

Doctoral Dissertation

EAST ASIAN ECONOMIC INTEGRATION AND TAIWAN

- TAIWAN'S SPACE IN REGIONALISM

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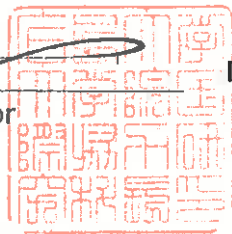
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List of Abbreviations

ADB	Asian Development Bank
ACFTA	ASEAN-China Free Trade Area
AIT	American Institute in Taiwan
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ARATS	Association for Relations Across the Taiwan Strait
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asia Nations
ASEAN+3	ASEAN Plus Three (China, Japan and South Korea)
ASEAN+6	ASEAN+3 Plus India, Australia and New Zealand
ASTEP	Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu
CAFTA	China-ASEAN Free Trade Agreement
CEPA	Close Economic Partnership Agreement
CMIM	Chiang Mai Initiative Multilateralization
DPP	Democratic Progressive Party
EAEC	East Asian Economic Caucus
EAS	East Asian Summit
EASG	East Asian Study Group
ECFA	Economic Cooperation Framework Agreement
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
ICAO	International Civil Aviation Organization
ITU	International Telecommunication Union
KMT	Kuomintang Party/ Chinese National Party
PAFTA	Pacific Asia Free Trade Agreement
PRC	People's Republic of China
ROC	Republic of China
SAR	Special Administration Region
SCO	Shanghai Co-operation Organization
SEA	Southeast Asia
SEF	Straits Exchange Foundation
TNC	Transnational Corporations
UN	United Nations
WHA	World Health Assembly
WTO	World Trade Organization

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Abstract

The consolidation of initial social exchange, trade and political regionally are to produce a combination between regional distributions in economic leverage and political alliance. The construction of regionalism in East Asia was initiated by the rapid connection in trade industry and financial sector. The escalating overseas investment within the region has encouraged the building of consciousness on regional cooperation. The almost instantaneous creation of ASEAN+3 in 1997 has opened more chances to regional advancement and creating more opportunities for feasible projects progressively. The idea to evolve ASEAN+3 into a more regional representative entity was never an easy task because East Asia is economically and politically crucial to political interests group.

Not only seeking for better performance in economic sector, a triangular link among ASEAN, China and Taiwan is also tangled over diplomatic issues. Both China and Taiwan are recognized as two economic powers that have shown strong-will to improve the relationship while continuing to have connection with ASEAN in various opportunities. However, Taiwan was naturally omitted from international stage and also any governmental leads regional discussion due to China's insistence on "one China" policy.

ASEAN members are divided according to respective economic development needs in which national interest is a barrier. In fact the East Asian governments are integrated pragmatically to reach their own goals. ASEAN will continue to welcome both economic alliances with China and Taiwan but China is a big client that ASEAN

could not afford to lose. ASEAN is not a choice for Taiwan to gain some diplomatic leverage in Taiwan's regional marginalization issue. Despite China possesses direct influence to Taiwan's regional space issue, the economic intimation is beyond control. In addition, China could not disregard the fact that Taiwan practices on democratic values have implanted in Taiwanese which is the right to decide the destiny of Taiwan.

Chapter I Introduction

Regional economic studies are categorized as sub content under the context of globalization. All the regional entities are consolidated to function as a combination of a few economies to work in the global world. The consolidation of initial social exchange, trade and politics in regional basis are to produce a mixture of regional distribution in economic leverage and political alliance. The construction of regionalism in East Asia was initiated by the rapid connection in trade industry and financial sector. The escalating overseas investment within the region has assisted the building of consciousness in regional cooperation. In regionalism theory, this is called “regionalization” where private sector in business and market level are actively conducting activities within the regional border. Apart of that, later the distribution of political influence and the construction of regional ideology are energizing the will to pursue regional interests. The state-led regional activities include some of public policy initiative for example Free Trade Agreement (FTA), a regional institution and forum identified as a flow of “regionalism” trend.

The geographic of a nation has destined itself an immediate neighbor and the potential of security threat is unavoidable. The location of a designed region is fixed and it is impossible to move the whole land to desirable region. The two options dealing against the security threat are to either possessed powerful military and strong economy or have powerful alliances in the world. In Southeast Asia, Singapore is the only nation that occupy by more than half of ethnic Chinese population in a region surrounded by Muslim neighbors. In this case, Singapore maintains military alliance with super-power the United States (US) and holds military training in Taiwan due to limitation of training space in the

island. The regional security is nevertheless competing harshly with the remuneration that gain from liberalized financial and trade sectors. In fact, ASEAN is the organization to be blamed for the slowness of regional cooperation due to distrust in surrounding environment. The combination of both low level of trust and emphasis on high national interests, together they dragged the phase of regional cooperation since it established in 1967.

The internal shortcoming of ASEAN does not prevent the region to encircle more regional parties to push for a more successful community in the world. The insufficient technical knowledge has encouraged the import of technology support from a more advanced country for example Japan, continuing its support in industrial machinery. The almost instantaneous creation of ASEAN+3 in 1997 is opening more chances to regional advancement and creating more opportunities for feasible projects. One of the most notable projects among the proposed plans in the financial sector is the Chiang Mai Initiative Multilateralism (CMIM) agreements. Nevertheless, ASEAN weakness in financial management was the forced for greater regional power involvement. The technical supports and financial plans are indeed improved the financial supervision towards more systematic alliances. Although the financial sector is progressing smoothly, the regional grouping is confronting numerous obstacles for further advancement. The existing constraints such as the US opposition to be excluded, the rivalry between China and Japan, the suspicious in territorial issues and the huge income gap among members.

During the administration of Japanese Prime Minister Hatoyama, he was responsible for introducing the concept of regionalism in East Asia¹. Japan reasserts its regional

¹ The study coverage of East Asia region, please refer to attach map at Appendix-1.

position with the enthusiasm to build East Asian Community and improved the relationship with regional partners. However, Hatoyama's diplomacy strategies were analyzed as "misfired" to conduct "middle approach" policy to mitigate the alliance with the US and to build a form of reconciliation with China. It was simplified by Envall and Fujiwara that:

In conditions of deteriorating regional stability, balancing against the US alliance did not enhance Japan's regional engagement prospects while engaging with the region did not enhance Japan's bargaining position within the alliance.²

The Hatoyama's policy on enhancing regional cooperation has alarmed China, uneasy with Japan's intention of re-established its economic power through multilateral approach. In addition to the topic of membership issue in East Asian Summit (EAS), it had led to a range of disagreements among them. The startling decision of Hatoyama to exclude the US from its membership illustrated his views that Japan was too dependent on the US-Japan alliance. Japan's aggressiveness on regional topic and attempts to adjust the relationship with the US had nevertheless given Japan the false image of trying to regain regional power.

Both China and Japan are competing each to be an influential nation in the region. China especially, has transformed its indigent image to a strong economic power has persistently reveals Chinese regime. The invasion from other countries particularly Japan, has marked a dreadful event in the Chinese history. Since both could not reach a

² Fujiwara, H. D. P. E. a. K. (2012). Japan's Misfiring Security Hedge: Discovering the Limits of Middle-Power Internationalism and Strategic Convergence. In W. T. T. a. R. Kersten (Ed.), *Bilateral Perspectives on Regional Security*: Palgrave Macmillan, p. 73.

compromised point, the strained relations do not improved but stagnant cooperation pace. In reality, the state of excluding US role in East Asia remains unimaginable because of both East Asian powers is incompetence in leading regional community. Precisely, Japanese national security is still under the US military treaty while Chinese is struggled with its shortcoming to handle internal instability. In fact China may attacks wildly for national interests but China internally unstable has undermined its position to against any external threats.

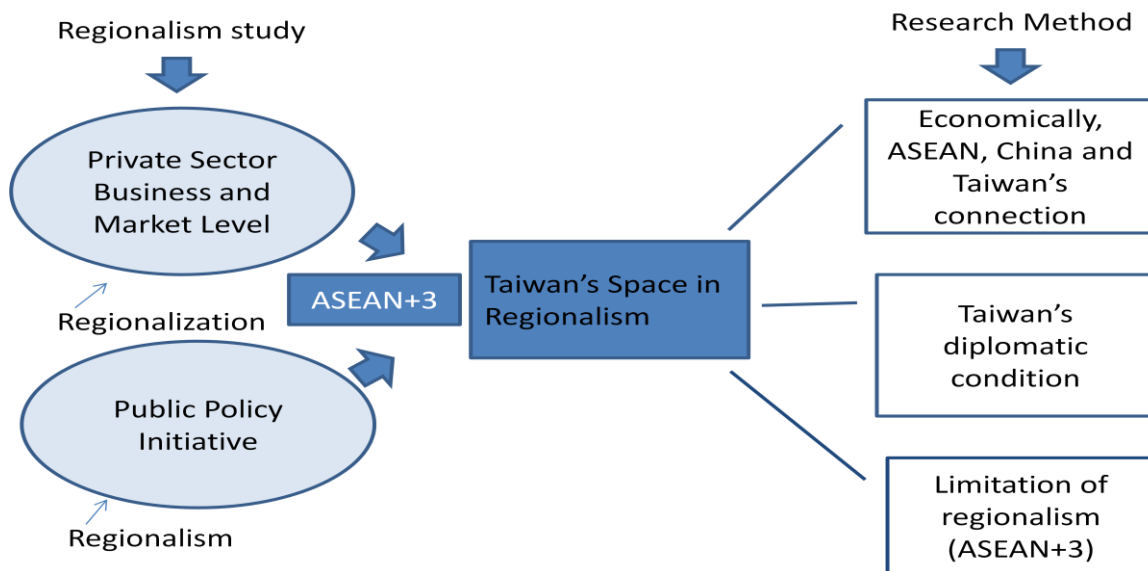


Figure 1.1 Research Preliminary

The research was structured to diagnose some of the eyes catching issues in the context of regionalism. The study on ASEAN+3 was begun after a further investigation on the earlier East Asia Economic Caucus (EAEC) proposal that proposed by Mahathir Mohamad. Since the discussion on regionalism is based on the construction of ASEAN+3, there is a need to study the history of EAEC which was said to be the initial idea of regional grouping proposal in East Asia. Throughout the study on EAEC the reasons

behind its failure was identified as an important reference for building a successful ASEAN+3. Even though ASEAN+3 was built in the chaos of financial crisis, it was a beginning of acceptance for embryonic regional building. The diversity in various areas has been recognized as the main cause for the sluggish regional cooperation among the East Asian members³. The constructing of ASEAN+3 framework accelerated soon after the financial crisis has brought much attention to the evolvement of regional entity in East Asia. The construction of ASEAN+3 is worth notable issue after a prolonged decade of rambling relations among regional members. ASEAN+3 become a focal point in regional building issue because it holds a role in enhancing the construction of regional economic integration.

The financial cooperation motivated, ASEAN+3, has discovered the delay of East Asian in constructing a beneficial and prudent regional grouping for producing regional benefits. The idea to evolve ASEAN+3 into a more regional representative entity was never an easy task because East Asia is economically and politically crucial to political interests group. In order to target the objective of building an economic integrated community, various think-tanks have been proposed to tailor-made East Asian's regionalism. However, the path towards East Asian Community is far from reach upon a variety of regional integration's problems have been remained to solve. The initial controversy was the membership issue that was divided the group into supporting inclusive or exclusive of adding the three Asia-Pacific countries. In fact, the growing China power has been causing uneasiness to neighboring countries and encourages the idea to invite

³ East Asian Countries refer to ASEAN, China, Japan and South Korea.

more influential countries in order to encounter China regional influence.

Besides the argument on the membership issue, the intention to work as an exclusive regional grouping has alerted attention of US. The East Asia is a region that the US had a long history of bond and it places high interests on regional issues. Therefore, the US never agrees on the exclusive regional cooperation which excluded the US's participation. The East Asian regional building has nevertheless received opposition from the US and a more US preferred inclusive Asia-Pacific forum, East Asian Summit was formed. The East Asian Summit became an Asia-Pacific floor instead of East Asian regional ground that inclusively involved a number of international powers. Consistently with growing China's influence in East Asia, the US rebounds from diminishing power to centralized East Asia in its agenda. In fact, the US's involvement in East Asia is gradually welcoming by regional members amid apprehensive China power.

The discussion of East Asian regionalism has proliferated on the direction of shortcoming and feasibility. However, there was a lacked of attention to part of East Asian economic driver, the Taiwan. In fact, Taiwan was naturally omitted from international stage and also any governmental leads regional discussion due to China's insistence on "one China" policy. However, it is unpersuasive to ignore Taiwan's existence throughout the East Asian regionalism discussion as Taiwan is one of the Asia top high income region⁴ as well as world number fourth top forex reserve with US\$405.19 billion in April 2013.⁵ Taiwan unique position in regional issue is worth grabbing some attention in the context of East Asian regionalism study. Even though almost all the nations hold no diplomacy

⁴ Based on Basic Statistic 2010 data from ADB, Taiwan is the fourth high income economy and competitively runs behind South Korea. Please refer to Appendix-2.

⁵ Faith Hung, "Taiwan forex reserves edge up to \$405.19 bln in April", *CNBC.com*, May 06, 2013.

relations with Taiwan, economically they have been trading freely with no visible constraints. However, diplomatically all the trading partners are avoiding direct contact with Taiwan due to China aggressive attitudes. Since China became more confident with a great economic backup that it has successfully made, China is spreading its growing regional power to pressure the averse.

The concluded Economic Cooperation Framework Agreement (ECFA) in 2010 between China and Taiwan is reiterating by both sides as a significant event to mark a closer relationship in trade and investment. China always believes in closer economic ties could guide Taiwan to be more accommodating towards the concept of “one country, two systems”. Based on Dent’s doubt, the ECFA would help to mediate cross-Strait political and security tensions, however, not exactly clear, and still represents a potentially high-risk economic and political strategy for Taipei to pursue.⁶ In addition, Cai has identified three important issues that China has to face in regard to the cross-strait relations. The three issues are the respect, international space and security that are currently crucial points to Taiwanese.⁷ China’s recent goodwill on Taiwan’s international space has given Taiwan a space for breathing but China persists on locating the missiles targeting on Taiwan do not ease the doubts on China’s sincerity.

Indeed, Taiwan has been experiencing various transformation of internal politic amid the transition of global system that ended over 50 years of Japanese Occupation in 1945. The returned of Taiwan to Kuomintang, marked the end of foreigner occupation but also begin of severe administration by Kuomintang party (KMT). Since the day of KMT

⁶ Dent, C. M. (2005). Taiwan and the New Regional Political Economy of East Asia. *The China Quarterly*, 182, p. 401.

⁷ Cai, K. G. (2011). *Cross-Taiwan Straits Relations since 1979*: World Scientific Publishing Co. Pte. Ltd, p. 10.

retreated to Taiwan, KMT was hoping to regain the authority of mainland that was occupied by the communist party. In fact, KMT attentively controls the chaos of self-governing by the Taiwanese that was advocated by the activists during the imposition of Martial Law in Taiwan. The fundamental ideas of KMT and opposition party, Democratic Progressive Party (DPP) is complicating current Taiwan's international space issue. In fact from the moment of temporary retreats to Taiwan, the KMT's objective was to retrieve the mainland and intended to strengthen instead of weaken the links of Taiwan to mainland China. Adversely, the thought of Taiwan to act as an independent state was not in mind of KMT but opposition party.

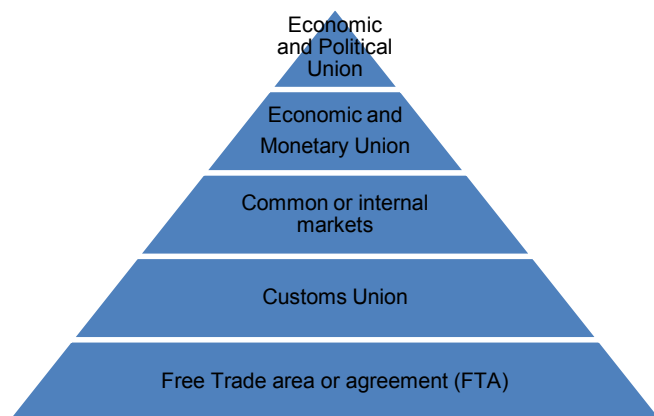


Figure 1.2 Classical Theory of Regionalism⁸

The new regionalism study in East Asia is primarily connected to top-down regional cooperation approach. Such an approach discussed the effects of economic cooperation (e.g. FTA) with aim to boost the business activities in private sector. In relation to that, the current bilateral FTA has become an active trade agreement between regional trades' partners. As a result, many of these regional members are turning bilateral FTA into a

⁸ Refer to Dent, C. M. (2008). *East Asian Regionalism*: Routledge.

multilateral trade agreement. Proliferation of FTA in classical theory of regionalism is recognized as the lowest rank in the process to accomplish regional community status. At the first stage of FTA, FTA stage is defined by the tariff, quota and limitation to be removed in the particular region among member states. The next stage of regionalism would be the custom union which implied the status where the particular region has agreed on a single external tariff rate.

The involvement of regionalism in East Asia is running farther behind the European style of regional grouping such as European Union (EU). The achievement of economic integration status by EU has become a learning model for other region in the world including East Asia. The creations of regional grouping such as ASEAN, ASEAN+3 or East Asian Summit are intended to make East Asian as a single market. The final goal of this regional cooperation would be to turn East Asia into a regional community that would allow free movement of trades and people. Accordingly, ASEAN was created with objective to turn SEA countries into a single market (ASEAN Economic Community) by 2015. Unfortunately, until today ASEAN remains a fragile and disintegrated regional entity, despite of the creation. To date, ASEAN is unable to operate as an integrated group and continues to function under the principle of unanimity. Similar situation is seen in ASEAN+3 which function under a strong political influence. Nevertheless, both ASEAN and ASEAN+3 are regional grouping actively working to reduce trade barriers aiming to realize regional economic integration in the future.

Despite of lacking integrated intimation, ASEAN+3 has become an inevitable regional financial cooperation with potential for further expansion. The exclusive way of regional

cooperation in ASEAN+3 make alarms of the excluded regional member. For Taiwan, this extensive exclusion is seen as a warning of a probable escalation of the cost it has to bear. In addition, due to the state of ignorance by regional members, Taiwan's marginalized issue (i.e. for the country inability to conclude basic FTA with important trading partners) has become more intensified. The trend of regionalism is moving towards state-led regional cooperation, therefore disadvantage to ambiguous regional status of Taiwan. Despite of the great desire for Taiwan to participate in regional group, they are hampered by disadvantages of FTA condition and some other existing unrecognized situations. Furthermore, the fact that ASEAN+3 being a political means regional grouping dominant by China, it is almost impossible for Taiwan to break through. Therefore, the idea of forming ASEAN+4 developments remains impossible in East Asian regionalism study as long as "one China" principle prevails.

Despite the country's political condition, Taiwan is enjoying the freedom of trade under the loss concept of regionalism. Difficulties in concluding FTA with trading partners induced Taiwan's policy-makers to come out with some workable ideas. One of it was that the need for the country to work on a pragmatic strategy which requires bilateral trade agreement with China. This is due to inability to participate in regional group entity. The concluded ECFA has made improvement to Taiwan economy, which otherwise, stagnant. In addition, ECFA has given Taiwan's potential FTA partners reassurance and guidance for negotiating FTA without offending China. Taking Singapore and Taiwan for instance, these countries have had a long intimate relationship, officially granting them trade agreement negotiation without stirring third party objection. Singapore has been playing an important

intermediate role since Singapore was under Lee Kuan Yew administration and Taiwan was ruled by Chiang Ching-kuo in 1970's and 1980's.

Taiwan's space in regionalization was built before the creation of ASEAN+3 and it was strengthened by the connection through business's activities. However, the increasing number of inter-governmental forums and treaties are deteriorating Taiwan's effort to improve current demerit situations. In such a trend of regionalism, Taiwan forced to seek after a position as one of East Asian member. Even though there is no position for Taiwan in ASEAN+3, the regional space is an invisible room for Taiwan to fill in. Nonetheless, Taiwan should use this advantage to expand its economy and solve its severe marginalization judiciously. The giving of space instead of position is so that any possibility of Taiwan to encounter political confrontation with China remains void. Besides, this situation would encourage the expansion of Taiwan economic field's in regionalism. In conclusion, as long as Taiwan reserves from triggering the cross-strait issues, Taiwan's space in East Asia would be well secured given the country prosperous economic entity. In fact in discovering Taiwan's standing in Southeast Asia, Chen Jie has defined Taiwan as "a player without a visible diplomatic face"⁹. Despite diplomacy barriers, Taiwan has been persistently promoting foreign relations and conducting economic relations in Southeast Asia. These activities have to be insisted for maintaining Taiwan regional space and balancing China's pressure to barred Taiwan formal connection with external parties.

⁹ Jie, C. (2002). *Foreign Policy of the New TAIWAN - Pragmatic Diplomacy in Southeast Asia*: Edward Elgar Publishing, p. 1.

