely with ASEAN would violate its "One-China Principle" and cause serious threat to

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trade markets. Statistics also showed that Taiwan's trade with ASEAN reached US\$ 19.09 billion in 1994, an increase of 22 percent from that of the previous year.

<sup>65</sup> Concrete measures included signing investment guarantee and double taxation relief agreements with Singapore, Indonesia, the Philippines, Malaysia, Vietnam and Thailand soon or later.

<sup>66</sup> The principle goal of this policy is to decrease the risk of concentrating most investments on PRC and to maintain Taiwan's economic advantages and actual strengths better than PRC.

P.R. China's diplomacy. In addition, this policy would obstruct and decrease Taiwan's investments in P.R. China. These negative effects would cause Beijing's retaliations and strikes as well as place much stronger pressures on any of Taiwan's international activities. Thus Taiwan's planed to become an ASEAN's dialogue partner would be impracticable. Therefore, how to balance the linkage with ASEAN and the Cross-Strait Relationship policy would be a difficult choice and task for Taiwan's government. When the global economic structure went forward to regional economic cooperation, Taiwan should strengthen the negotiations and cooperation with its neighbors, especially ASEAN countries. ASEAN is the most concrete economic cooperation organization in Asia-Pacific area. Thus joining and expressing the influences on this organization would be important for Taiwan's development. Besides, the forming trade area of ASEAN would form a serious impact to Taiwan's economic advantage. Taiwan had to endeavor wide-range political and social exchanges as well as contacts with ASEAN countries. Not only to provide economic aids to ASEAN countries, but also to expand substantial relations with ASEAN countries.

In fact, Taiwan's policy to link closely with ASEAN tested ASEAN's attitudes to P.R. China's "One-China Principle." ASEAN countries used to face a dilemma between national security and economic development. One hand was the huge political pressures from Beijing, and the other hand is abundant economic capital from Taiwan. Most ASEAN countries had adopted a political and economic separate policy. In other words, ASEAN countries had obeyed the "One-China Principle" to Beijing in political aspect but hoped to attract more Taiwan's investment projects and capital. In recent years, P.R. China's economy expresses tremendous growth and astonishing developmental potential. Most western countries attach importance to P.R. China's immense market and invest huge capital. P.R. China indeed attracts more foreign investments than ASEAN countries and makes ASEAN countries' foreign investments largely decrease. P.R. China's rapid economic development already forms serious threats to the attractions of foreign investments in ASEAN countries. Under this condition, most ASEAN countries importance Taiwan's trade and investment policy and had the willing to improve further substantial relations with Taiwan. Due to the decreased foreign investments, ASEAN countries had concerned about their economic development and hope to gain more investments from Taiwan. This is also why ASEAN countries had relaxed related investment restrictions and promised to give more incentives to foreign investments. Therefore, the close linkage policy with ASEAN not only conforms to Taiwan's interests but also conforms to ASEAN's demands.

P.R. China had formal diplomatic relations with all ASEAN countries. Due to geographic proximity and similar historic backgrounds, P.R. China and Southeast Asia had strong and deep connections and relations for a long time. After the end of the Cold-War and the end of hostility between the former Soviet Union and USA, P.R. China had an opportunity to replace them as a regional superpower in East Asia. However, Taiwan's investments and economic strengths in ASEAN countries had challenged Beijing's "One-China Principle." Taiwan's policy to link closely with ASEAN would also guide more Taiwanese investments to ASEAN rather than to P.R. China. Therefore, to hinder Taiwan's official contacts with ASEAN and to maintain Taiwan's investments in P.R. China, Beijing would likely impede the progress of Taiwan's policy to link

closely with ASEAN. When Taiwan had tried to improve relations with ASEAN countries, Beijing also utilized the political and diplomatic channels to consolidate Taiwan's contracts with ASEAN countries.<sup>67</sup> Under P.R. China's enormous political influences, many ASEAN countries were pleased to cooperate with P.R. China and to resist Western countries. Considering their interests between security and development, ASEAN countries were expected to obey Beijing's "One-China Principle" but maintained approaching economic contacts with Taiwan. Because foreign investments would assist ASEAN countries to promote native industrial and technical level, more economic bargain powers meant they have more actual strength to encounter P.R. China's pressures.

## **VI. Conclusion**

The mutuality between Taiwan and ASEAN is mainly based on trade and investment. Since the 1990s, enormous foreign investments had poured into ASEAN countries and promoted a regional economic prosperity. However, in recent years, many foreign investments had transferred to P.R. China and the investments in ASEAN had decreased. The largely decreased foreign investments and strongly competitive pressures from P.R. China seriously impacted ASEAN countries' economies and trade markets. Facing such changes, many ASEAN countries had adjusted themselves to attract more foreign investments especially from Taiwan since 1990s. Actually, Taiwan and ASEAN's foreign economic policies were mostly established on the basis of nationalism to protect their national development and economic profits. For Taiwan, maintaining its economic advantages in international market is the major economic goal. To attain this goal, Taiwan had adopted the multinational operational model to diversity trading markets and added trading partners. On the other hand, ASEAN countries had urged to combine foreign and national capital to promote indigenous industrial development and native economic growth. Those foreign economic policies were all guided by governmental departments to achieve "economic dependent development." It meant that Taiwan and ASEAN exert foreign economic powers to develop and promote their economies. In one word, since 1990s, Taiwan had exerted policy oriented measures such as "Go-South" Policy to enhance its economic strength; and ASEAN countries had set up enormous foreign investment incentives to attract foreign capital. Therefore, the demands of ASEAN and Taiwan were reciprocal historically. Taiwan's industrial model was export-oriented. Using this industrial model, Taiwan had earned enormous foreign exchanges and had enjoyed high economic growth. Most ASEAN countries also had learned Japan and Asian NICs' developmental experiences and economic models to establish their economic policies. ASEAN countries also encouraged export-oriented industries to earn foreign exchanges and speed their economic growth. ASEAN countries offered different investment incentives based on investment projects and industrial categories. It is because ASEAN countries always exert their economic policies and regulations to direct their industrial development. Most Taiwan's investments in ASEAN were export-oriented industries and the final market of those industries was focused on American and

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<sup>67</sup> One motive of Beijing's is to strike and weaken Taiwan's international influence and international activities. The other is to unite ASEAN countries to add its bargain powers for encountering trade sanctions and economic competition from USA and other Western countries.

European markets not on the local markets. Therefore, Taiwan's investments did not violate ASEAN countries' economic interests or form any competitiveness for their indigenous industries. In sum, ASEAN countries' economic demands and Taiwan's investment model had conformed to each other's benefits and interests in 1990s.

The import and export proportions of the total trade amount between Taiwan and ASEAN countries also had kept rising. Taiwan possessed rich capital, advanced technology, and modern administrative skill. ASEAN countries held abundant natural resources, low-cost labor and potential markets. Both sides' advantages deepened Taiwan and ASEAN countries' dependence on each other and their cooperative opportunities. This mutual-influence model among capital, technology, raw materials, and markets had conformed to an international developmental model. ASEAN countries also considered actual economic profits and were willing to constitute more active relations with Taiwan. In fact, when ASEAN countries deepened its dependence on Taiwan's capital and investment, the political and diplomatic relations between Taiwan and ASEAN had also obviously strengthened. Due to such responses, the substantial relations between Taiwan and ASEAN countries had formed well-developed circles since 1990s. Therefore, both Taiwan and ASEAN had planned to strengthen their substantial multilateral relations. From this developmental style in 1990s, the economic relations between Taiwan and ASEAN would further and more deeply depend on each other.