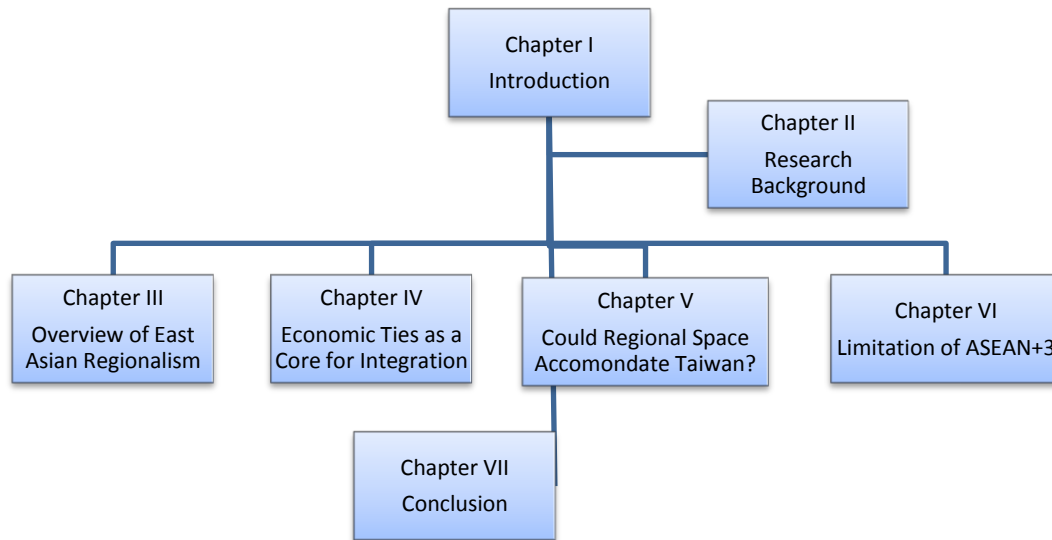


Figure 1.3 Research Structure

In order to provide a clear image of the whole research, the thesis was constructed according to the research structure, Figure 1.3 above. The thesis basically consists of four main chapters to explicate the research objectives in order to deriving a constructive conclusion. The Chapter III, under the title “Overview of East Asian Regionalism” concerns the study of East Asian regionalism chronicle that focus on EAEC. In this chapter, the final part discusses the missing of Taiwan in regionalism despite of undeniably Taiwan’s huge economic involvement in East Asia. In underlining Taiwan’s economic connection with ASEAN and China, Chapter IV “Economic Ties as a Core for Integration” enlightens the triangular relationship among ASEAN, China and Taiwan by the use of economic indicators. The third main chapter under the title of “Could Regional Space Accommodate Taiwan?” focuses on historical encounters and diplomacy struggles in Taiwan marginalization issues. The final main chapter, Chapter VI “Limitation of ASEAN+3” discusses the sticky situations of the members in ASEAN+3 in both economy and disputed islands issues. The explication in four main chapters would finally bring the

research to some pragmatic conclusion following diagnosis of the regional condition on “the road to economic cooperation”.

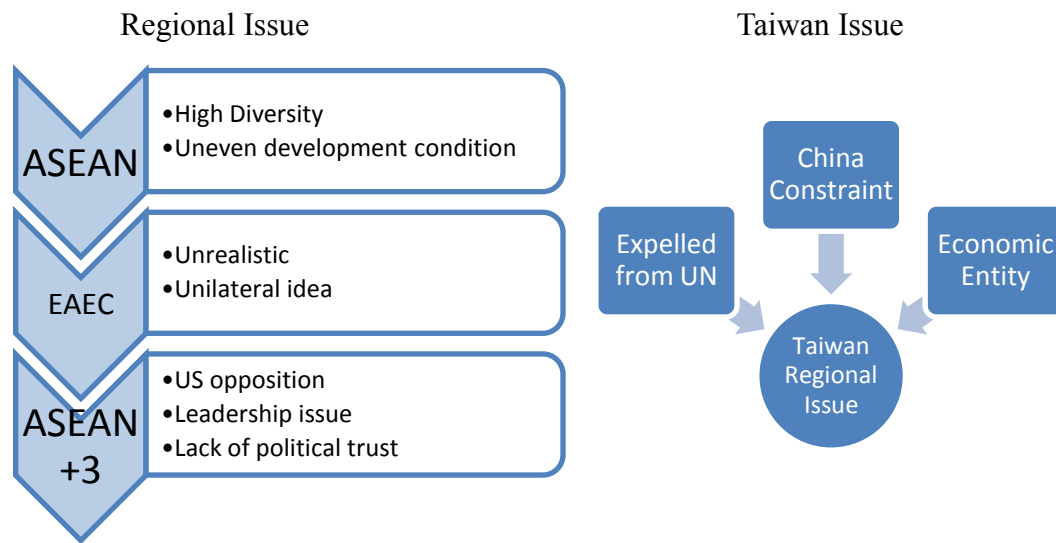


Figure 2.1 Regional and Taiwan Issues

The research background arose from the discovering of regional problems and subsequently connected to Taiwan issue. Regional issue could be uncovered from the earliest regional grouping in Southeast Asia (SEA), the ASEAN with undeniable regional role. ASEAN does functions as a regional stability indicator that is famous for its characteristic of non-interfering and consensus-seeking regulations. Despite of considerable capability in gathering all SEA members for the economic benefits, there is remaining ample space for substantial cooperation. The current time-consuming pace of regional cooperation is due to the high diversity in various elements among the ASEAN members. Approximately, half of ten-members are in the on early stage of development which is still far from other more advanced members. In order to produce more effective regional cooperation result, regional proposal for example EAEC has been suggested to secure East Asia from the growing of regional

protectionism.

The discussion on EAEC proposal was exercised in a short life span and the attention was redirected to the construction of ASEAN+3 framework. The ASEAN+3 seems to be more feasible compared to the EAEC proposal that was not introduced at a prime occasion. Although the formation of ASEAN+3 has broadened the opportunity of regional communication, it is still a long way for reaching its final goal of East Asian Community. In fact, the construction of ASEAN+3 is facing a number of obstacles before it could function as a regional institution. One of the criteria to make a successful regional institution is the support from the two regional powers in East Asia, which are China and Japan. However, both parties are still on ongoing conflicts that leave the leadership and regional trust remains unsettled. In addition of the US national interests, the exclusion of US involvement was unacceptable in its Asia-Pacific policy.

The expanding involvement of more East Asian members to regional discussion forum is also an extending the regional concern too. Among the regional concerns, Taiwan issue is part of the regional matter because economically they are inseparable. Taiwan is prosperous with its professional in manufacturing sector has become an important economy-driven for both ASEAN and China. However, the expelled from the United Nations has brought Taiwan into a dusk of international recognition. Taiwan is facing two difficult situations from non-official recognition and aggressive China's aggressive containment. Nevertheless cross-strait issues has been treated as national issue, the uncertainty of Taiwan Strait is driving the concern of regional

security and trade safety issues. Indeed, Taiwan's economic capability is acknowledged and its geographic location in East Asia is an inevitable part of regional member.

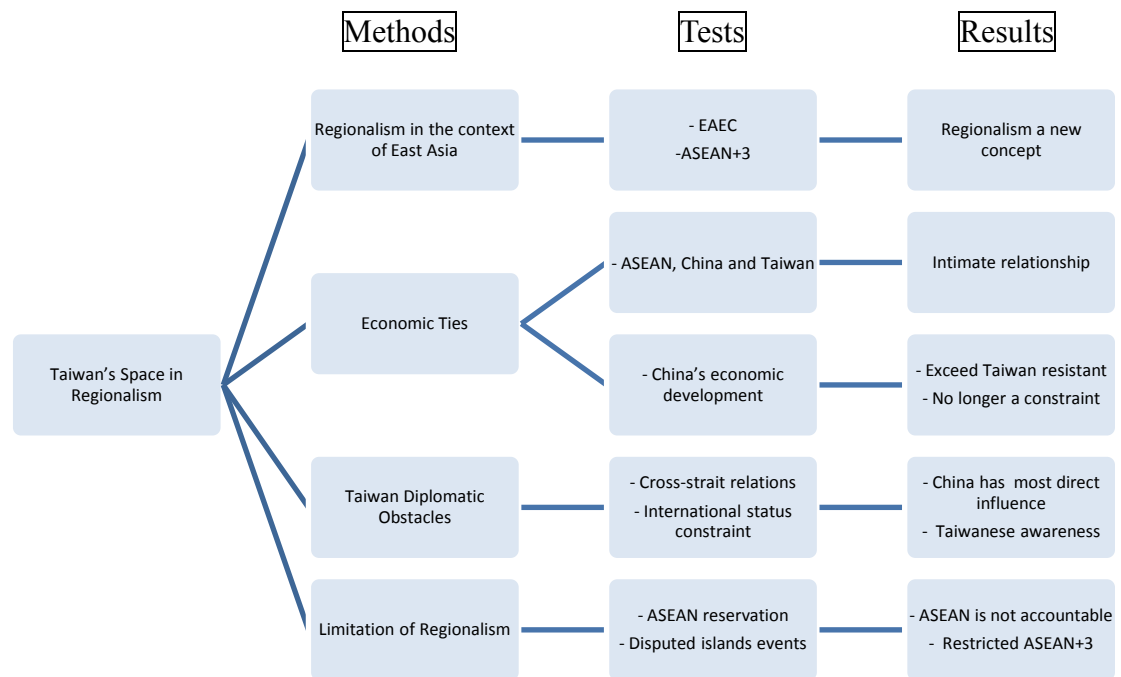


Figure 2.2 Research Framework

The framework of the thesis is structure as figure 2.2, in order to diagnose Taiwan's space in regionalism issue. The beginning of this research is to discover the idea of regionalism in the context of East Asian. Within the framework of East Asian regionalism, two concepts are selected to test the cooperative diversity of the regional cooperation in these two decades. The research began with the precedent of East Asian regionalism study, EAEC to discover its purpose and failure. This follow by the latest concept of ASEAN+3 which is receiving much attention from regional members compared to EAEC. Apparently the result shows that the idea of regionalism remains new for application and there are ample space for further advancement. After the

exploration of the EAEC and ASEAN+3 structures, the omission of Taiwan in regionalism discussion was observed.

In order to discover Taiwan's regional space, we could not shun from examine Taiwan's economic influence to regional economic growth. Due to the limited diplomacy condition, Taiwan's economic relations with trade partners are consistently showing the role of Taiwan's informal diplomacy to the world. Therefore in second section, I examined the triangular economic ties among ASEAN, China and Taiwan and also China's economic development. Again it proved that the triangular economic relations are intimated and China's charm as economic giant was unable to resist by regional members. The third section is to analyze Taiwan regional issue that was due to diplomatic obstacles. With the purpose of understanding Taiwan's diplomatic difficulties, the study of cross-strait relations is the essential step to discover the cause of current situation. The state of uncompromised cross-strait issue has caused further damaged on Taiwan's international status. However, China's aggressiveness on cross-strait issue had backfired by the increasing awareness of Taiwanese identity in the island.

Finally in the forth section, the study has focused on limitation of regionalism in considering Taiwan's regional standing. The first test on this issue is to examine whether ASEAN is possessing diplomatic leverage on Taiwan regional issue. Even though ASEAN and Taiwan are economically interdependent, pragmatically ASEAN has no intention to involve in Taiwan's issues under China's influence. The growth of regionalism topic has been increasing Taiwan's anxiety of being excluded which was

expected to jeopardize Taiwan's competitiveness in the future. However the second test of this section is on disputed islands issues shows regionalism in East Asia is developing at a limited role. The ability to evolve into a more regionalism like area or beyond financial cooperation is not foreseeable in the nearest future. Furthermore, the concept of ASEAN+3 seems to be an idealistic perception compared to ASEAN+1 which is more realistic way by considering current regional order.

2.1 Problem Statement, Objective and Methodology

The purpose of this thesis is to study whether the economic integration entity or ASEAN+3 has any significant effects on Taiwan's international marginalization issue. Taiwan current isolated status has an ineffective marginalization move on long term basis as intimate connection in economic sector is beyond control. The current regional study on ASEAN+3 is mostly focusing on ASEAN, roles of China and Japan in directing other members to a more beneficial region. Although Taiwan has been playing a significant role in economic commitment, the study on Taiwan's regional issue in ASEAN+3 is barely available. One of the reasons could be due to involvement of China in technically sealing all government-led forums from involving Taiwan's membership, has indirectly reserved the discussion on Taiwan regionalism position. Despite of China aggressiveness on Taiwan marginalization issue, it is impossible to erase Taiwan's commitment in advocating embryonic growth of many East Asian countries including China.

The formation of ASEAN+3 promotes financial cooperation and accelerates more trade agreements amid uncontrolled China influence in East Asia. China's indubitable influence in the 21st century and the decades long of a complex cross-strait relation has put China into an important research target in this study. China's expansion in its economic influence has precisely squeezed Taiwan away from its intention to spilt away from the mainland and increased Taiwan's opportunity cost regarding FTA issue. Although, some studies have proved that the economic integration among ASEAN+3 especially Hong Kong and Taiwan produces significant benefits to all the members, it there is delay in further cooperation in this complex regional relation. Besides a worthy cooperation in financial sector, other fields are gradually being into attention on regional stage for its feasible performance. It remains to be seen whether or not ASEAN+3 can progress further in the financial sector.

In order to accomplish the research objectives, a couple of tests have been conducted me to testify the research quandaries. The first research objective is to find out any significant effects of economic integration on Taiwan marginalization issue. The East Asian regionalism issue has been avoiding the discussion on Taiwan in considering China's insistence on "one China" policy. Reversely, Taiwan's marginalization issue was not begun from regional sphere, it was treated as international issue and it was forced to be trivialized. In the midst of Taiwan regional space difficulties, the idea of searching for some supports from ASEAN members were came into sight. Precisely, Taiwan's active involvement in ASEAN economic development has given Taiwan some merit points in gaining support. Therefore, in

order to examine the economic integration effects to Taiwan, two analyses were conducted and there are, China as the barrier to Taiwan and ASEAN diplomatic leverage.

The second research objective is to identify further cooperation in ASEAN+3 to go beyond financial sector. The research on this objective is to discover the fundamental of economic engagement among three focus characters. Formerly, economic engagement has built a basic core alliance for smoother cooperation in sectors that needed more commitment. In addition to the economic ties, regional safety issue is highly connected to the level of regional building. In fact the regional security is the vital priority requirement to establish a high quality environment for running other businesses. Since the future achievement of ASEAN+3 is highly related to regional power, the China, two regional disputes that were tested to clarify China and ASEAN regional concern. These two regional disputes included cross-strait relations and territorial disputes in East Asia. The regional members have been appealing to resolve the cross-strait relations in peaceful manner and resisted the use of aggressiveness approach. Likewise, in the case of disputed islands issue, ASEAN insists on peaceful resolution and applying self-restraint in conducting assertion.

Taiwan straits subject, there is another important member in maintaining regional security environment which is US. Undoubtedly, the discussion on the importance of the US military power in cross-strait relations could not be devoid in maintain peace with its premeditated and skillful policies. The role of US policy referred to as strategic ambiguity, aims to achieve dual deterrence by deliberately introducing

uncertainty into decision-making processes of both China and Taiwan.¹⁰ With the presence of US neither extremely supportive policy, China and Taiwan have to well-used the diplomacy tools to achieve the goals. Despite of the important role of US in cross-strait relations, it is not the focal point in this research. The study is mainly focus on three main characters ASEAN, China and Taiwan since both ASEAN and China play the main role in ASEAN+3 framework in the middle of Taiwan marginalization issue.

The methodology in my paper is using published economic data and research figures to support my arguments. The economic data was collected from various international and regional institutions to provide supportive evidence on economic ties among ASEAN, China and Taiwan. The data is extremely useful in chapter IV which is focusing on economic implication of triangular relations in the context of regionalism. Therefore the data was collected from institutions such as United Nations, APEC, ASEAN and national statistical record. The study method has been concentrated in the role of ASEAN, China and Taiwan to untie Taiwan regional issues in both the economy and diplomacy sectors. The intention behind the selection of ASEAN and China as the focal point is because of both parties are profoundly weighted in favor of regionalism.

ASEAN is a primary regional institution that was founded in Southeast Asia and it consists of ten imperative nations in East Asia. Undoubtedly, China's role is

¹⁰ Niou, E. (2008). The China Factor in Taiwan's Domestic Politics. In P. P. a. J. Meernik (Ed.), *Democratization in Taiwan - Challenges in Transformation*: Ashgate, p. 174. According to the survey did by author, people of Taiwan responded higher support for independence and less concerned about China's threat when they perceive US commitment to defend Taiwan and vice verse.

unavoidable from regional discussion. In particular, the growth of China's economic power from Asia to Africa has brought much attention to the whole world. In addition, China also plays a weighty cause of marginalizing Taiwan both internationally and regionally arenas. Since the study has been chosen Taiwan as the focal point in East Asian regionalism issue, China-Taiwan relations is inevitably essential to diagnose Taiwan regional issue. Therefore the study method is to congregate the triangular diplomatic relationship and the tied on economy relations towards Taiwan marginalization issues in East Asia regional study. This study considers the birth of East Asian regional frameworks, prevalent economic ties but also the intimate triangular relations, Taiwan relatively marginal position in ASEAN+3 and regional issues, the weakness of regional members to segregate geopolitics and geo-economics matters, and lastly the Taiwan prospective in minimize marginalization cost.

2.2 Theoretical Framework

In the field of regionalism, it is developed from the classic theory of custom union in the 1950s. Under the classic theory of custom union, it involves a cross-the-board removal of the duties between the members of the union while preferential agreements are usually selective.¹¹ In addition to Viner's exposition of trade creation and trade diversion resulted from custom union. Lipsey used general equilibrium to analyze the welfare effect of custom union. The findings denied Viner conclusion of

¹¹ Viner, J. (1961). *The Customs Union Issue*: Anderson Kramer Associates, pp. 50-51.

trade diversion that lowers the welfare of in the diverted country. The welfare of trade diverted country may not be lowered if the change in specialization is occurred in those countries that participated in custom union.¹²

On the other hand, the regionalism brings the image of protectionism especially during the heat of globalization when human capital and goods are free to float across the borders. Some studies referred regionalism as an action to pursue own regional interest in the expense of other regional groups. However, the later study has distinguished the underlying definition of regionalism in a more detailed and persuasive explanation. The study explained the regionalism as an institutional frameworks led by governments to enhance regional cooperation with various treaties. This relationship is more focused on inter-government contact within the regional to improve economic, security, social-cultural and other mutual recognized sectors.

In fact the progress of regionalism study is expanding to be more socially constructive and with a less technocratic approach. The new regionalism theory is about bringing both the social and economic affairs closer in order to stimulate the regional production networks and regional welfares. The latest theory of regionalism has made a distinguished role from regionalization by its source of drive to the final outcome. Based on Dent's definition of regionalism, it is the public policy initiatives and integration that originate from inter-government dialogues while regionalization is constructed at micro-level at the inter-connecting private sector activities.¹³

Furthermore, regionalization is a network that concentrates on private sector that

¹² Lipsey, R. G. (1970). *The Theory of Customs Unions: A General Equilibrium Analysis*: Weidenfeld and Nicolson, p. 30, pp. 80-81.

¹³ Dent, C. M. (2008). *East Asian Regionalism*: Routledge, pp. 6-7.

is connected by business across the border. The contact between civilian levels is high because of the freely interaction at the open-market system. Certainly, without the formal trade agreement on inter-government level, the business society faces no barriers to conduct business activities in host country. Prior to the activation of FTAs in the region in the late 1990s, Taiwanese businessmen have been freely conducting the business and investment in developing countries of East Asia. However, the gradual change of regional economic environment to more governmental trade agreement has jeopardized their interest. The regionalism thus more of a policy-driven, top-down process while regionalization is more societal-driven, bottom-up process. Nevertheless, regionalization may in turn be enhanced by state-led regionalism projects.¹⁴

The regionalization has turned East Asia into a tight network of economies that operates as the factory of the world, heavily relied on by major world economies such as the United States and Europe to provide greater industrial efficiency and lower living costs for their citizens.¹⁵ The proliferation of transnational national company (TNCs) has connected the world with various level of production structure. In fact the TNCs are the main sources of delivery FDI to the host country. The TNCs are usually attracted by the opportunity of profit maximizing and the merits of accessible production resources supply by the host country. However, the attractiveness of abundance production resources is not the central reason for TNCs to locate their business. Indeed, many TNCs expanded the business at developed countries because

¹⁴ Dent, C. M. (2008). *East Asian Regionalism*: Routledge, p. 7.

¹⁵ Shiraishi, P. J. K. a. T. (2006). *Beyond Japan: The Dynamics of East Asian Regionalism*: Cornell University Press, Naoko Munakata, Has Politics Caught Up with Markets?, p. 136.

the companies were motivated by the prospective of host country. Paradoxically, these aforementioned criteria are weightier than country's participation in economic integration issue. On the other hand, economic integration does bring positive effect to the economic environment by improving the terms of trade. The TNCs expect to gain from the foreign profit creation/ diversion effects that were created after integration system.¹⁶

These regionalism factors which included cognitive-ideology and technical policy are inevitable motivation for backing complete regional economy cooperation. The share of values and beliefs are driving the regional actors to pursue mutual benefits that results from closer integration. The expansion of technical policy such as FTAs among the regional members is indeed providing additional support to enhance regional building. In addition Dent addressed among the inevitable factors, "actor-based" is an important force in constructing the shape of regionalism. According to his argument the regional arena is a stage for regional actors to reassert their influential powers and pursuing national benefits in various cooperation fields. Indeed, this is the point where China asserts regional influence as well as Taiwan's ambiguous situation begins to discuss.

Precisely, regionalism is seen as a platform that is more than the customary of "diplomatic force" but it could be a forum for expanding the regional peace and security. In East Asia, there is ample space for improving the role of regional peace is receiving much appealing. The instability of East Asia region has raised concerns

¹⁶ Lipsey, R. G. (1992). *International Economic Integration - Limits and Prospects*: Routledge, pp. 136-155.

regarding the role of regional institution in stabilizing the unsolved conflicts. For instance, the increasing tension on the disputed islands has never been reduced since the spurs of assertion from the claimants. In the context of regionalism that plays a significant role in peace and security, the functional cooperation has to be emphasized and departed from diplomatic force. The proposed for regional organization to work beyond regional groundwork and the urged for more leadership role by major regional powers to enhance maintaining of peace have been addressed. Furthermore, working on the field of peace maintaining in the form of regional cooperation could be a good opportunity to build confidence and nurturing of action-oriented regionalism in the Asia-Pacific.¹⁷

Eventually, the trend of growing relationship among East Asian countries under the form of ASEAN+3 has increased the trade and investment amount into a new height. The bonded relationship among the East Asian country has resulted in growing trade revenues and increasing flow of investment funds. On the other side, they are moving into deeper form of interdependent stage that would leads them to high cost in the event of any conflicts erupt. In the case of Taiwan, the signing of ECFA with China has nevertheless incurred various doubts of its capacity to influence Taiwan's society. Based on the dependency theory, the leverage will be enhanced if the supplier enjoys an asymmetry of dependence vis-à-vis the recipient.¹⁸

Similarly, the leverage of country A should increase if it does not need to rely on

¹⁷ Uesugi, Y. (2012). Building a Foundation for Regional Security Architecture in the Asia-Pacific: Human Resource Development for Peace Building. In W. T. T. a. R. Kersten (Ed.), *Bilateral Perspectives on Regional Security*: Palgrave Macmillan, p. 213.

¹⁸ Walt, S. M. (1987). *The Origins of Alliances*: Cornell University Press, p. 43.

country B as much as it was. The tendency of rising total trade with China and rapid investment flows to China has raised some concern about its overall healthiness to Taiwan. Ultimately, the better economic relationship under the agreement of ECFA has placed Taiwan in a politically vulnerable position with respect to China and may even threaten Taiwan's national security.¹⁹ In order to be less dependent on China's market, Taiwan needs to control over flow of investments to China. In fact, the trend of "hollowing out" in some of Taiwanese industry to China has been widely discussed and caused worrisome to local survival. However, what worries Taipei most is not about "hollowing out," but rather that, as more Taiwan's companies become dependent on the mainland, Beijing will gain political leverage over Taipei.²⁰

Besides of using liberal theorists on explaining trade effects on political relations, the use of rigorous mathematical model was used to study trade-conflict relationship and returned more numerable evidence.²¹ The study of trade-conflict relations proved that if country A is increasing free trade with large economic country B compared with small economic country C, it would lower down much more conflicts with country B. In addition the model found that tariff does increasing conflicts, in the case where the third party was targeted and imposed sanctions by multilateral countries. The state of globalization has produced political externalities of economic interdependent environment. The bargaining theory of war suggests that informational asymmetry is an important cause of interstate violence. In addition, the signaling

¹⁹ Niou, E. (2008). The China Factor in Taiwan's Domestic Politics. In P. P. a. J. Meernik (Ed.), *Democratization in Taiwan - Challenges in Transformation*: Ashgate, p. 168.

²⁰ Deng, P. (2000). Taiwan's Restriction of Investment in China in the 1990s. *Asian Survey*, 40(6), p. 973.

²¹ Solomon W. Polachek, J. R. a. Y.-C. C. (1999). Liberalism and Interdependence: Extending the Trade-Conflict Model. *Journal of PeaceResearch*, 36(4), 405-422.

theory argues that integration can reduce reliance on military force as a method for states to pursue national interests.

According to Erik and Quan, how globalization can make talk costly and how costly talk reduces the need for militarized disputes as follow. In the finding, states that are integrated into the global economy are more often able to reveal resolve through their statements and through the associated market responses, rather than through military acts.²² The costly signal does refrained states to postpone the risk of military approach on considering the economic interests. The higher trade flows could increase the cost of signally and reduce the use of military force in the interdependent economies.

If higher interdependence reduces a nation's resolve for war with its trading partners, the effect of inter-dependence on conflict is inter-determinate. It could make the initiation and escalation of disputes more or less likely. Trade makes war less attractive to both parties, but the target's lower willingness to fight makes coercion of the target easier and more attractive to the initiator.²³

Precisely, the deepen economic relationship between two conflict countries will decreases the costly military force and increases the leverage of larger economy country. These are the estimation that was worried by the current goodwill of closer economic dependence of Taiwan to China that will jeopardize Taiwan's bargaining power. Even though, closer economic alliances could decrease the military threat, the possibility of economic disruption was unavoidable. In the case of China-Japan relations, the disagreement on disputed islands instance has erupted anti-Japan

²² Li, E. G. a. G. (2005). War, Peace, and the Invisible Hand: Positive Political Externalities of Economic Globalization. *International Studies Quarterly*, 47, 561-586.

²³ Morrow, J. D. (1999). How Could Trade Affect Conflict? *Journal of Peace Research*, 36(4), p. 487.

demonstration in China bringing chaos into a few big cities in China. The engagement of protest rally had damaged Japanese business in mainland and resulted in deficit in car dealing after the demonstration. Although the conflict on disputed islands did not lead to war, both parties suffered lost in their trades and increased country's risk to another high level.

2.3 Literature Review

It is agreed by many scholars that ASEAN is the driver to the future East Asian Community. ASEAN holds the leading role in motivating the regional building therefore it should be alerted by some of the conditions highlighted by Yeo in the article of Japan, ASEAN and the Construction of an East Asian Community.²⁴ This included strengthening mutual interdependence, balance of interest, accumulation of bilateral and multilateral arrangements, to be guided by global norms and keep the process open and inclusive. The balance of interest in all kinds of regional co-operation is essential to build trust among them. It is extremely important in regional building especially looking at the structure of Asean+3 members come from different religious background and having several kinds of historical disputes. Once the balance of interest is not secured by the members, the vision of East Asian Community would vanish.

Chapter three in the book of 'Advancing East Asian Regionalism' with the title of the Development of the ASEAN+3 framework was written by Akihiko Tanaka.²⁵ In

²⁴ Hwee Y. L. (2006).

²⁵ Akihiko Tanaka, The Development of the ASEAN+3 framework, *Advancing East Asian Regionalism* edited by

this chapter Tanaka wrote the making of ASEAN+3 from the creation of multilateralism organizations, Southeast Asian Treaty Organization (SEATO) and the Asian and Pacific Council (ASPAC). Tanaka focused on the regional elite role in transferring ASEAN+1 Summit to ASEAN+3 Summit and subsequently the birth of East Asian Vision Group (EAVG)'s proposal in the agenda of Asean+3. Besides, Tanaka marked the important of ASEAN+3 members to act seriously in carry out the vision of EAVG proposal. This has indirectly supported my view that regional elites could be a barrier if national interest was in first priority. Conversely, regional elite could advance regional building if regional interest is being taken seriously.

The development of closer regional relationship between Northeast Asian²⁶ countries and ASEAN is part of the regional study components. The relationship between East Asian countries was strengthened during the Asian Financial crisis. However, the free trade agreements slow down between Japan, Korea and ASEAN. Kevin G. Cai has focused in the study of The China-ASEAN Free Trade Agreement and East Asian Regional Grouping to understand the regional building obstacles and feasibility of China-ASEAN FTA. In the study he proved again the free trade is lagging behind because of sensitivity in the agricultural sector hence they prefer to deal with agricultural free country like Singapore. On the other side China appeared to be more aggressive to concluding ASEAN-China FTA in 2010. China adopted the policies of active participation, broadening consensus, increasing mutual trust, and

Melissa G. Curley and Nicholas Thomas, pp.52-73.

²⁶ Northeast Asian refers to China, Japan and South Korea.

strengthening cooperation in his deals with ASEAN countries.²⁷ Again China has emphasized on the need to increase the mutual trust to ensure a peaceful regional building in East Asia.

The graduate developed in financial sector has encouraged more policy to enhance current cooperation standing. It was emphasized in Rajan's paper the usefulness of Asia Basket Currency (ABC) initiative into the creation of Asian Currency Unit (ACU) in East Asia.²⁸ The ACU could be used as an economic transaction activity within the region and as a means of to stabilize to internal market. In addition, it is encouraged to expand the participating countries to extend the coverage and make the financial and monetary cooperation stronger. However, there are number of obstacles toward the creation of ACU such as technical problems, the currency mismatch issues, the limitation of the use of the ACU and the political acceptability as this is still a vulnerable region.²⁹

On the other hand, a comparative study was done by examine the feasibility of the European Union's European Currency Unit (ECU) model to Asian case's Asian Monetary Unit (AMU). Regarding the common currency basket issue, it has been generally agreed by the scholars, Ogawa and Shimizu (2006) of the effectiveness of AMU compared to individual currency basket in term of stabilize the region effective exchange rate. According to their finding, East Asian countries should move from de

²⁷ Cai K. G., (2003).

²⁸ Rajan, R. S. (2008). Monetary and Financial Cooperation in Asia: Taking Stock of Recent Ongoings. *International Relations of the Asia-Pacific*, 8(1), 31-45.

²⁹ Parrenas, J. C. (2006). Challenges and Prospects for an Asian Currency Unit [Electronic Version].

facto dollar peg systems to basket peg systems.³⁰ Prior to deeper financial integration step case in point intervention scheme in European Monetary System (EMS), AMU plays an important step in monitoring the East Asian currencies movement. In addition to the study of AMU and after the global financial crisis, Ogawa (2010) analyzed the deviation of Asian currencies when the additional three currencies namely the Indian rupee, the Australian dollar and the New Zealand dollar were included in AMU Deviation Indicators. The result shows that only the addition of Indian rupee into ASEAN+3 is relatively more stable than the addition of the Australian dollar and the New Zealand dollar since September 2008.³¹

Indeed, financial crisis has induced the revisit of regional financial condition and enhance the financial mechanism for future exercise. However, financial crisis did cause some instability and conflicts in some of the affected countries. In Indonesia, the financial crisis triggered social instability and political chaos which marked the end of Suharto era. Moreover, there were a number of countries had reduced the military spending by cancelled all the defense exercises and reduced equipments purchase. This financial crisis has strong impact to regional security issues. As Mike Mochizuki (1998) emphasized that “with East Asian governments devoting most of their human resources to economic issues, multilateral security dialogues now get scant attention.” In fact, in 1998 ASEAN aggregate defense spending was around US\$10 billion compared to 1997 US\$15 billion spending.³²

³⁰ Shimizu, E. O. a. J. *Progress towards a Common Currency Basket System in East Asia* (No. 07), p. 11.

³¹ Eiji, O. (2010). *Regional Monetary Coordination in Asia after the Global Financial Crisis: Comparison in regional monetary stability between ASEAN+3 and ASEAN+3+3* (No. 10), p. 11.

³² Cheeseman, G. (1999). Asian-Pacific Security Discourse in the Wake of the Asian Economic Crisis. *The Pacific Review*, 12(3), 333-356.

The financial cooperation among ASEAN+3 countries is one of the precaution issues to some scholars especially in Taiwan case. In the paper written by Hong Tsai-Lung (2008) that was discussed about Taiwan marginalization issue that would bring Taiwan into discourage position. The author emphasized that China is using FTAs as a protocol between “states” to exclude Taiwan in East Asia regionalism. Under the current circumstance, Taiwan is facing difficulties to conclude FTA with major trading partners like US and Japan and it is advising to focus on FTAAP under APEC framework. The FTAs that concluded between ASEAN and plus three countries in East Asia have not short-term danger to Taiwan. However, Taiwan should aware of the financial and monetary cooperation issues under Asean+3 Framework. In addition, there is a possibility of marginalization spill over to non-governmental activities which is part of worrisome issues.

The issue of Taiwan being marginalized by international community has been widely discussed among the scholars. Some measurements were used by scholars to weigh the degree of disadvantages of Taiwan over East Asian economic integration movement. A survey has been conducted by Tung to assess the attractiveness of Taiwan investment to local and overseas enterprises. Based on his survey results, two outcomes of economic integration issue to Taiwan investment phenomenon can be concluded. Firstly, if Taiwan is participating in East Asia economic integration, the enterprises will increase the incentive to invest in Taiwan. Secondly, among the 1,019 target groups, there was a strong consensus that Taiwan should target for economic integration agreements with China and the US. From this result, it shows that

economic integration will have direct and continuing effect to Taiwan overall economic performance.³³

The study of Taiwan regionalism issue is analyzed in two directions whether it is contributing to other economic region or deteriorating slowly. By measuring the effect of East Asia regionalism, Noboru Hatayama was using intra export dependency ratio to estimate the achievement of regional integration through business activity.³⁴ And the result shows that without the contribution of Hong Kong and Taiwan, Asean+3 would achieve 34.8%, and possibly increase to 50.4% if both countries were included. Another analysis is to measure the effect of regionalism on country income by using CGE model. Kawai and Wignagara were using 2001 value as constant and 2017 as baseline to make the computation.³⁵ And the result is radiating positive effect to Asean+3 countries from the benefits of participating in ASEAN+3 FTA and ASEAN+6 FTA. However, it gave a negative effect to Taiwan as the result of excluding Taiwan from ASEAN+3 and ASEAN+6. This will bring a serious problem if these two FTAs are materialized in the unknown future.

Besides paying attention on the effect of economic integration to the members and Taiwan, some studies suggest the methods to minimize the damaging effect towards Taiwan. It was suggesting the active business activities could overcome the state policy by the evolving 'noodle bowl' effects. This was argued by Wu that

³³ Chen-yuan, T. (2010). The East Asian Economic Integration Regime and Taiwan. *Asian Perspective*, 34(2), 83-112.

³⁴ Hatakeyama, N. (2007). The Creation of a Free Trade Area of the Asia Pacific. Paper presented at the Joint Conference of the Japanese Economic Foundation and the Peterson Institute for International Economics on "New Asia-Pacific Trade initiative".

³⁵ Wignaraja, M. K. a. G. (2008). Regionalism as an Engine of Multilateralism: A case for a Single East Asian FTA. ADB Working Paper (Regional Economic Integration No. 14).

business arrangement is wider to bypass regional constraint as this was proved by the historical conflicts between 'go south' policy and the much stronger 'go west' flows by the business community.³⁶ The 'noodle bowl' effect which inclusive of formal trade agreements and unofficial business agreements is suggesting the micro-level could triumph over state to state trade agreement. Other suggestion would be avoided using the term of 'free trade agreement (FTA)' to 'economic cooperation agreement (ECA)'. And it is advising to seek ECA with individual ASEAN members and look for the most likely to conclude ECA partner.³⁷ It is advised to be extremely careful of applying step or policy to avoid political implication. It was a common agreed to avoid sovereignty issue and pursuit regional economic agreements as an economy and not a state.³⁸

³⁶ Wu, L. (2008). Taiwan and the ASEAN Economic Community: A context for Economic Statecraft in an Asian Regional Free Trade Area. *Issues & Studies*, 44 (4), 99-128.

³⁷ Minh, T. Q. (2010). Towards an FTA between Taiwan and ASEAN: Opportunities and Approaches. *Asian Outlook*, 002(1).

³⁸ Ibid, Hong, Z. (April 2011). Taiwan-ASEAN Economic Relations in the context of East Asian Regional Integration. *International Journal of China Studies*, 2(1), 39-54.

Chapter III Overview of East Asian Regionalism

East Asian community is a long term goal to Asean+3 members especially to ASEAN which consists of ten members and majority of them are of developing countries. The regional building in East Asia involved a number of regional parties, thus it became more complicated to achieve when each party sets their own goals. Moreover, regional building is hard to achieve when it involves mistrust and high national priority. Neo-realism stated “when neo-realist thinking is pervasive amongst many states then regional cooperation is more difficult to achieve.”³⁹ This supports the assumption that nation-states prefer relative gains compared to higher absolute gain.

ASEAN has enlarged its regional coverage by including Northeast Asian countries such as Japan, China and South Korea prior to the creation of Asean+3 in 1997 as dialogue partners to discuss regional issues. Asean+3 successfully agreed on a few regional development proposals such as the Chiang Mai Initiative Multilateralism in 2000 and bilateral Free Trade Agreement. The result of the study of the East Asian Study Group (EASG) reported in 2001 and the Tokyo Commemorative Summit both envision the East Asian community as a long-term goal for the region’s growth. This has directed ASEAN to a long-term path and plays an important role in moving this region into the East Asian community in the future.⁴⁰

³⁹ Dent C. M., (2008), p. 29.

⁴⁰ Tsunekawa J., *Towards an East Asian Community and Japan, Regional Order in East Asia: ASEAN and Japan perspectives*, edited by Jun Tsunekawa

The idea of regional grouping in East Asia had been promoted by Malaysia Prime Minister Mahathir Mohamad in December 1990. It is called the East Asia Economic Caucus (EAEC). This proposal was treated as an ‘insane proposal’ and received unpleasant feedback. My argument in this chapter is about the changing perception and acceptability which could happen given by the timeline. In brief, it means a concept that initially seemed to be insane could be materialize in the future after such a need is found. My study method is to revisit and analyse the elite’s perception towards EAEC in the 1990s. By selecting the study timeframe in the 1990’s, we can see the difference in the level of willingness and attitude towards the regional cooperation issue.

3.1 Series of Regionalism in East Asia

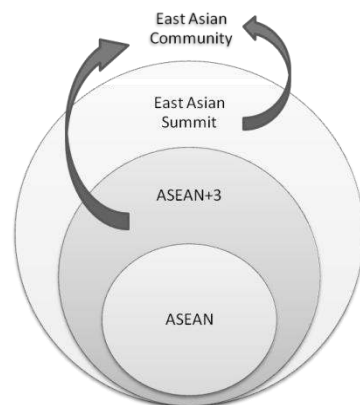


Figure 3.1 Evolving of Regional Cooperation in East Asia Region

Diagram 1 shows the evolvement of regional cooperation in support of the goal of East Asian Community. The core was developed from the region of Southeast Asia, the birth of ASEAN in 1967 by Indonesia, Malaysia, Philippines, Singapore and

Thailand. The first Asean+3 Summit was established in December 1997 and first East Asia Summit in December 2005 held in Kuala Lumpur. In the fifth Asean+3 Summit, members agreed on several goals recommended by East Asia Vision Group to create an East Asian community in the future. On the other hand, in the fourth East Asia Summit the Chairman's statement reaffirmed to play a part in support of the East Asian community building.

EAS has rapidly developed as a strategic forum and important component of the evolving regional architecture and should play a complementary and mutually reinforcing role with other regional mechanisms, including the ASEAN dialogue process, the ASEAN Plus Three process, the ARF, and APEC in building an East Asian community.⁴¹

Nevertheless, the concept or the impetus of East Asian regionalism is caused by the 1997 Asian Financial crisis as awareness to elites concerning the vulnerability of this region. The idea of regionalism would not be accelerated if the financial crisis did not occur and hit Asia countries heavily. Katzenstein described the drastic financial crisis as a painful experience in East Asia.

In the face of sharp increases in dollar-denominated debt burdens, illiquidity and bankruptcy, all three governments (South Korea, Thailand and Indonesia) guaranteed the assets of creditors and defended national currencies until they used up virtually all of their reserves. This forced the IMF to put together three bail-out packages, for a total of \$120 billion.⁴²

Regional cooperation in East Asia is not a new concept resulted from the financial crisis but it was first introduced by Mahathir in 1990 to enhance regional trade and

⁴¹ Chairman's Statement of the 4th East Asia Summit, ASEAN Official Website, www.aseansec.org

⁴² Peter J. Katzenstein, (2000), p. 20.

economic co-operation. However, it is clear that the initial ideas are different. The East Asia Economic Caucus aimed to challenge protectionism while Asean+3 is a forum founded after the financial crisis for future financial cooperation.

Mahathir's idea of East Asia Economic Caucus in 1990 received a great objection from US and undesirable responses from Japan and other ASEAN members was expected. A strong hostility by US could be certainly understood and it has been widely discussed by many scholars. Some scholars explained that ASEAN members did not welcome the idea mainly due to the US existence as Asia's important trading partner.

The same case may apply to the East Asia regionalism proposed by Asean+3 through the East Asian Study Group (EASG) report. Elites have been emphasizing on the benefits for increasing the level of regional cooperation, but there are some doubts here. "Do we have the ability to reach the goal? Do we need to build a community? How could we achieve this regional community-building?" These doubts have not been explained clearly by the regional elites in the conferences.

Another important factor is the relationship among three influential parties, US, Japan and China in East Asia. In early 1990's, the EAEC proposal was undoubtedly a persistent request from Mahathir to demand Japan's support and involvement in the forum. But in this Asean+3 Summit, China has evolved as a dominant country to compete with Japan as regional leader in East Asia. The competition between China and Japan was visible during the contribution of Chiang Mai Initiative Multilateralisation. In order to be different from China, Japan provided additional

funding of up to 60 billion dollars in May 2009. Japan and China seem to be racing against each other before US could respond and join the discussion.

Even though US was excluded, countries from Oceania and South Asia were included as members to participate in the East Asia Summit in 2005. The participation of Australia, New Zealand and India has become an argument between China, Japan and ASEAN members. Member of the Asean+3 had different values and opinions to including the additional three members in the East Asia Summit. China preferred to maintain the existing member in Asean+3 Summit while Japan and Singapore were suggesting to include another three members to moderate China's influence.

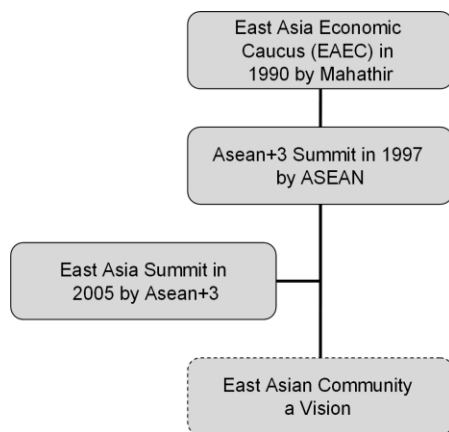


Figure 3.2 Background of East Asian Regionalism towards East Asian Community.

Basically, the East Asian Community idea has received much positive attitudes from the Asean+3 Summit and the East Asia Summit discussion. Although, this is not a new idea, it changes the elite's opinion and revives the idea of regionalism which was introduced by Mahathir in 1990.

3.2 The Struggle to Create EAEC in 1990's

The East Asian Economic Caucus (EAEC) was introduced by Mahathir Mohamad the Malaysian Prime Minister in 1990. It was initially proposed to Li Peng, the Chinese Premier during his visit to Kuala Lumpur in December 1990. In this meeting, Mahathir stressed that China plays a crucial role to establish the bloc to protect Asia Pacific from world 'fair trade'.⁴³ The preliminary member in EAEC suggested encompassing the six ASEAN members, China, Japan, South Korea, Taiwan, Hong Kong and the Indochina countries. The proposed name East Asia Economic Grouping (EAEG) was renamed to East Asia Economic Caucus (EAEC) in response to some of the arguments regarding the word 'Grouping' that is regarded as a trading bloc.

The precise objective of this proposal was not clearly identified and explained by Mahathir in his early proposal. Nevertheless, he emphasized that EAEC was intended to be a forum for the East Asian nations to gather and discuss the economic issues. In Mahathir's speech on the EAEC proposal in Bali he stated, "In the first place, let me emphasize that the Group is not intended to be a trade bloc."⁴⁴ In order to assure its Western counterparty, again he stressed, "An East Asian economic community or an East Asian exclusive free trading zone is very far from our minds."⁴⁵ This is totally contradicted in his speech during Li Peng's visiting tour to Malaysia.

The proposal apparently did not receive any positive response from the East Asia

⁴³ Koleksi Arkib Ucapan Ketua Eksekutif (Chief Executive Speeches Archive), Official Website of Office of the Prime Minister of Malaysia, <http://www.pmo.gov.my/>

⁴⁴ *New Straits Times*, March 08, 1991.

⁴⁵ *New Straits Times*, April 28, 1991.

region internally and externally. In the region, the members of ASEAN did not express their interest in his idea; Japan remained hesitant under the pressure of US, while China expressed cautiousness at the beginning. Subsequently, China revised its view and stated its support, expecting a further development. On the other side of the region we could see that US expressed its unhappiness towards Mahathir's idea because US was excluded. The pattern of US foreign policy has changed after the Cold War. As mentioned in Mark Beeson's paper, "The ending of the Cold War has freed the US from any overarching geopolitical constraints and made it less tolerant of alternative modes of political and economic organization and more willing to directly intervene in order to change them."⁴⁶ Any organizations which are of US interests should not exclude US.

3.2.1 EAEC in ASEAN

The EAEC did not receive much attention from the ASEAN members during the 4th ASEAN Summit Singapore in 1992. In fact, the EAEC issue is in the summit list, but it was not a key agenda during the Summit. Referring to the Singapore Declaration of 1992, in the field of economic cooperation, the EAEC discussion appeared as the following reference.

With regard to APEC, ASEAN attaches importance to APEC's fundamental objective of sustaining the growth and dynamism of the Asia-Pacific region. With respect to an EAEC, ASEAN recognizes that consultations on issues of common concern among East Asian economies, as and when the need arises, could

⁴⁶ Beeson (2006), p. 546.

contribute to expanding cooperation among the region's economies.⁴⁷

EAEC proposal did not receive popularity and earnest discussion in the Summit but Mahathir recognized it and the Malaysian newspaper had the headline, 'EAEC a Reality in 5 Years: PM'.⁴⁸

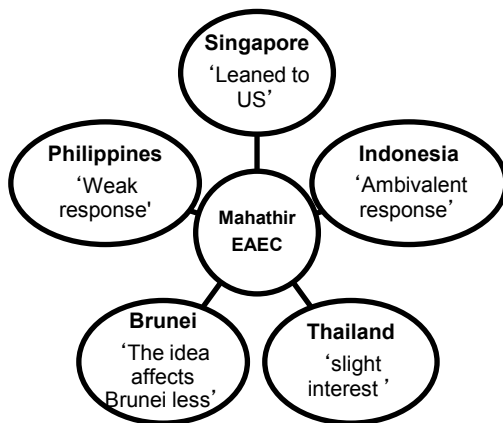


Figure 3.3 EAEC in ASEAN Discussion

Mahathir had described grouping as a bloc to counter what he called growing protectionist pressures arising from the creation of a single European market and the formation of NAFTA grouping the US, Canada and Mexico.⁴⁹ The growing protectionism around the world has aspired and enhanced the feeling of establishing its own region consolidation. East Asia region has been found itself standing behind in the world of globalization because the activity of protectionism is active around trade sector.

The purpose of EAEC explained by Mahathir was not clear and it changed accordingly to the pressure received from East Asia members and US. Mahathir has

⁴⁷ ASEAN Official Website, <http://www.aseansec.org/5120.htm>

⁴⁸ EAEC a Reality in 5 Years: PM, *The Star*, 27 January 1992

⁴⁹ *The Straits Times*, December 18, 1991.

never changed his mind to exclude US from the grouping despite the fact that many East Asia countries were facing difficulties. He stated that it is Japan's right not to join EAEC but East Asian region could not accept US because it is not part of East Asia. However, Malaysian International Trade and Industry Minister reiterated EAEC would not be an economic bloc shutting out non-Asian nations and it has no membership status.⁵⁰

In the early phase of EAEC, February 1991, Singapore's Minister of State for Trade and Industry, Mr Mah Bow Tan, had expressed Singapore's unwillingness to join a trade bloc, EAEC proposed by Malaysia. In May 1991, Singapore Prime Minister Goh Chok Tong stated his conditions to support Mahathir's proposal and the three points were:

That the EAEG will be consistent with the principles of the General Agreement on Tariffs and Trade (GATT);

That it will not diminish the importance of ASEAN; and

That it will not disrupt the Asia Pacific Economic Cooperation (APEC) process.⁵¹

Singapore's position was not to damage its relationship in relation to its international trade benefits with its counterparties. Singapore has stated the importance to grow at the same pace with the GATT and APEC while continuing connected to the ASEAN role. GATT was created in 1947 with the aim to reduce barriers in international trade and the Uruguay Round took place in 1986 to enhance

⁵⁰ KL welcomes Jakarta proposal to refine EAEC framework, *The Straits Times*, January 17, 1992

⁵¹ *The Business Times*, May 03, 1991.

its effectiveness in trade issues such as in the agricultural field. APEC was founded in 1989 by Australian Prime Minister, Mr Bob Hawke with the purpose of facilitating economic growth, trade and investment in the Asia-Pacific region.

Besides Goh's opinion, Senior Minister Lee Kuan Yew advised East Asian countries to work with the US, Canada and other APEC members to create a free trade area rather than form a regional bloc. In addition, Lee suggested that "The long-term aim should be a free trade arrangement between APEC members. In other words, convert NAFTA in stages into PAFTA, the Pacific Asia Free Trade Area."⁵²

It is obvious that the most important point to Singapore, which had been clearly spelled out by Lee, is to aim for free-trade area. It does not matter who the counterparty was, the key is Singapore could increase the trade and the growth. Lee has the ambition that Asia Pacific could join NAFTA to expand its free trade area and become a prosperous region as PAFTA.

Besides, the view that Western power played an important role in the field of economic and trade, US military involvement in Asia was essential too. Back to 1970's when the Communist were dominant in Indochina, Lee was against the withdrawal of US forces in Thailand. The continuing issues such as the uncertainty of Taiwan Straits, dispute islands and North Korea nuclear threats are the reasons for US military engagement in East Asia. Dr. Obaid Ul Haq, a former academic from the National University of Singapore had given his view on Lee's politic belief during President Bush's visit to Singapore in 1992. In his view, Lee regarded

⁵² *The Straits Times*, October 30, 1993.

the US as a benign power for three reasons and there are:

- The US was sincere in maintaining regional stability;
- America, being on the other side of the globe, had no territorial ambitions on the region and could regard it with a sense of detachment;
- America's democratic and humane values made it a more trustworthy country.⁵³

In early 1990, Singapore offered its land and suggested US to transfer over its naval logistic when Philippine considered closing the US Naval Base at Subic Bay.⁵⁴ From the above few points, we can see that Singapore's position is to advance its economic relationship with US, while on the other hand consciously trying to play its part as ASEAN member.

In the case of Indonesia's stance, it seems Indonesia felt ambivalent about the proposal of EAEC that excluded US as a member. The main concern to this uncertainty is the huge number of trades that Indonesia is dependent on US to boost its economy. Indonesia has frankly admitted its dilemma due to the huge trade transactions with US in the conversation with Mahathir during the fourth ASEAN Summit in Singapore. Indonesia is not in a position to offend US because Indonesia posted a 1.4 billion dollar trade surplus with the United States in 1990.⁵⁵ Thus, going against US does not bring any benefits to Indonesia considering its trade condition.

In the early phase of this proposal, it is fair to say that Indonesia was annoyed by

⁵³ Bush Visit Sets Seal on Ties, Raises Singapore's World Stature, *The Straits Times*, January 11, 1992.

⁵⁴ EAEC a Reality in 5 Years: PM, *The Star*, January 27, 1992.

⁵⁵ Indonesia Seeks to Refine Regional Forum Plan, *Reuters*, January 27, 1992.

Malaysia's announcement on the EAEC idea without an earlier discussion with its ASEAN members. Especially, when Indonesia is said to be the region's 'Big Brother', it seems to have a lack of respect by Malaysia from the political point of view. By comparing the approach used by Mahathir to propose EAEC and Australia's idea of APEC, we can see Australia took a calculated strategy. Barry Wain mentioned an important strategic approach by Australia to promote APEC in the initial phase.

Crucially, Canberra dispatched one of its most seasoned diplomats, Richard Woolcott, as the prime minister's emissary to sell the concept in the ASEAN country. Having served in the key ASEAN capitals, Woolcott headed first for Jakarta, where he respectfully sought "advice and guidance" from President Suharto, acknowledged as ASEAN's unofficial leader. The reward for this "proper show of respect" was an expression of Suharto's willingness to think about the idea.⁵⁶

Although Indonesia endorsed the EAEC concept later in few discussions, it still remains neutral in this issue. Indonesia emphasized on its stance that no trade bloc is expected and advised ASEAN to 'seek the utmost' from the Asia-Pacific Economic Cooperation forum.⁵⁷

Throughout the campaign of EAEC, Indonesia attempted to improve the EAEC framework, for example the changing of name from EAEG to EAEC in order to defuse some misconception arguments. Indonesia had the idea that EAEC should be part of APEC forum, in contrast from Mahathir's idea. Even though ASEAN agreed on the objectives and principles of EAEC, the execution is far from being certain.

⁵⁶ Wain B., (2009), p. 263.

⁵⁷ Mahathir: No reason to oppose EAEC, *The Straits Times*, January 28, 1992.

Part of the reason could be “differences between Mahathir and Suharto have largely accounted for the slow progress made by the EAEC. Suharto believed the idea was too confrontational by excluding the United States.”⁵⁸

Despite the existing disagreement, ASEAN members came out with three options to facilitate EAEC and there are:

- EAEC to be included in the meeting between foreign ministers of ASEAN and its major trading partners;
- EAEC to function under the umbrella of APEC;
- To tie EAEC to the annual ASEAN economic ministers meeting as a forum on trade and economic policies affecting East Asia.

At the end of the 26th ASEAN Ministerial Meeting in Singapore, Foreign Minister Wong Kan Seng announced,

We have agreed that the ASEAN Economic Ministers Meeting (AEM) will be the appropriate body to provide support and direction for the EAEC. As members of the EAEC are also members of APEC, we agreed that EAEC should be a caucus within APEC. This effectively means that ASEAN has at last reached a consensus on EAEC.⁵⁹

Although there was a better conclusion in AEM by ASEAN members, it remained the object of suspicion and worry in the eyes of western countries and Japan. EAEC did not progress dynamically in both ASEAN and APEC forums.

Thailand has been interested in advancing its trade and investment area as proven by the successful automotive industry that took off in the early 1960s. In addition,

⁵⁸ Malaysia: Government Renews Drive to Form East Asian Forum, *Inter Press Service Global Information Network*, July 19, 1993.

⁵⁹ ASEAN Ministers Agree to link EAEC with APEC, *The Straits Times*, July 25, 1993.

the idea of ASEAN Free Trade Area was initiated by Thailand in the fourth ASEAN Summit in 1992 together with Indonesia's idea to build a Common Effective Preferential Tariff (CEPT).⁶⁰

Regarding the EAEC proposal, Thailand highlighted on the need to strengthen the GATT system and being consistent with the open trading system in order to receive its support. Besides, Thailand Prime Minister Anand Panayarachun expressed his view that, "I hope coordination in investment activities will be possible among ASEAN countries as it will also enable us to operate as an economic grouping, not an exclusive one but which relies on self reliance interdependence and coordinated policies."⁶¹

Thailand Prime Minister Anand Panayarachun has emphasized the need for ASEAN countries to cooperate and coordinate as a group with the aim of attracting foreign investment to this region. Following that, Mahathir explained that EAEC is a consultative forum for East Asian countries and served as a way to open trade in the region. As a result, it attracted much positive attention from Thailand. This is a little contrast with the early news reported by the Bangkok Post before the meeting between Anand and Mahathir in Kuala Lumpur. In the news it claimed that, "Malaysia is unlikely to win Thai backing for its regional economic pact initiative and prefers to wait for the conclusion of international trade talks and ask for a strengthening of intra-ASEAN cooperating before proceeding with any new

⁶⁰ Keeping ASEAN Relevant and Sought After, *Business Times*, January 16, 1992.

⁶¹ *Business Times*, May 31, 1991.

grouping.”⁶² Although Thailand had slightly changed its view on EAEC, it requested the need to further study the proposal in detail and it made clear that Malaysia was responsible to enlighten ASEAN members and other countries.

Philippines gave a positive stance provided the EAEC caused no overlapping with APEC’s presence. At the same time, Philippines proposed the ASEAN economic treaty to strengthen trade cooperation between ASEAN countries and other countries.⁶³ Philippines expressed the difficulty to reach a consensus between ASEAN members regarding the EAEC issue before the beginning of ASEAN Summit 1992. Philippines Foreign Minister Raul Manglapus commented “It was agreed that there was a need for further study because consensus was that the EAEC is obviously not just an economic document. It has political implications.”⁶⁴

3.2.2 Ambiguous Result of EAEC toward East Asian Community

Mahathir proposed EAEC initially to China in December 1990 before any other of his ASEAN members or Japan. China responded rather cautiously, saying that it was impossible to determine the types and modality of cooperation because East Asian countries differed greatly in terms of economic systems as well as their stages of economic development.⁶⁵

Japan received the first EAEC explanation by Mahathir during Japanese Prime Minister Tokishi Kaifu’s nine-day visit tour to ASEAN countries in April 1991.

⁶² *Bangkok Post*, January 07, 1991

⁶³ *New Straits Times*, July 20, 1991.

⁶⁴ ASEAN Refuses to Back East Asian Trade Bloc, *Reuters*, January 24, 1992.

⁶⁵ Akihiko Tanaka, The development of the ASEAN+3 framework, *Advancing East Asian Regionalism* edited by Melissa G. Curley and Nicholas Thomas, p.55.

Japan responded carefully to this idea and remained in a neutral position until further understanding was made. Japan behaved in deference to the US-Japan relationship that has been built before the cold war. Edward J. Lincoln explained that ‘although the Japanese government frequently tests the boundaries of tolerable behaviour on issues ranging from trade protectionism to East Asian regionalism, the predominance of the US-Japan relationship remains a core reality for Japanese policymakers.’⁶⁶ In the case of Korea, it also never expressed any stance due to lack of understanding about the EAEC purpose. In spite of this, Korean Foreign Minister Lee Sang Ock said “if it is a trade bloc, we will say no. We are for free trade with all nations.”⁶⁷

A few months later, Japan expressed that Japan would not participate in EAEC. Japanese Foreign Minister Michio Watanabe commented “APEC forum is a conference which includes even the United States, so it is worthwhile, but for my part, I can’t go along with thinking which excludes a particular country.”⁶⁸ US was cautious about the potential of EAEC becoming a bloc to encounter US’s influence in the East Asia region. James mentioned that “he does not wish to see the formation of a regional sub-group that draws a line down the Pacific.”⁶⁹

Mahathir insisted on rejecting US participation because he said US is not part of East Asia. Another reason for his persistence on excluding US from EAEC might be due to his anti-Western personality. Barry Wain mentioned about Mahathir that “his

⁶⁶ Lincoln E. J., (2004), p. 122.

⁶⁷ New Straits Times, July 24, 1991.

⁶⁸ Japan won’t join East Asian caucus: Watanabe, *The Straits Times*, November 11, 1991.

⁶⁹ Baker on why US is against EAEC, *The Business Times*, November 15, 1991.

anti-West diatribes... were grounded in domestic politics, aimed at enhancing his own nationalist standing and attempting to strengthen... the Malaysian psyche and national identity.”⁷⁰ The derived EAEC idea seemed to be more than an attempt to build regional trade forum among East Asian countries.

The US has used its power to influence Japan and South Korea to decline the invitation of Mahathir’s proposal ever since it was proposed in 1990. The EAEC proposal has been derived from the decisions of Europe to form its own trade union and the US making a single economic grouping. Mahathir’s anti-West personality is well-known among the leaders and scholars. He has been strongly against the western style of unfair treatment and has voiced his resentment by the ‘Buy British Last’ campaign in 1981.⁷¹

The relationship between US and Malaysia had once again turned into a hostile situation because of the memorandum from US to Japan. However, Mahathir never gave up in promoting his brainchild EAEC proposal to his ASEAN members and Northeast Asian countries after receiving strong objection from US. In the situation of Mahathir’s persistence and US’s objection, Japan declared its position to ‘wait-and-see’ for the discussion result from the upcoming ASEAN Summit in Singapore. However, Japan made a clear stance regarding this issue that, it opposed any exclusive regional grouping.

US attitudes towards EAEC softened after President Bill Clinton took the office in 1993. President Clinton also adopted a ‘wait-and-see’ approach before receiving

⁷⁰ Wain B., (2009), p. 243.

⁷¹ Khoo B. T., (1995), p. 332.

any result from the ASEAN decision on EAEC framework.⁷² However, Henry Kissinger who was in favor of liberalization of trade has expressed his opinion over the topic, “if somebody wants to create an East Asian Economic grouping. Personally, I will not lose sleep over the subject.”⁷³ He explained US fears the EAEC could turn into a protectionist that restrict US trading activity in East Asia. Hence, US stance was to remain resistant to the idea and to keep an eye on any possible movements in Asia.

Japan has remained lukewarm about the EAEC proposal ever since it was proposed. Japan economy was still much dependent on US. In 1990, more than 60 percent of Japan’s export crossed to the United States and Canada while only 11.5 percent reached the ASEAN region.⁷⁴ Obviously, Japanese benefits depend on its good relationship with US in order to protect the national interest. However, we heard something different from Deputy Prime Minister of Japan Kiichi Miyazawa by saying that Japan should take the lead in forming an “Asian economic bloc linking the six-nation ASEAN with Japan and South Korea.”⁷⁵

In spite of this, China was positive on the EAEC issue unlike US and Japan. China had formally announced its support to EAEC and welcomed the region’s economic cooperation. This announcement was made by Li Peng in Beijing during Mahathir’s visit in June 1993.⁷⁶ However soon after, China stated its objection to

⁷² Indonesia, Malaysia Attempt to Mend Rift on EAEC, *Asian Economic News Kyodo News International, Inc*, July 19, 1993.

⁷³ ‘EAEC Formation Doesn’t Depend on What US Says’, *The Business Times*, November 07, 1994.

⁷⁴ Trade: Japan Says “No” to East Asia Trade Group – Now, *Inter Press Service Global Information Network*, July 27, 1993.

⁷⁵ *The Business Times*, June 10, 1991.

⁷⁶ China Gives Explicit Support for EAEC, *The Business Times*, June 15, 1993.

invite Taiwan in the EAEC proposal as a condition to remain supportive. Straits dispute between China and Taiwan remained a quest for regional economic cooperation and “contributes to a feeling in Southeast Asia that the organization may be more troublesome than it’s worth.”⁷⁷

Other ASEAN members got worried over the disagreement between Indonesia and Malaysia on the EAEC proposal. The argument arose as both leaders had different opinion about the EAEC placement. Indonesia would prefer to place EAEC under the umbrella of APEC forum while Malaysia would like to link EAEC in ASEAN economic ministers meeting.⁷⁸ However, ASEAN members managed to overcome the disagreement and agreed to include both in the plan. Even though a basic idea and plan had been concluded in the 26th ASEAN Ministerial Meeting, a practical execution of EAEC proposal by ASEAN had not been observed yet.

3.3 Moving towards ASEAN+3

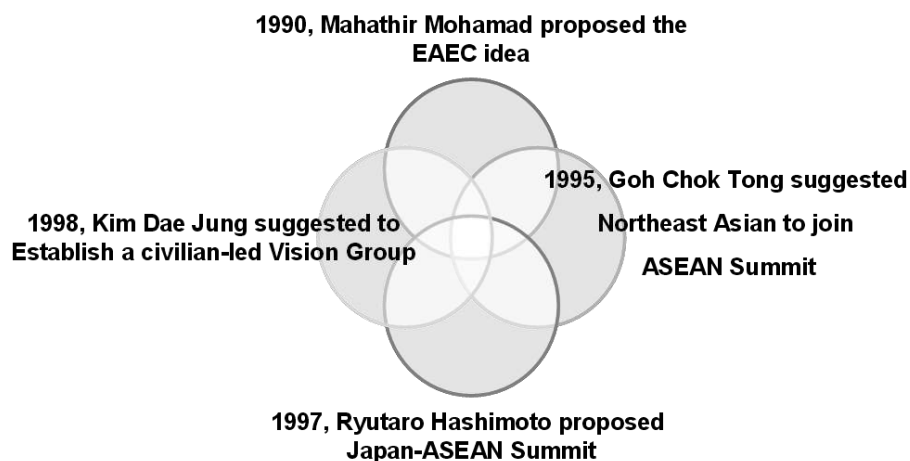


Figure 3.4 Construction of ASEAN+3 Frameworks

⁷⁷ China Objects to EAEC Seat for Taiwan, *The Wall Street Journal*, December 14, 1993.

⁷⁸ Malaysia: Government Renews Drive to Form East Asian Forum, *Inter Press Service Global Information Network*, July 19, 1993.

The Asean+3 Summit is considered a successful regional forum created by ASEAN members in 1997. Many scholars have granted the thriving of East Asian Summit in 2005 by ASEAN+3 to ASEAN but there are some elites that we should mention for their contribution to this framework.

Japanese Prime Minister Ryutaro Hashimoto had made the initiative to improve its relationship with ASEAN countries and announced to hold a summit meeting with ASEAN on a regular basis.⁷⁹ Hashimoto suggested such a proposal during his trip to Southeast Asia countries in early 1997. Hashimoto has expressed the trip objective by saying “the Asia-Pacific region has become a historic, religious and ethnic melting pot and I would like my trip to deepen the connecting links that overcome the wall (of diversity).”⁸⁰ Hashimoto’s proposal was later on treated by ASEAN as the beginning of Asean+1 Summit between Japan, China and South Korea and Asean+3 Summit in 1997.⁸¹

Previously, Japan was reluctant to join a similar grouping framework by European Union (EU) and ASEAN, Asia-Europe Meeting (ASEM) in 1996. The idea of ASEM arrived from Singapore Prime Minister Goh Chok Tong in 1994. The members consist of the similar regional grouping that was suggested by Mahathir’s EAEC proposal. Thus, Japan was hesitated to join ASEM Summit out of concern of the US presence.⁸²

Nevertheless, once again we have to mention Mahathir’s idea as he stressed that

⁷⁹ Hashimoto to Propose Regular Meeting with ASEAN Leaders, *Agence France-Presse*, January 04, 1997.

⁸⁰ Japanese Prime Minister’s “Doctrine” Involves Closer ASEAN Ties, *BBC Monitoring Service: Asia-Pacific*, January 06, 1997.

⁸¹ Refer to *ASEAN Official Website*, <http://www.aseansec.org/20122.htm>

⁸² Dent C.M., (1999), p. 241.

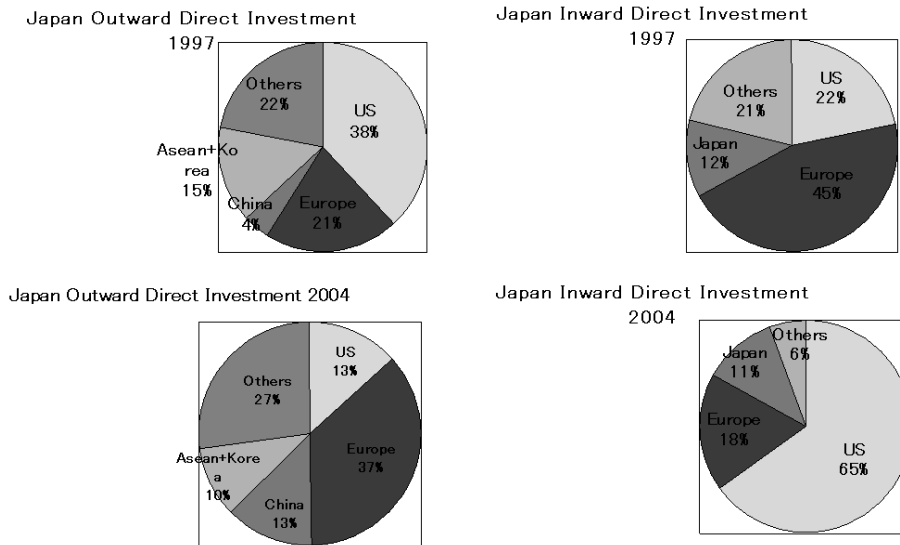
EAEC was a forum at the level of heads of governments to solve and discuss the economic and trading problems.⁸³ His regional grouping idea and the awareness of the needs to form a regional forum, have credited to the formation of the Asean+3 framework. Besides, he said Hashimoto's proposal provided a very good pretext to make a counter-offer towards realizing a virtual form of the EAEC Summit.⁸⁴ It seems that the Hashimoto's regional concept has moved towards Mahathir desirable direction.

Additionally, a major event of Asian Financial Crisis in 1997 is a wake-up call to the ASEAN members and Northeast Asia countries of their financial markets and government systems weaknesses. With the objective to improve the regional financial system, to gain investors confidence and to prevent future financial crisis, regional elites agreed to establish a surveillance mechanism in East Asia. In May 2000, Asean+3 members had agreed to establish Chiang Mai Initiative as a network of bilateral swap agreements among the members during financial difficulties period.⁸⁵ Thus, Chiang Mai Initiative marked the first concrete financial cooperation initiative arising from Asean+3 to show the members earnest efforts to cooperate.

⁸³ Mohamad M. (2006).

⁸⁴ Akihiko Tanaka, The Development of the ASEAN+3 Framework, *Advancing East Asian Regionalism* edited by Melissa G. Curley and Nicholas Thomas, 2007, p. 60.

⁸⁵ Tadahiro Asami, Chiang Mai Initiative as the Foundation of Financial Stability in East Asia, *ASEAN Secretariat*, 2005, p. 3.



Source: Calculated from the Foreign Direct Investment Trade Data, Minister of Finance, Japan
 Figure 3.5 Japan Outward and Inward Direct Investment in 1997 and 2004.

Besides, it is necessary to maintain or improve the diplomacy between China, Japan and US as they are much dependent on each other. By referring to the data in Chart 1, US continuing role in Japan is undeniable either in the past or now. The foreign fund received from US has increased tremendously compared between 1997 and 2004 as shown by Japan's inward investment records. Completely denying the presence and excluding US from the region is insensible and not beneficial in the case of Japan. While Japan on the other hand improved its relationship with China and we can see Japan's outward investment to China increased from 4% to 13% respectively. We can simply conclude that the economy relationship between these three countries is unbreakable according to the direct investment data. Thus, the attempt to exclude one party in the regional grouping issue seems to give undesirable consequences.

3.3.1 Chiang Mai Initiative Multilateralization

Chiang Mai Initiative Multilateralization (CMIM) is the first prominence financial cooperation between ASEAN and East Asia countries. The main purpose to establish CMIM is to prevent a similar financial crisis which was occurred in 1997. CMIM is a creation under ASEAN+3 frameworks and it is a first remarkable regional agreement that concluded in this diverse region. Besides CMIM, the exploration into regional bond market was intended to create local-currency dominated bond market while providing accessibility to both issuer and buyer. Focusing on the CMIM, it was begun with a series of currency swap agreements between bilateral countries and it was transformed into a single multilateral swap agreement in 2010 with lump sum funds of US\$120 billion that was realized. Subsequently, two years after, the size of the fund was increased to US\$240 billion. In fact, the CMIM is aimed to solve short term Balance of Payment (BoP) difficulties and increase the level of informational exchanged between member countries.

ASEAN aims to turn into an economic integrated community in 2015 and focusing on three areas to materialize the goal. In order to integrate the financial sector, ASEAN is working on the liberalization of financial systems and financial tools. The three focused areas are capital market development, financial services liberalization and capital account liberalization. Series of steps have been introduced and executed to enhance the capability such as ASEAN exchange

market linkage and promoting regional credit rating structure.⁸⁶ In order to realize ASEAN wishes to advance the plan on ASEAN currency cooperation, it is anticipating more efforts are needed in consolidate macroeconomic divergence.

Precisely, ASEAN consists of small national in Asia and it does not impose the condition to set up its own strong financial hub with adequate fund supports and technologies. For this reason, collision with more powerful and knowledgeable countries would be useful to ASEAN's financial performance for positive result. It would be a wise movement to include more influential countries in composing a financial safe net framework but things get complicated as different ideology members are to group together. Indeed the process to achieve the objective of financial cooperation and integration among ASEAN+3 was initiated by various barriers ahead. The creation of CMIM had brought a few doubts such as the ultimate objective of CMIM was unclear among the members; the free trade arrangement was desirable movement and the leadership issues.⁸⁷ In addition to the original member of ASEAN+3, the contribution of CMIM funds was opened to Hong Kong in 2009.

⁸⁶ More information on ASEAN's road to ASEAN Economic Community could be discovered at their official website <http://www.asean.org/>

⁸⁷ More details on the creation of CMIM could be found from Wang, Y. C. P. Y. (2005), Anderson, S.-D. W. L. (2003) and Vichyanond, C. S. a. P. (2006)

	USD(Billion) Previous	(%)	USD(Billion) New	(%)	Basic Vote (no. of vote)	Votes based on Contribution (no. of vote)	Total Voting Power (%)
China	34.2	28.50	68.4	28.50	1.6	34.20	25.43
Hong Kong, China	4.2	3.50	8.4	3.50	0	4.20	2.98
Japan	38.4	32.00	76.8	32.00	1.6	38.40	28.41
Korea	19.2	16.00	38.4	16.00	1.6	19.20	14.77
Plus 3 + HK	96	80.00	192	80.00	4.8	96.00	71.59
ASEAN 5	22.76	18.965	45.52	18.967	8	22.76	21.847
Vietnam	1.00	0.833	2.00	0.833	1.6	1.00	1.847
Cambodia	0.12	0.100	0.24	0.100	1.6	0.12	1.222
Myanmar	0.06	0.050	0.12	0.050	1.6	0.06	1.179
Brunei	0.03	0.025	0.06	0.025	1.6	0.03	1.158
Lao PDR	0.03	0.025	0.06	0.025	1.6	0.03	1.158
ASEAN	24.00	20	48	20	16	24	28.41
Total	120	100	240	100	20.8	120	100.00

Source: Modified from ASEAN Summit Documents

Table 3.1 Chiang Mai Initiative Multilateralization Contributions

Since the foundation of CMIM in 2000, it is experiencing numerous adjustments to enhance its capability building for future performance. The formula on contribution and voting system were fixed to organize the ASEAN+3 frameworks system for clearer orderliness. The newly revised CMIM fund did not affect the voting weight of the thirteen nations plus one administrative region. The fund was increased to US240 million and this increment had double-up the contributed amount of member countries according to the pre-determined contribution ratio. The newly added regional member, Hong Kong, was contributing under the shadow of China with the contribution amount of 3.5% of total funds. Besides, participating in regional financial cooperation under China's umbrella, Hong Kong does not hold the basis vote (1.6 votes) that was given to all 13 member countries. However,

Hong Kong was awarded with some voters for the portion of funds that was contributed to CMIM fund with total voting power of 2.98 votes.

The decision to add Hong Kong into East Asian liquidity funds does not increase the voting power of China. In fact, China divided the vote portion to Hong Kong that total up the voting power to 28.41 votes. China holds an overall of 28.41 votes in CMIM fund and this allows China shared the same seats with Japan. Japan contributed the same amount of funds as China and given the same portion of voting power. On the other hand, ASEAN 5 places approximately 18.96% in CMIM fund and owns 21.85 % of votes in decision making power. The other ASEAN members contributed less than 1% each into the fund and made them the smallest share holder in CMIM fund arrangement.

Although, ASEAN contributed 20% of total amount, the overall voting power of ASEAN countries is 28.41 votes. The ASEAN has actually shared the same voting power as China and Japan under CMIM fund commitment. The state of alliance with bigger economic countries from Northeast Asia does not jeopardize the benefits and minimize the voices of ASEAN countries. Since three major contributing groups hold the same share of voting power, the solely vote follower would be South Korea. The South Korea contributed 16% of total funds and holds 14.77% of votes in CMIM decision making. Exclusively, South Korea plays an important role in decision making process when split voting occurred on disagreement event.

Besides the agreement on the contribution and voting power formula, there is a

few more application to enhance the execution of the funds. One of the fundamental withdrawal requirements is “IMF De-kinked” portion which obliges borrower to accept IMF assistance from exceeding the size of de-linked portion. The IMF-linked requirement was a controversy issue during the period of drafting CMIM framework because of bad experience in dealing with 1997 financial crisis. Nevertheless, it was one of the essential requirements that have to be accepted by ASEAN+3 members due to the limited capacity in financial sector. The initial agreed “IMF De-linked” portion was barely at 10% of the US\$1 billion swap size which was relatively a tight condition to escape from IMF assistance. However, throughout the years of strengthening CMIM conditions, the “IMF De-linked” portion was increased to 30% in 2012 and potentially multiply to 40% in 2014. The improvement gives the borrower more flexible in managing the funds from exceeding IMF-linked requirement.

Another important CMIM requirement is the solution for making final decision after a controversial discussion or disagreement occurred. In such a decision-making situation, ASEAN+3 members came out with an agreed solution which contents in CMIM agreement. The agreement stated that topic is divided into fundamental issue and executive level issue. Fundamental issue consists of CMIM’s managerial works while executive level issue includes of execution of CMIM funds for actual application. In the case of fundamental issue, Ministerial level would take up the job and decision would be made based on a consensus approval. For executive level issue, it would be handled by Executive level (comprises the

deputy-level representatives of ASEAN+3 and Central Banks) and the decision-making is based on 2/3 majority for execution.⁸⁸

3.3.2 Where is Taiwan?

The shadow and voice of Taiwan could be hardly heard in this attractive regional grouping issue. Geographically, Taiwan is located in the East Asia but its existence has been ignored. In the early stage of Mahathir proposal EAEC included Taiwan as part of the grouping member but throughout the process it was off the track. Thereafter Taiwan is absent from the forums like ASEAN Regional Forum, ASEM and East Asia Summit. At the beginning of ASEM first meeting preparation in 1995, Taiwan expressed its interest to become a member, and based on the meeting sources, Hong Kong, Taiwan, Australia, New Zealand and India have indicated that they want to be the part of the inaugural meeting.⁸⁹

Despite Taiwan's enthusiastic attitude in various regional forums, its hope always effaces from consideration. Taiwan awkward image is indubitably restrained deliberation of any regional based dialogues. In fact, Taiwan's name was considerate in membership of regional forum was not limited to Mahathir's proposal but also it used to be considered in Japan's plan. In 1999, when Japan was looking for a grouping partner to form a trade forum, Taiwan was considered as Japan's proposal to be a partner⁹⁰ but China was not. This was after the fallout

⁸⁸ For more details information please refer to CMIM Agreement at ASEAN official website <http://www.asean.org>

⁸⁹ Many Keen on Asia-Europe Summit, *The Straits Times*, May 03 1995.

⁹⁰ Cai, (2001), p. 12.

occurred in APEC's program on trade liberalization in 1997. Japan refused to accept the inclusion of fish and forestry products in the early voluntary sectoral liberalization (EVSL) agreement.

In the case of ASEM, Taiwan's participation issue was also in a difficult situation in order for them to be accepted as a member. Taiwan has even sought the help from UK to support its attendance in the first ASEM Summit in 1996.⁹¹ Unfortunately, Taiwan was still not invited to attend the summit and China insisted new participants should be sovereign nations.⁹² The increasing influence of globalization has induced more countries to join trade base organisation to increase the competitiveness. In 1991, China, Hong Kong and Taiwan was officially joined the Asia-Pacific based APEC. However, China publicly opposed the participation of Taiwan to attend APEC Summit and stated "Taiwan and Hong Kong have been admitted to the organization as regional economies. Although they are members of APEC, they are not sovereign states and therefore we believe they have no right to attend the APEC summit, be it officially or unofficially."⁹³

Likewise in the process of frame working EAEC in 1993, China has directly stated her condition to keep its support to EAEC provided that Taiwan is not in the member list. Apparently, Secretary General of ASEAN, Datuk Ajit Singh was planning to bring the EAEC proposal to Hong Kong and Taiwan for discussion. This was a decision made after the ASEAN meeting concluded to invite Japan,

⁹¹ Taiwan Requests UK Support for Asia-Europe Summit Attendance; Tariffs Discussed, *BBC Monitoring Service: Asia-Pacific*, March 01, 1996.

⁹² Taiwan to Continue Efforts to Attend Asia-EU Summits, *Asian Political News*, March 03, 1996.

⁹³ China against Hong Kong, Taiwan Attending APEC Summit, *Asian Economic News Kyodo News International, Inc*, July 19, 1993.

Korea, China, Taiwan and Hong Kong to be founding members of EAEC.⁹⁴

According to news, Taiwan Vice President Lien Chan visited Malaysia on a private trip and part of the agenda was to discuss with Mahathir about Taiwan's participation in EAEC issue.⁹⁵

China became Taiwan's main issue that opposed Taiwan's participation in regional cooperation forum which prevented Taiwan from having the advantage in trade incentive. Experienced elite, Lee Kuan Yew has observed that "Beijing uses its economic and political clout to counteract what it sees as against its interests."⁹⁶ This comment was based on Singapore's experience when China suspended its relationship with Singapore after the Ex-Deputy Prime Minister of Singapore Lee Hsien Loong visited Taiwan in 2004. China continued to assert its opposition for any single attempt to create "sovereignty" looks Taiwan with other regional members. The regional states are remaining cautious in dealing with all issues related Taiwan under China surveillance.

In recent years, the cross-strait ties became a peaceful environment after President Ma Ying Jeou took the office from Taiwan Democratic Progressive Party. The drastic change in the China's attitude could be seen as China changes its reunification approach from military force to economy alliance. China has been taking advantage to tighten the grip it has on the economic market and concluded Economic Co-operation Framework Agreement with Taiwan in June 2010.⁹⁷ The

⁹⁴ China Objects to EAEC Seat for Taiwan, *The Wall Street Journal*, December 14, 1993.

⁹⁵ Taiwanese Premier Meets Mahathir on Malaysia Visit, *Asian Political News Kyodo News International, Inc*, January 03, 1994.

⁹⁶ Taiwan-Singapore FTA Hinges on Cross-Straits Ties, *The China Post*, May 09, 2008.

⁹⁷ Reunification is already a Reality, *South China Morning Post*, July 19, 2010.

improvement on the relationship has given Taiwan an advantage to conclude other potential FTAs with trade partners and prospective regionalism issues.

As we can see, an improved relationship between China and Taiwan has given their immediate neighbours the chance to get their breath back after a potential straits war. Taiwan is receiving much benefits from China's relax approach on the reunification issue. But this yield was implied as a 'clear and present danger'⁹⁸ by a Taiwan defence-ministry officer. The goodwill shows by China economically does not ease the danger of its military force at the Taiwan Straits. In reality, the the enhancement of China military technology and reluctance to denounce the use of force in cross-straits issues are hardly to produce a peaceful condition in the regional.

Economies	Diplomatic Allies	Missions Abroad	Foreign Missions	No. of Visa-free ⁹⁹
Taiwan	23	117	76	129
South Korea	189	197	189	160
Singapore	186	51	161	161

Source: Ministry of Foreign Affairs ROC, Korea and Singapore

Table 3.2 International Relations of Newly Industrialized Economies¹⁰⁰

Based on the above table, Taiwan's diplomatic allies are about less than a quarter of total diplomatic allies own by South Korea and Singapore. However, the missions abroad and foreign missions in the Taiwan are not huge vary compared to the other two cities. Although Taiwan is facing diminution of diplomatic allies, it remains

⁹⁸ The Ties That Bind?, *The Economist*, July 01, 2010.

⁹⁹ The data was collected from <https://www.henleyglobal.com> and newspaper report.

¹⁰⁰ The Newly Industrialized Cities was excluded Hong Kong in this data because Hong Kong's foreign relations and defense are responsibility of China under the Basic Law.

acknowledge by minor countries as a sovereign nation. Those countries which do not maintain diplomatic relations with Taiwan are retaining unofficial connection in foreign affairs until now. Due to the unofficial relationship between Taiwan and major influential countries, Taiwan's missions abroad is not called embassy generally. For example in South Korea, Taiwan's unofficial embassy is called Taipei Mission in Korea. Even though, Taiwan's diplomatic allies are small in amounts, it is still functioning as a nation under its constitution.

In addition, Republic of China (Taiwan)'s passport is widely accepted by whole world including non-diplomatic relations nation. The ordinary people are free to travel around the world by holding a valid Republic of China (ROC)'s passport. Basically, ROC citizen meets no constraint as individual landing with visiting, travel and business purposes. In fact, ROC is one of the countries that were granted visa waiver treatment by many nations in the world. For instance, ROC is granted an approval status under the US visa waiver program in October 2012 that enable ROC passport holders to travel freely for 90 days or less without obtaining a visa.¹⁰¹ This is overwhelming news for Taiwan because participating in US visa waiver program was one of President Ma inaugural aimed. In addition, Taiwan is the fifth country in Asia participates in this program and the "US became the 129 country or region"¹⁰² that granted travel privilege to Taiwan.

¹⁰¹ Please to American Institute in Taiwan for more details explanation <http://www.ait.org.tw>

¹⁰² Shelley Shan and Shih Hsiu-chuan, "US grants Taiwan visa-waiver status", *Taipei Times*, October 03, 2012.

Chapter IV Economy Ties as a Core for Integration

ASEAN has been established for more than 40 years but it remains weak in decision making process with upholding of the value of ASEAN ways to administrate regional forums. Besides national interest, the major obstacle is the divergence of political opinions, the relationship between the leaders of member countries and internal political issues. Over these 40 years, there is no visible leader among ASEAN members come into sight in each forum or summit. It is difficult to succeed as a partnership without a leadership model and share a common interest in an association. Thus economic linkages among states in the region have been encouraged as ways to prevent conflict among states through greater functional interactions.¹⁰³ In fact most of the ASEAN members are on developing status because they are directing more efforts in domestic resources development and attractive foreign direct investment funds. On the other hand in the field of financial and monetary cooperation, ASEAN needs more time to carry out in full operation because half of the member countries are at beginning stage of economic building to understand the implicit in the cooperation's role.

Nevertheless, formation of ASEAN+3 was a tool to enhance the activity and cooperation between ASEAN and Northeast Asia countries. In fact before the basic framework of ASEAN+3, Mahathir Mohamad initiated the idea of regional discussion group but it was refused by the members of association.¹⁰⁴ The attitudes of the

¹⁰³ Stuart, H. (2000). Asian Multilateral Institutions and their Response to the Asian Economic Crisis: The Regional and Global Implications. *The Pacific Review*, 13(3), p. 498. In addition, the author also mentioned about keeping the peace was an important indirect contribution to the economic success of its member, p. 504.

¹⁰⁴ A discussion on EAEC has been on in Chapter III.

members were changed after the region experienced the slapped from Asia Financial Crisis in 1997 and realized that regional cooperation was critical to protect them from financial crisis or provide crisis recovering method. This is a typical example of communication failure among the member states precisely during the occurrence of the financial crisis in 1997. The occurrence of the crisis was mainly due to liquidity failure and insufficiency of information exchange among country states. Other reasons are the attacked by the speculators and origins weakness of existing economic policy. Basically, the basic problems are created from a shortage of foreign exchange in affected countries that has caused the value of currencies and equities to fall dramatically. The experience has given East Asian to enhance the inadequate facilities in financial sectors and the insufficient mechanisms for allocating capital funds during the emergency.

Therefore cooperation activity between ASEAN and Northeast Asia countries is necessary to stimulate an efficient financial economy build up to a higher level. The raise of China especially in 19 century has brought enormous attention around the world for its average GDP growth maintained at 8% each year and its hold about US\$440billion of foreign reserves. As China is developing tremendously, its role in East Asia is expecting to become more important and with higher social responsibility. China began to play an important role in this region simultaneously. At the beginning, China was seen solely as a communist party and portrays as a strong business threat to South East Asia countries. These perceptions have been changed slightly with the hope of China could contribute to peace and regional development in Asia. At the

same time China plays an essential role to support regional cooperation and ensure ASEAN+3 become a strong and effectual group. Given example the idea of CMIM in 2008, China has been involved actively together with Japan to come out with US\$120billion total contribution among CMIM members. This is a concrete movement for more financial and monetary cooperation among participation countries.

4.1 The 1997 Crisis Induces Financial Cooperation

The occurrence of the 1997 financial crisis has brought the focus on how to prevent another financial crisis and what are the tools to effectively monitor the economic figures movement. The eclipse of East Asia miracle economic growth after the crisis has dramatically revised Asian leader's perception on international institution role and encouraged regional mechanism on top of IMF to prevent financial crisis in future. The trend of pursuing its own regional financial mechanism was tagged along with the disappointment arises during the 1997 financial crisis. The weakness of financial sector in providing information and transparency issues were discussed widely as the causes of the eruption but Ajit and Bruce (1999) argued that the IMF role as a coordinator between borrowers and lenders was much needed than the mistaken diagnosis.¹⁰⁵

A number of financial reformations took place in the aftermath of the crisis. Especially, those countries accepted IMF rescued funds which had to restructure the

¹⁰⁵ Bruce, S. A. a. A. W. (1999). The Asian Model: A Crisis Foretold? *International Social Science Journal*, 160, pp. 203-215. In this paper, the authors argued that Asian Model was not the main cause of the 1997 financial crisis by bringing out some concretes case in China and India which avoided the crisis. The worst hit by the crisis, Indonesia, was said the financial condition in good situation prior to the crisis.

financial sector and increased transparency. Although IMF had implemented a few steps of economic recovery methods, the ineffective prescription on dealing with the crisis created a gap of incredibility between IMF and fund recipients. Besides the heavily affected countries, Japan was also under financial reregulation under market pressure and accumulative effects of underperformed financial sector. During the crisis, Japan had attempted several times to build the regional financial mechanism by suggesting to set up Asian Monetary Fund (AMF) and to reform IMF's fund resource and procedures. In addition, Japan has developed research capacity to groundwork for monetary cooperation and it was also a fund supporter in a few projects at Japan and Australia.¹⁰⁶

Referring to figure 4.1, the rate of GDP growth was above five percent before 1997 which was represented a successful economic growth in East Asia. A drastic change occurred abruptly which brought the GDP performance to negative growth for all ASEAN 5 countries in 1998. This is where the bottleneck that precludes any further miracle growth or it is a wakeup call for frail finance conditions. Similarly, the depression condition could be observed from the exchange rate movement which gave a clearer picture of the crisis effects to respective countries. Generally, the growth was relatively stable in 2000s especially for those countries which were hit significantly, Indonesia and Thailand until the Global Financial Crisis arose in 2008.

As matter of fact, the financial crisis in 1997 was caused by the value of Thai Bath and Indonesia Rupiah devaluated drastically and spread to other Asian countries

¹⁰⁶ Shiraishi, P. J. K. a. T. (2006). Creating a Regional Arena in *Beyond Japan: The Dynamics of East Asian Regionalism*. Cornell University Press, pp. 108-129.

including South Korea. Thailand had the first hit when Thai Bath was attacked by speculator and under the condition of short hard currency the central bank was not persevere the Thai Bath in the market. The financial instability was then broke up to Malaysia and Indonesia and stirred investor's confident level to a deep low. Besides it gave a huge impact in Indonesia's economic environment, it had resulted President Suharto to give up his 30 years presidency. The smacked of financial crisis had given more than financial turbulence; it arose decade years of disgruntled under unequal wealth distribution system. It is an unforgettable experience for each affected countries and a better solution have to be found besides seeking help from IMF.

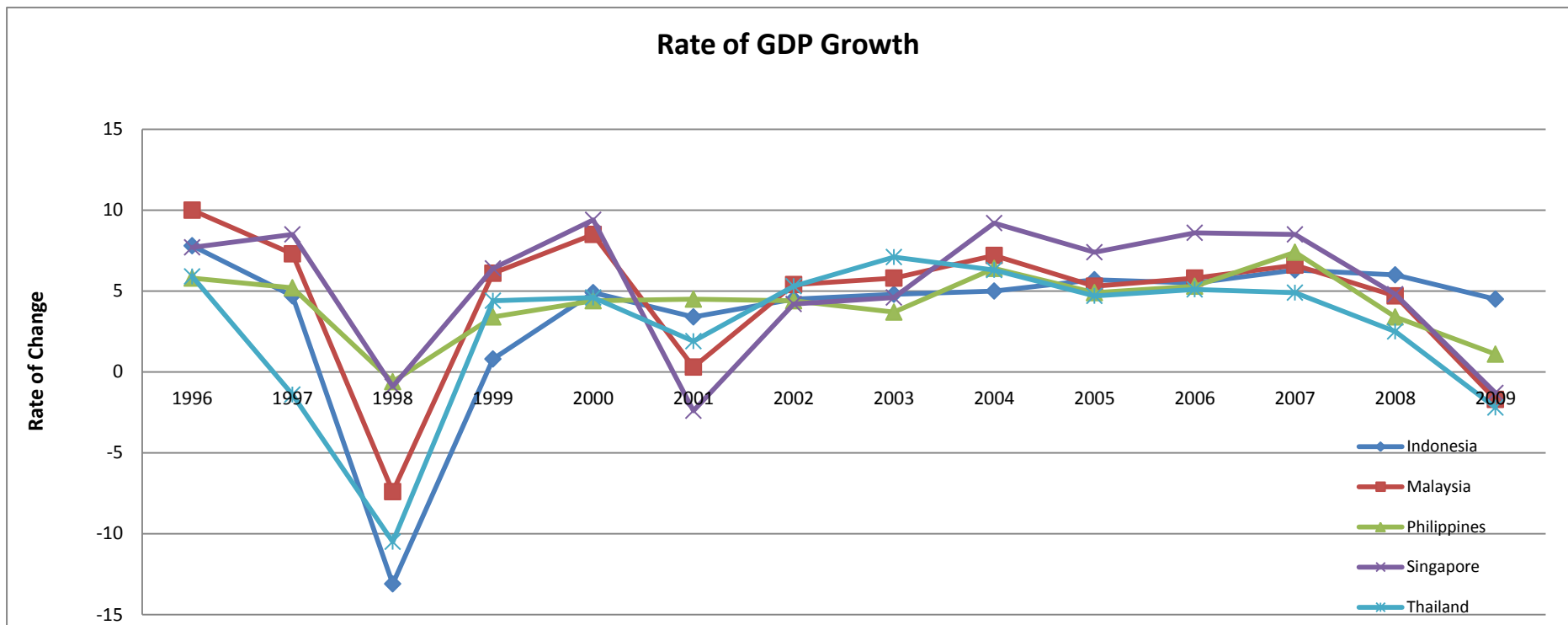
The foreign exchange rate clearly reflects the confident level of the investors and speculators to the country's overall economic condition. Soon after the financial crisis, Mahathir expressed his defense on the blamed that these government's policies were bad and their institutional were weak. He had actually pointed the speculators were the player behind the scene that could easily manipulate the currency by short-selling the currency and disseminate the unhealthy news to gain profit.¹⁰⁷ Based on figure 4.2 it obviously interprets the consequences of currency devaluation and the drastic movement of foreign exchange rate in ASEAN 5 countries. The least affected country was Singapore but even with a strong financial background and running well as a financial center, the currency was slightly devaluated too. Unfortunately, Indonesia was the most suffered economy which devalued at the rate of change 73.5 against US dollar. It took a couple of years to clean the cluttered financial condition and rebuild

¹⁰⁷ Mahathir Mohamad (1997). A speech on *The Finance Ministers of ASEAN and ASEAN plus six and the Conference on Financial Initiatives for the 21st century*.

the investor confidence after the stunning experienced.

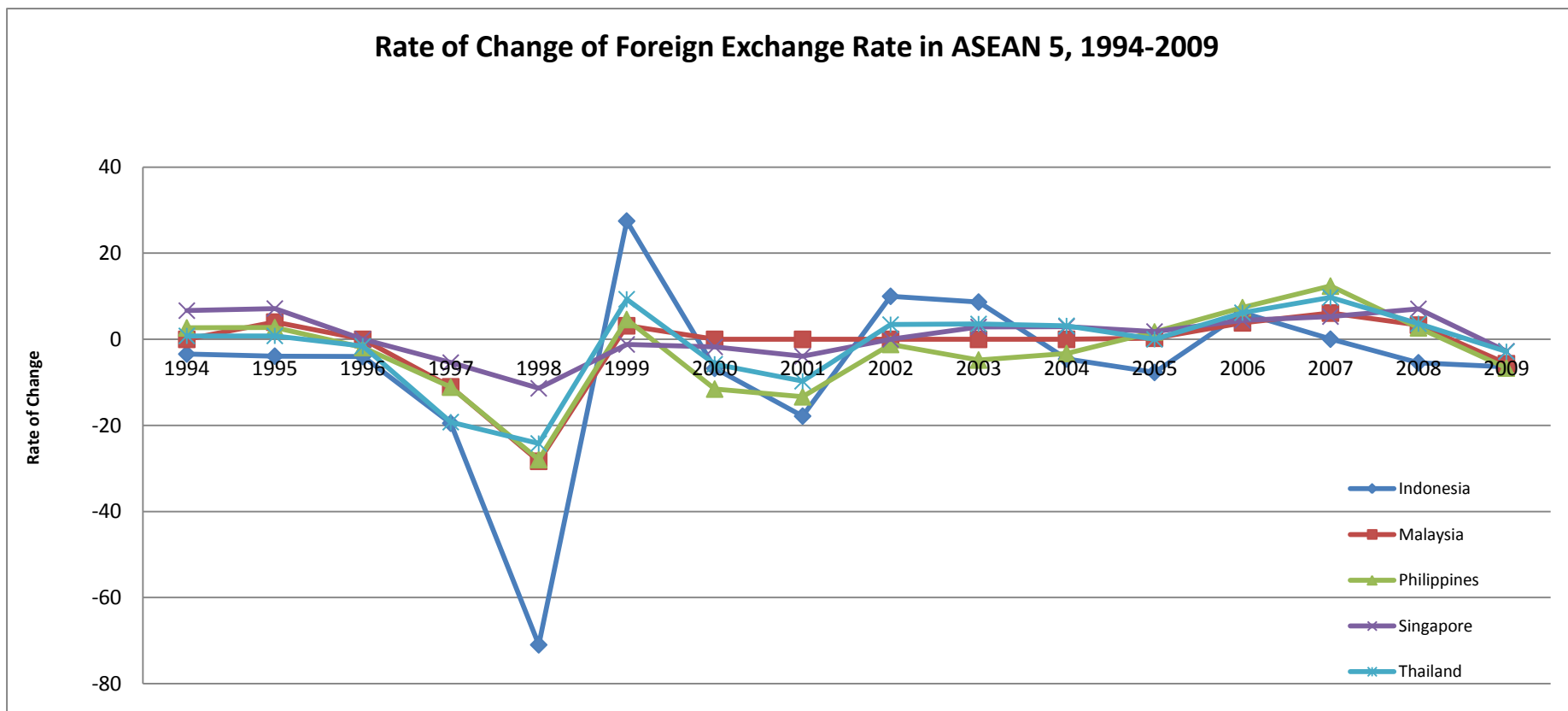
Regarding to the financial crisis, it was believed by the Taiwanese government that the cause of crisis was impetuses by the action of affected countries to liberalize the banking and financial system. In fact, some arguments described that liberalization is not an easy or attractive option for governments with less than robust regulatory and surveillance system.¹⁰⁸ Most of the Asian countries had its own regulations and protective ways of financial governing before the acceptance of liberalization. Some of the defective system has induced more corrupted society and created unsystematic organization. In the case of governments possesses incompetent capabilities in governing, liberalization could not be effectively performed in advantage of prosperous social effects. Thus, a more prudent to liberate than to haste into liberalization could be healthier to the overall transformation in the society.

¹⁰⁸ K.S., N. H.-H. a. J. (2003). *Southeast Asian Paper Tigers? Financial capacity and governance*. Routledge, p. 229.



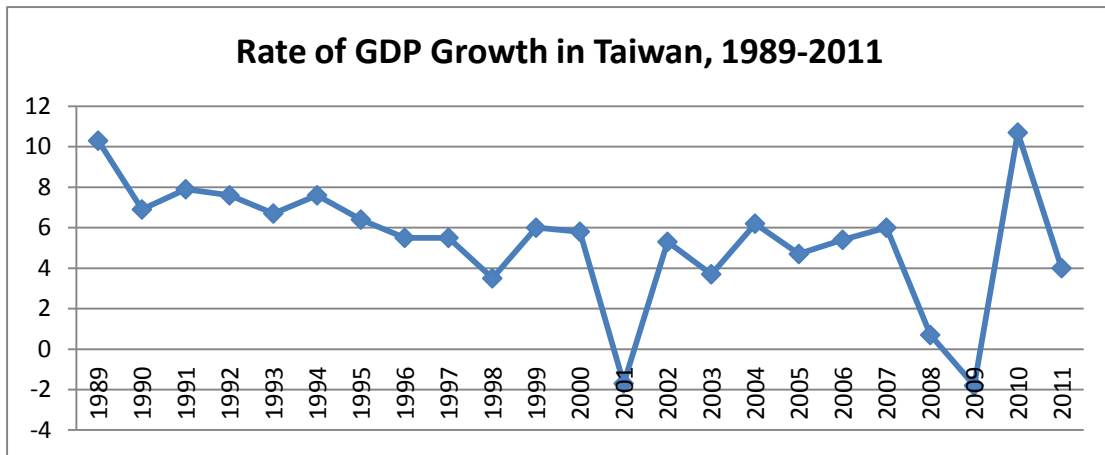
Source: ASEAN Statistical Yearbook

Figure 4.1 Rate of GDP Growth in ASEAN 5, 1996-2009



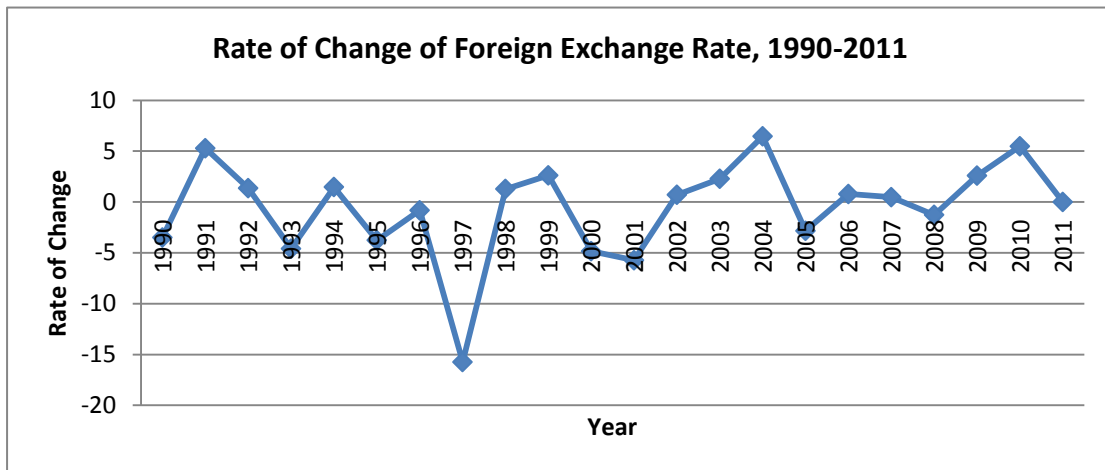
Source: ASEAN Statistical Yearbook and ADB Statistical Book

Figure 4.2 Rate of Change of Foreign Exchange Rate in ASEAN 5, 1994-2009



Source: Taiwan Statistical Data Book 2012

Figure 4.3 Rate of GDP Growth in Taiwan, 1989-2011



Source: Taiwan Statistical Data Book 2012

Figure 4.4 Rate of Change of Foreign Exchange Rate in Taiwan, 1990-2011

On the other hand, Taiwan economic performance was relatively stable except in early of year 2000 and during “Lehman Shock” stroke in 2008. Undoubtedly, the recognized semi-conductor industry has been continuing its role as the leading industry to Taiwan economic development for few decades. In fact, the role of Taiwanese government in supporting the foundation of building semi-conductor industry in 1960’s was inevitably significant remarkable. The first plant of

semi-conductor was established in 1966 and follow-by government various incentives support and encouraging company to invest at research and development (R&D) field. The semi-conductor industry has since to perform progressively and made Taiwan established as a top few well known maker in the world. Precisely, Taiwanese government was facing dilemma to allow this important industry to make direct investment to China. In order to prevent the “hollowing out” issue, in 2002 under government policy, an eight-inch wafer plant would be allowed to invest in China provided a twelve-inch wafer produce mass-production in Taiwan.¹⁰⁹

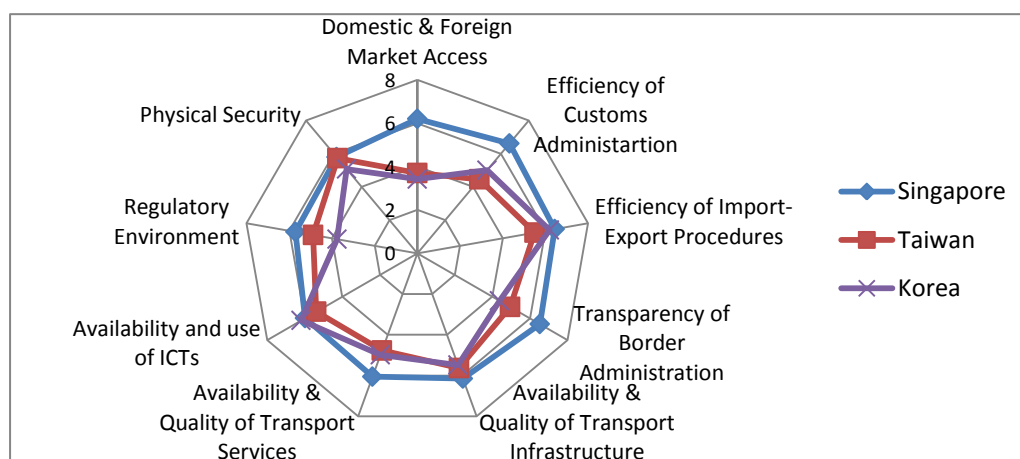
The government has nevertheless repeated that liberalized investment policy should not under the cost of its own economy and similar regulations to previous statement are stated too. On the other hand, the Taiwanese government recently is encouraging Taiwanese company to relocate their overseas factories back to Taiwan in respond to the increasing cost of wages in China and to boost up Taiwan’s labor market. Lately, the news of Catcher Technology Co to invest NT\$5 billion for building two plants in Taiwan will promotes job opportunity and increases the competitiveness in the local market.¹¹⁰ It is expected, more Taiwanese companies that station at overseas are welcoming to response to government’s calling-back policy in the near future.

Moreover, Taiwan was supervising by a strong financial service backup that has made Taiwan survived in 1997 financial crisis. In fact, the role of Taiwan’s economic technocracy to react promptly to prevent the crisis spread to Taiwan has been seen

¹⁰⁹ Joe Tang, “TSMC plan to move chip plant to mainland goes forward”, *South China Morning Post*, February 21, 2003.

¹¹⁰ Camaron Kao, “Catcher to build two plants in Taiwan”, *Taipei Times*, January 09, 2013.

important measures undertaken by the financial authorities to monitor the industry and halted liberalization programs.¹¹¹ Taiwan possesses the characteristic of established financial management and high capability human resource in financial sector that provide a strong backbone to Taiwanese economy. In fact, these are the merits points that needed in ASEAN+3 Framework in extending the enhancement of financial sector cooperation. Taiwan's capability in financial sector could be an important driver in providing useful and professional advice in dealing with regional financial issues.



Source: Global Enabling Trade Report 2012, World Economic Forum¹¹²

Figure 4.5 Taiwan Trade Performances

Taiwan has been structured its trade environment as a competitive market by providing an international level of trade facilities to attract the foreign investors. Based on the World Economic Forum report, five East Asia countries occupied the top 30 out of 132 examined world economies. On top of the first and second places are

¹¹¹ Tan, A. C. (2009). The Politics of Financial Reform in Taiwan: Actors, Institutions, and the Changing State. *Asian Affairs: An American Review*, 36(4), p. 206.

¹¹² The Enabling Trade Index (ETI) measures the extent to which individual economies have developed institutions, policies, and services facilitating the flow of goods over borders and destination. The Report is the basis for many high-level public-private dialogues facilitated around the world each year by the World Economic Forum.

Singapore and Hong Kong, Japan is ranked at 18th place, Malaysia at 24th place and Taiwan is ranked at 29th on achieving the efficiency market title. On top of that, South Korea was left a slightly behind Taiwan at the rank of 34 and China was at 56 place. By comparing among the top ranked, Singapore with Taiwan, Taiwan lost much behind Singapore on the pillar of ‘domestic & foreign market access’ field. Based on the definition provided on this pillar, it was measuring the extension of policy framework in domestic market to accept foreign goods and the access of exporters to foreign markets. Taiwan’s poor performance on this field exposed its policy is insufficient to liberalized the market for free trade environment.

Nevertheless, Taiwan is doing relatively well in the pillar of ‘availability & quality of transport infrastructure’, ‘availability and use of ICTs (Information & Communication Technology)’ and ‘physical security’. The first and second mentioned pillars are presenting Taiwan has provided an adequate trade facilities in terms of transportation and communication in and across the country. On the other hand, the third pillar, physical security, is relating to the business environment that was governed by the regulations to provide security to the traders’ business activities. Although, the regulatory environment does not earned as much as physical security pillar, both pillars that represent Taiwan’s business environment have given Taiwan more than average score as business friendly economy. Overall, Taiwan economy business environment did not overcome the most efficient economy, the Singapore, but it had scored more than average of all examined criteria and outperformed its other competitors in East Asia.

4.2 ASEAN, China and Taiwan Economic Interdependence

Since the Asian Financial Crisis 1997, East Asian regionalism and economic integration have become inevitable regional structure of cooperation. As the result of the creation of ASEAN+3 Framework and East Asian Summit, East Asia elites have increased the frequency of the intra-region communication. Nevertheless, the ASEAN+3 Framework serves as a platform for economic interaction and for powerful recognition in East Asia region.

Among the cooperation fields in ASEAN+3 Framework, the financial sector has received much attention and progress in improving. Financial sector was the initiative for building ASEAN+3 Framework with the purpose to provide another option during financial crisis. Many discussions have been made during the yearly ministers meeting and reports from study group. These chances gathered the meeting opportunity among the members to exchange economic and financial information.

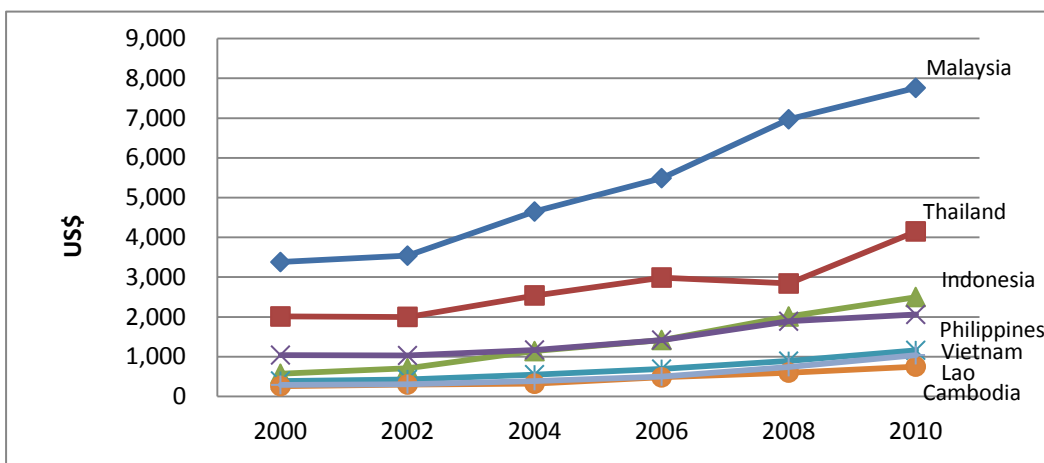
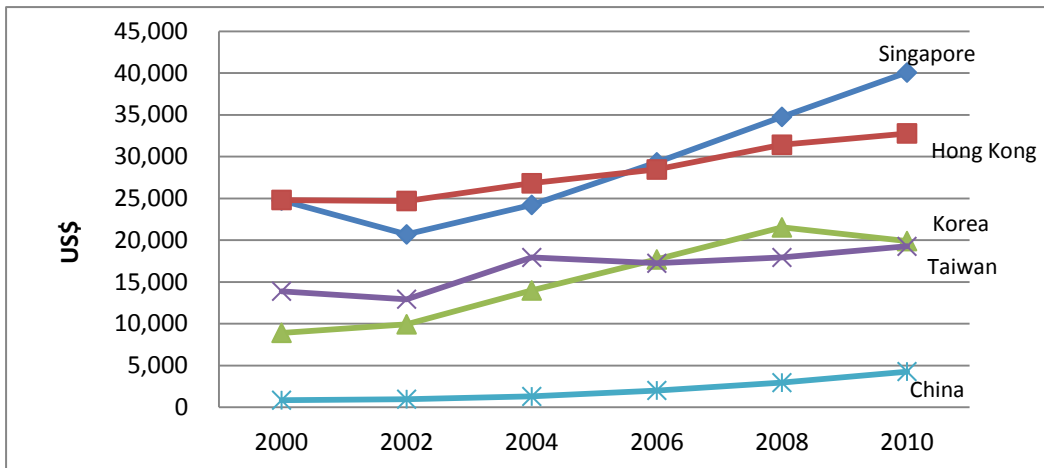
Amid the closer relationship between ASEAN and plus three countries, China, Japan and South Korea, Taiwan is getting cautious of its international or regional space in menace. Geographically, Taiwan is located at East Asia which is known to be strategic and economically, it is newly industrialized economy which is also well established. The current situation of leaving behind by Taiwan's trade partners in FTAs and regional building are giving Taiwan a great policy challenge. As a result, it is an important step to be connected with China to alleviate Taiwan's international space issue. The triangular relation among ASEAN, China and Taiwan are highly related in the business and economy transaction. However, from political perspective

it is a sensitive issue especially in the course of regionalism that involved inter-government dialogues.

Taiwan's inevitable role in regional economic development has complex the triangular relation on regionalism issue. In order to examine Taiwan regional economic space in East Asian, the economic relationship among ASEAN, China and Taiwan is unavoidably essential step of regional studies. By examine the economic relationship among them it is undeserving to isolate Taiwan which bring in investment funds and the actuality of boundless connection in economic sector is beyond control. The region has been connected through the social-cultured and microeconomic activities prior to the beginning of inter-government trade agreements that involved recognized status of a state. The contemporary rise of China as economic giant is inevitable as well as the status of Taiwan as a high income economy is an acknowledgement of the situation.

4.2.1 Economic Engagement in East Asia

The East Asia region is strongly connected through various production network and financial market channels. The concentration of production networks in East Asia has brought a significant effect to the living standards in developing countries. Some countries manage to attract investment funds which improved the Gross National Income (GNI) per capita rapidly while others do not attract much funds resulted a slightly growth in GNI.



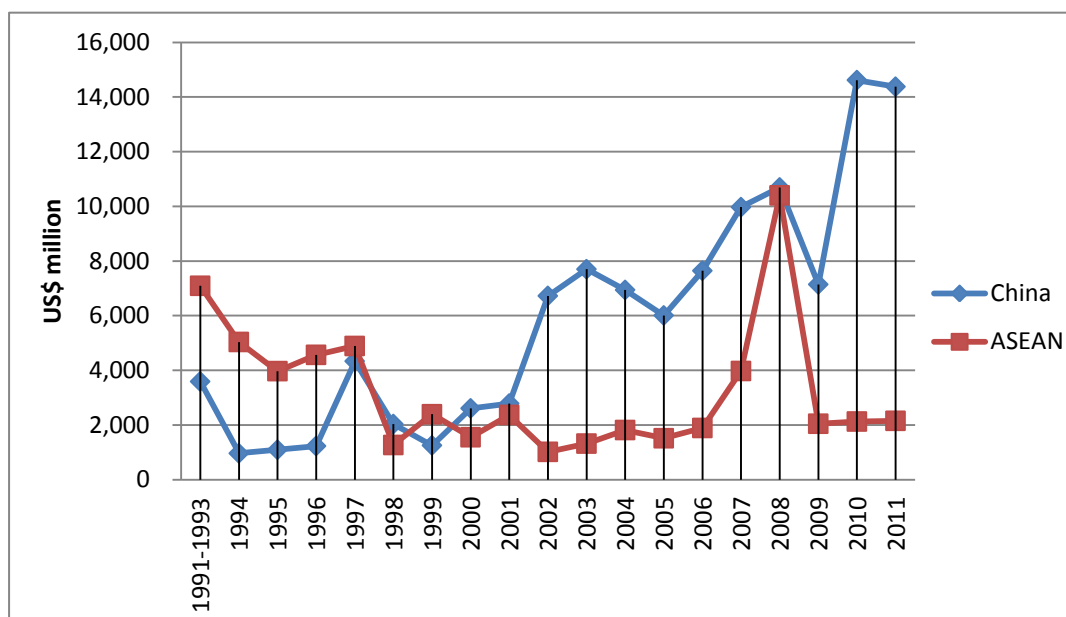
Source: Basic Statistics, Asian Development Bank (ADB).

Figure 4.6 Per Capita Income Growth in East Asia

Refer to figure 4.6, the Newly Industrialized Economies are performing well, amounted above US\$10,000 per capita income over the decade. These are the countries which are successful in attracting investment funds and benefited from agglomeration in East Asia. Also, countries like Malaysia, Thailand and Indonesia are catching up steadily. Other less developed ASEAN countries such as, Laos and Cambodia are gradually increasing the per capita income each year. The slow growth in these countries is probably due to problems created from agglomeration. As mentioned, intensifying economic integration and the related structural changes

in economic geography can divert the income growth in the structure.¹¹³

Southeast Asia has been a center for manufacturing and assembling activities in the context of production networks for example the Japanese flying geese concept. This region becomes a concentration of foreign investment destined for its competitive labor cost and accessibility to raw materials. Prior to the campaign for ‘Go South’ policy in 1994, Taiwan was actively investing in Malaysia, Thailand, Indonesia and the Philippines in 1950s to 1980s from the beginning of labor-intensive industry to later capital-intensive industry.¹¹⁴



Sources: Department of Investment Services, Ministry of Economic Affairs, Taiwan and Mainland Affairs Council

Figure 4.7 Taiwan Investments in China and ASEAN

Taiwan was gradually investing in ASEAN countries throughout the decades and by 1997 it invested more funds in ASEAN than China. Together with the

¹¹³ Masahisa Fujita, S. K., Koji Nishikimi. (2008). *Economic Integration in East Asia*: MPG Books Ltd, pp. 36-37.

¹¹⁴ Chen, X. (1996). Taiwan Investments in China and Southeast Asia: "Go West, but Also Go South". *Asian Survey*, 36(5), 447-467.

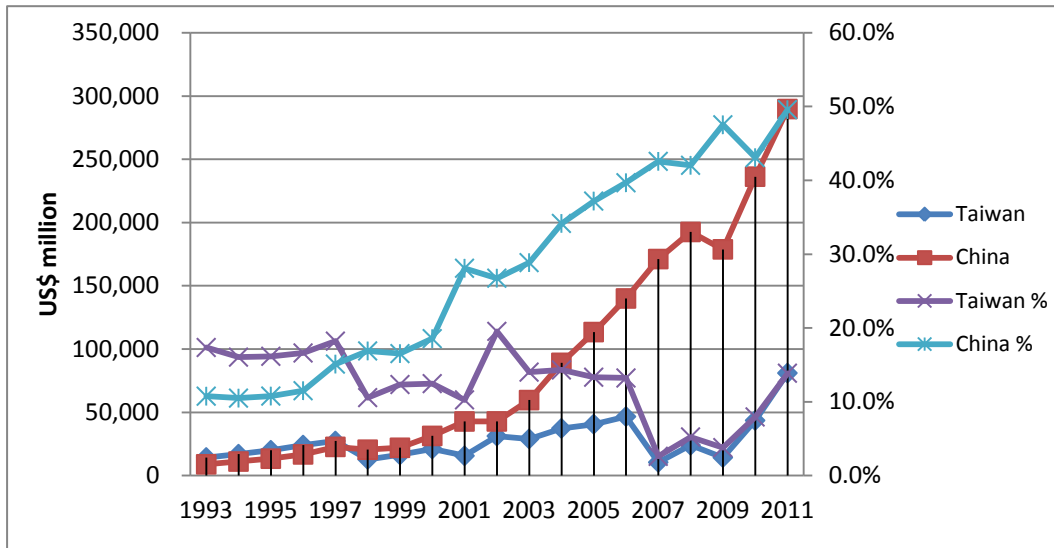
occurrence of 1997 Financial Crisis, the investment to both destinations was declined and fluctuated over a few years. Moreover, in 2009 we could see a sharp dropped in investment due to global financial crisis. This caused another serious financial uncertainty which liberalization has expanded global labor force and the 'shadow' financial system led to severe global structural imbalances.¹¹⁵ Despite the bad experienced, it had given East Asian countries a practical practice on defending their country in more efficient way by re-regulated the region's financial system.

The figure shows a soaring investment from Taiwan to China in 2002 and it continued its higher investment than in ASEAN then after. The participation of China in World Trade Organization (WTO) became a pull factor to lure inward investment. In addition during Chen Shui-bian first term of administration, he was under the pressure of rapid economic deterioration and strongly pressurized by business community. As a resulted, he had to promote closer trade and economic ties with China. He implemented policies of relaxing the restriction on direct investment to China, scrapping the US\$50 million limit and automatically approving projects of less than US\$20 million.¹¹⁶ Even though, 'Go South' policy was recommended to the investors in 1990s, it could not overcome the preference of Taiwanese investors toward placing more investment in China. In fact in 1979, China lift the ban on Trade and Investment from Taiwan to pursuit reunification status but it took about six years for Taiwan to lift the ban with strict restriction. The popularity of China as the first investment destination was proved in a survey done

¹¹⁵ Kurodo, H. (2012). *How Can Asia Respond to Global Economic Crisis and Transformation?* , p. 3.

¹¹⁶ Wang, V. W.-c. (2002). The Chen Shui-bian Administration's Mainland Policy: Toward a Monus Vivendi or Continued Stalemate? *American Asian Review*, XX(3), pp. 102-103.

in 1994¹¹⁷ and China also received the highest vote for signing economic integration agreement with Taiwan according to 2010 research.¹¹⁸



Source: ASEAN Statistic Yearbook

Figure 4.8 ASEAN Total Trades to Taiwan and China

Besides investment, trade performance is another channel to observe the adjustment of triangular relationship. ASEAN was the destination for Taiwan labor-intensive industry for its manufacturing products in 1970s. The two-ways trade recorded a relatively high degree of trade alliance as Taiwan was ASEAN's fourth export partner in 1993 and 1996. However, the ranking of Taiwan as ASEAN's export market was fallen to tenth place in 2008 and dropped out of the top ten ranking list in 2009. On the other hand, Taiwan as ASEAN import partner was facing a decreasing trend role gradually. According to the report, Taiwan dropped from fourth place in 1993 to out of the top ten in 2009.¹¹⁹

¹¹⁷ Chen, X. (1996).

¹¹⁸ Chen-yuan, T. (2010).

¹¹⁹ The ASEAN Statistical Yearbook reported the trade behavior in ASEAN given a certain year and making the comparison, <http://www.aseansec.org/22109.htm>

Refer to the total trade trend at Figure 4.8, Taiwan trade to ASEAN was higher than China before 1998 and it was catch up by China with rapidly amount of trade with ASEAN. Despite the lower trade figure compared with China, Taiwan trade with ASEAN remains as a substantially important market and portrays a stable outlook. The sign of tremendous increase in the trade with China has made China a significant trade partner with the effective of the China-ASEAN Free Trade Agreement (CAFTA) in 2010. According to the impact on real GDP of an ASEAN-China FTA, the FTA increases the GDP of ASEAN and China by 0.9% and 0.3% respectively.¹²⁰

The positive effect of FTA is the core purpose of pursuing a deeper and closer intra-region relationship. Before the complementary effect, the competitive condition is attracting the attention on the early stage of FTA. The noticeable competitive fraction would be the labor-intensive industry as this is the most attractive criteria to foreign investors in ASEAN and China. In addition, both sides are economically leaning to industrialized countries and contest for FDI which make the integration harder.¹²¹

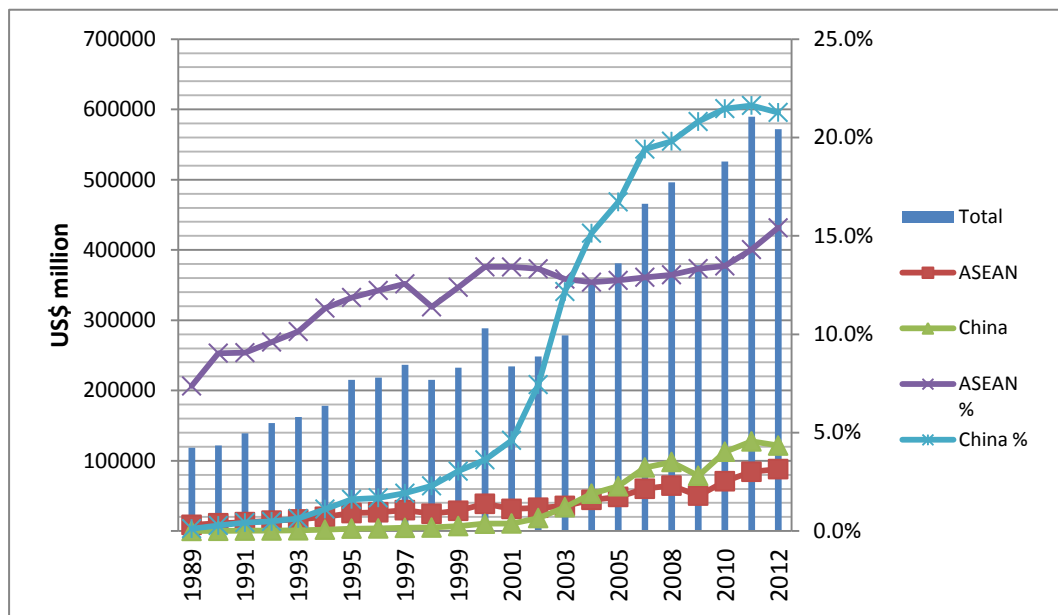
Although FTA was not signed between ASEAN and Taiwan, the benefits received from Taiwan resources are significant to ASEAN growth. Based on Figure 4.7, the peak out of the continual investment from Taiwan was influenced by huge investment in Vietnamese economy. In addition, the decision of AU Optronics

¹²⁰ Trade, U. A. t. C. a. *ASEAN-China Free Trade Agreement: A primer*. Makati City: Philippines Chamber of Commerce and Industry [Electronic Version], p. 18.

http://203.177.6.3/uactphilippines.org/images/stories/uact/news_blog/aseanchina_primer.pdf

¹²¹ Chan, J. W. a. S. (2003). China-ASEAN Free Trade Agreement. *Asian Survey*, 43(3), 507-526.

manufacturer to build a solar cell plant in Malaysia brought in approximately US\$350million worth of investment.¹²² In other words, Taiwan is a significant investor and accounted a noteworthy investment in Southeast Asia, therefore their state of affairs is deeply inter-related to each other.



Source: Bureau of Foreign Trade, Taiwan.

Figure 4.9 Taiwan Total Trades to ASEAN and China

Since China liberalized its policy towards Taiwan in 1979 and Taiwan loosen its trade policy towards China, these approaches have brought tremendous increase in the numbers of total bilateral trade. Looking at the side of Taiwan total trade to ASEAN and China, in 1990s China's trade was not as high as trade with ASEAN because much restriction had imposed on the trade with China. Even though the investment was allowed in the beginning of 1990s, indirect connection¹²³ between

¹²² "Taiwan's AUO, U.S. SunPower to Build Solar Plant in Malaysia", Industrial Week, *Agence France Presse*, May 28, 2010.

¹²³ The indirect connection refers to three restrictions apply to cross-straits trade. The three restrictions are no direct shipping or air links, no direct postal or telephone and no direct commerce.

China and Taiwan was making the trade costly. However, China attracted much overseas funds under its economic reform policy in 1978 and obtained WTO membership has stimulated the economic growth. The Taiwanese businessman was not left behind and trade recorded with China was on increasing trend rapidly from 2000 to 2006. Following China joined WTO's Information Technology Agreement (ITA) in 2003, has enhanced Taiwan's strength in IT industry which has already station there. In fact the accession of China and Taiwan in WTO had alerted Japan to tailor a measurement to help deepen economic relations with both parties.¹²⁴

On the other hand, the total trade with ASEAN reflects a stable condition and at a gradual growth percentage according to Figure 4.9. Concurrently, participating in China's huge market, safeguard a trade interest with Southeast Asia countries has been a practice of Taiwan economic policy.¹²⁵ The policy of engaging with China was reflecting on the high percentage of total trade to China in 2000s. Compared to ASEAN, China offers much more incentives to boost the two-ways trade given the signed of ECFA. The agreement makes the trade smoother and improves the cross-strait relations. The lack of recognition on international arena has induced the insufficient of signed FTA with Taiwan trade partners. With the hope to strengthen Taiwan trade condition, it is expected that the ECFA can "richly cultivate Taiwan while linking up with the world".¹²⁶

¹²⁴ Imai, I. Y. a. K.-i. (2001). *China Enters WTO: Pursuing Symbiosis with the Global Economy*: IDE-JETRO, p.131.

¹²⁵ This refers to Taiwan 'Go South' policy by Lee Teng-Hui in 1994 to cooling down the 'Go West' effects of Taiwanese investment in China.

¹²⁶ Tong, Z. H. S. Y. (2009). *Taiwan-Mainland Economic Cooperation Framework Agreement (ECFA): Implications For Cross-Strait Relations*: East Asian Institution.

	ECFA		CAFTA	
Enter into Forced	September 12, 2010		July 01, 2005	
Involved	China	Taiwan	China	ASEAN
Number of Items	267	539	400	593
Trade Volume	US\$121 billion (2012)		US\$289 billion (2011)	

Source: Mainland Affairs Council and ASEAN-China Center

Table 4.1 Basic Data on ECFA and CAFTA

The signing of ECFA was vowed with the slogan, “Pursuing normalization, avoiding marginalization and promoting internalization”¹²⁷, which uses to explain the need for concluding ECFA with China. In fact, many people especially opposition party DPP, has criticized such agreement could danger Taiwan’s sovereignty issue and jeopardize Taiwan’s bargaining power. According to the explanation of ECFA by Taiwanese Industrial Development Bureau, the early harvest list was divided into two types, Mainland List and Taiwan List. The Mainland List consists of Taiwan’s export to mainland China early harvest items that account for 539 items while Taiwan List contains of Mainland’s export to Taiwan early harvest items, 267 items. The mainland China List items represent approximately 16.1% of total cross-strait exports value and the Taiwan List items correspond to 10.5% of cross-strait exports value.¹²⁸

Taiwan’s policy maker has been reiterated the harmfulness of Taiwan lagging behind regional members from concluding FTAs. Taiwan became more pessimistic follow by the CAFTA came into forced in 2005 that threaten Taiwan’s trade

¹²⁷ Refer to “Cross-strait ECFA Policy Explanation” document by Mainland Affairs Council.

¹²⁸ Refer to the data provided at Mainland Affairs Council <http://www.mac.gov.tw>

condition. The commerce of CAFTA impetuses greater trade and investment activities among the members and the impact was presented in the previous figures. The pace of early harvest speed was separated among the ASEAN members according to the group of ASEAN-5 and the new four ASEAN members. In the 2005, the China and ASEAN began to reduce the tariff on goods and on January 2010 ASEAN-China Free Trade Area (ACFTA) was launched. Based on the CAFTA development, the tariff for average goods come from ASEAN countries is cut down to 0.1 and reversely China's goods to ASEAN countries will be reduced to 0.6 percent.¹²⁹

Both agreements are boosting each other trade condition to a new high based on the trade amounts that was accomplished since the enforcement. The signed of ECFA has made total China-Taiwan trade to maintain at 20 percent of total trade and the trade amount worth more than US\$100 billion. The agreement is nevertheless producing some significant economic incentives to induce more two-ways trade to hit another new record. Apart for this, the CAFTA is generating an enormous trade benefits that made China as ASEAN first trading partner since 2009. By 2011, half of ASEAN total trade is dealing with China and ASEAN conversely is China's third trading partner. Nevertheless, both agreements have brought a significant effect and proved the benefits of closer economic relations among trading partners.

¹²⁹ Data was provided at ASEAN-China Center <http://www.asean-china-center.org>

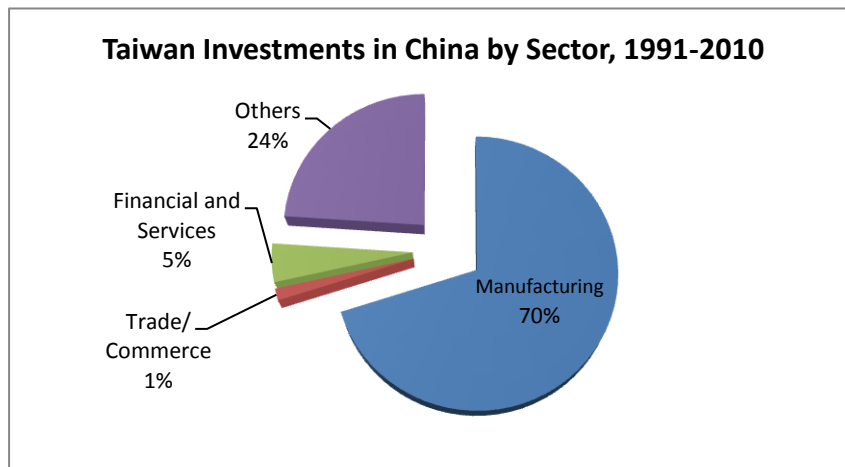
4.2.2 Taiwan-Hong Kong Relations

The series of Taiwan economic escalation leads Taiwan to one of high cost living country with US\$16,000 per capital national income in 2010.¹³⁰ In the past, Taiwan was reluctant to enter the group of GATT because it saw a little benefit obtained as a member and preferred to hold observer status. Prior to 1990s multilateral trades structure were not commonly practiced among the traders. Generally, bilateral trades were widely conducted between traders while participating in trade group, GATT, did not directly harm trade performance. Later, apart from receiving U.S. pressure in 1980s as considering the decision of liberalization the economic system, Taiwan began to study and prepare for participating in such trade organization. Taiwan was pushed to release its long protected economic system from import competition to accept liberal import conditions.

In the progress of imports liberalization, the control on financial sector was loosened follow by deregulated some restriction on funds control. The series of reformation were slowly directed Taiwan to more liberal society and open to foreigner markets. The progressive achievement turns Taiwan into a high income country and posses an advance technology system. Besides economic improvement, Taiwan is providing a high human capital market which is the knowledge, skills and competence of human into the economy. By referring to one of human capital components, education level, Taiwan has successfully brought the education level to almost hundred percent in elementary, junior high and senior high school. In

¹³⁰ Data of Taiwan per capital national income refers to Appendix-3.

addition, the level of education in higher education had achieved 95% high in between 2010 to 2011 education period.¹³¹



Source: Investment Commission, Ministry of Economic Affairs, ROC (Taiwan)
Figure 4.10 Taiwan Investments in China by Sector, 1991-2010

The substantial achievement of Taiwanese economy in 1990s was highly due to the succeeded in commencing semi-conductor sector. Taiwan's two outstanding industries manufacturing and financial services were driven its economic development and social environment to current living standard. Basically, Taiwan has prepared or groomed itself with capable human resources and international standard of business environment. Together with the funds and human capital capability, Taiwanese companies adventured to mainland China for searching better profit margin. Despite the Taiwanese government discouraged the trend of investing in China but eventually China became Taiwanese favorite investment destination until now. According to the figure 4.10 with no doubt, manufacturing is seizing the investment funds from Taiwan to China. Some of the famous Taiwanese manufacturing companies are Taiwan Semiconductor Manufacturing Co (TSMC) and

¹³¹ Data of Taiwan Education Level refers to Appendix-4.

Hon Hai Precision Industry Co which are established in Chinese market. These companies were enjoying economic scale in China that brought them enormous profits compared to station the factories in Taiwan.

Due to the political constraint, Taiwanese investor used to direct the fund via Hong Kong to invest in China. The investment was restricted from Taiwanese government regulation and trade constraint on China was also inflexible to apply direct trade with mainland counter-party. In such limited circumstances, Taiwan and China trade have been using Hong Kong as middleman to process indirect trade and investment funds. Hong Kong is located at the central point between these two political sensitive parties and has been posting the role of safeguard line in all occasion of cross-strait relations over the decades. Even after Hong Kong was official returned to China's administration, Hong Kong is continuing its role in mediating two-ways trades and cross-strait delicate relations.

Based on the figure 4.11 Taiwan trade to China via Hong Kong shows at consistent increasing trend compared to China trade to Taiwan at a barely upwards slope. Taiwan trade to China was increasing after a loosen policy was apply to mainland China following the end of Martial Law in Taiwan. The trade was less than US\$5,000 million before 1990 but it hit US\$10,000 million in 1995. Taiwan's trade was continuing to attain higher trade results with China and obtained US\$20,000 million in 2007 but a slightly dropped in 2009. Cross-strait relations did affect the trade via Hong Kong since the KMT took office the trade was soaring and almost hit US\$25,000 million in three years time. Taiwan trade to China via the middleman,

Hong Kong has nevertheless diverted some political uncertainty risk for efficient business environment. During the decades of uncertainty, there were several political clashes between China and Taiwan has become a worrisome anxiety to the business for unwanted domino effects.

However, the improved of cross-strait relations in these few years is expanding two-ways trade and investment ties. In the midst of improving cross-strait relations, Hong Kong does not directly hurt for facilitating cross-strait trade as the past. Based on the same figure, China trade to Taiwan via Hong Kong is at slow pace for more than twenty years but continuing at increasing rate. The trade amount was enhanced after 2009 and surpassed US\$5,000 million in year 2011. The continuing goodwill relationship between China and Taiwan which reflects at the economic sector is benefiting Hong Kong as important financial hub. However, Hong Kong is alerting its position being jeopardized due to closer economic cooperation of China and Taiwan. Although, Hong Kong possess important role in cross-strait relations development, it is now worries about the relationship could endanger its long-built business path. In this circumstance, Hong Kong Chief Executive Leung Chun-ying is urging the city to “think out of the box, further open up and boost co-operation”¹³² for amending the demerit competitive race.

Hong Kong is a city fully occupied with capitalism ideology and gives priority to business opportunities. It has been taking the role to accomplish China-Taiwan deal since Hong Kong was a colonized city of Britain until it became “special

¹³² Collen Lee, “Leung urges more economic ties with mainland China and Taiwan”, South China Morning Post, April 25, 2013.

administrative region” of China. Hong Kong has been seen as a city full of opportunity and those who worked hard should gain rewards. In fact, many Hong Kong people were actually motivated or idolized the successful man, Li Ka-shing, because people have the strong belief that inequalities could be overcome by freedom and development opportunities. Therefore, the value of individual effort is much emphasized in Hong Kong where competitive environment could produce energy for succeeding their ambition.¹³³ Since Hong Kong was a top-end financial city and a Chinese continent flooded with freedom, it did face many difficulties in accepting the return of sovereignty to the Communists in mainland China.

The reality to accept mainland Chinese administration had made, “Many people dreams were shattered and floods of tears were shed in Hong Kong on that dramatic day”¹³⁴, when Foreign Secretary Sir Geoffrey Howe eradicates Hong Kong people’s wish for Britain continuing rule Hong Kong. Precisely, the contemporary Hong Kong has to accept its special administrative region role and abiding its characteristic as top financial center. Hong Kong is the key for China to achieve its long-awaited goal in becoming the Greater China by unifying Taiwan. If Hong Kong could survive in “one country, two systems” mechanism, it would give no excuse for China’s attempt to sell this reunification policy to Taiwan. However, the recent social unrest in Hong Kong has given doubt to the feasibility of “one country, two systems” in Hong Kong itself. Therefore contemporary Hong Kong possesses more than a foremost financial hub; it is also a crucial creation of China but also a forecast picture for Taiwan. In actual fact

¹³³ Please refer to Kuan, S.-K. L. a. H.-C. (1988). *The Ethos of the Hong Kong Chinese*, for more survey results on Hong Kong Chinese identity done in the end of 1980s.

¹³⁴ Kemenade, W. V. (1998). *China, Hong Kong, Taiwan, Inc.* New York: Vintage Books, pp. 66-67.

Taiwan issue is incomparable to Hong Kong as there are much difference since Taiwan is a de facto rule nation.

Alternatively, Hong Kong and Taiwan are having close relations as reflecting in the increasing slope of China and Taiwan trades via Hong Kong. In economic field, Taiwan has been relaying on Hong Kong to handle and disseminate all the substances that concern with China. Apart from the trade, Hong Kong was also the center for handling loads of indirect flight and airmail from China to Taiwan. Both cities are connected with similar ideology and social economy has enabled them to deal with the business smoothly. Frequently, Hong Kong was categorized as Taiwan's model in the aspect of city development as financial center and a Chinese's resolution of Taiwan. In discussing regional issue, Taiwan's participation in ASEAN+3 is barely to realize in short period of time. The current improved cross-strait relations give some hope for Taiwan to open more trade proposal with other trade parties especially in SEA. However, participating in government-led forum, ASEAN+3 is unlikely to receive green light from China that follows tightly on its well-planned strangulation strategy on Taiwan.

Based on Hong Kong commitment in ASEAN+3's prominent CMIM funds, it is not problematical to solve the puzzle of Taiwan's contribution. Obviously, Taiwan regional issue is due to complicated cross-strait relations which causes Taiwan in ASEAN+3 matters become a thorny issue. By put aside the difference in cross-strait issues, Taiwan's contribution in CMIM funds could be constructed through applying Hong Kong's formula in ASEAN+3. Hong Kong's contribution to CMIM under part

of China was limited to the voting-power distribution formula that distinguishes itself with the ASEAN+3 members. According to the CMIM contribution table in chapter three, Hong Kong is not given the basic votes which was given to all ASEAN+3 members in an equal amount (1.6 votes). Likewise in handling Taiwan instance, the basic votes will not be granted and strictly for fully membership status. In fact it is difficult in the case of Taiwan's contribution issue because of controversy and Taiwan widespread problem the appropriated title. However, if these thorny issues could be solved, Taiwan can use Hong Kong's formula to extend its professional for the benefits of all regional members.

Hong Kong began to engage with ASEAN+3's CMIM in 2009 when its contribution was counted as part of total financial safety net. The Hong Kong is running as a SAR has enabled external exchange in wide segment including financial and trade sectors. According to the Chairman's Statement of the 22nd ASEAN Summit, the ministers have agreed to engage Hong Kong on a bilateral basis for an ASEAN-Hong Kong Free Trade Agreement for together benefits.¹³⁵ The bilateral basis of engagement is consistently with the effort of ASEAN to enhance ASEAN+1 forum for realizing the Regional Comprehensive Economic Partnership (RCEP). Hong Kong is catching up the proliferation of FTAs before they turn to a unified single trade agreement on regional basis. The first trade agreement of Hong Kong was signed with China in 2003 as Closer Economic Partnership Agreement (CEPA) which also enabled Hong Kong to conclude trade agreement with New Zealand in 2010.

¹³⁵ Please refer to ASEAN official website <http://www.asean.org>

Country/Territory	Value	% of total trade
Mainland China	3,698,621	50.3
US	542,964	7.4
Japan	455,575	6.2
Taiwan	325,732	4.4
ASEAN	729,866	9.9

Source: Trade and Industry Department, Hong Kong

Table 4.2 Hong Kong Total Trade with Major Trade Partners in 2012

Hong Kong free engagement with external party independently because of it was given autonomy in economy affair. The given consent on trade agreement negotiation with ASEAN will bring economic benefits to both ASEAN and Hong Kong. Based on the table 4.1, Hong Kong's first trading partner is China which took half of Hong Kong total trade amount. The second is the US but ASEAN as a group was overtaking the US's second place. Since ASEAN is Hong Kong second trading partners, to conclude a trade agreement is vital to Hong Kong future trade privilege. Three of ASEAN members are Hong Kong top ten trading partners and they are Singapore, Thailand and Malaysia. Nevertheless, Taiwan is still important trading partner to Hong Kong that accounted for 4.4 percent of total trade. Hong Kong gradually expands free trade engagement is indirectly pressuring the restricted Taiwan FTA environment. However, Hong Kong special condition is incomparable to Taiwan's situation that lack of recognition.

On the other hand, apart from economic field the relationship between Taiwan and Hong Kong is view as constraint. After return to China, Hong Kong has much limitation on Taiwan-Hong Kong relations in considering China assertion on barred any violation of the "one China" principle. Hong Kong serves as SAR of China is

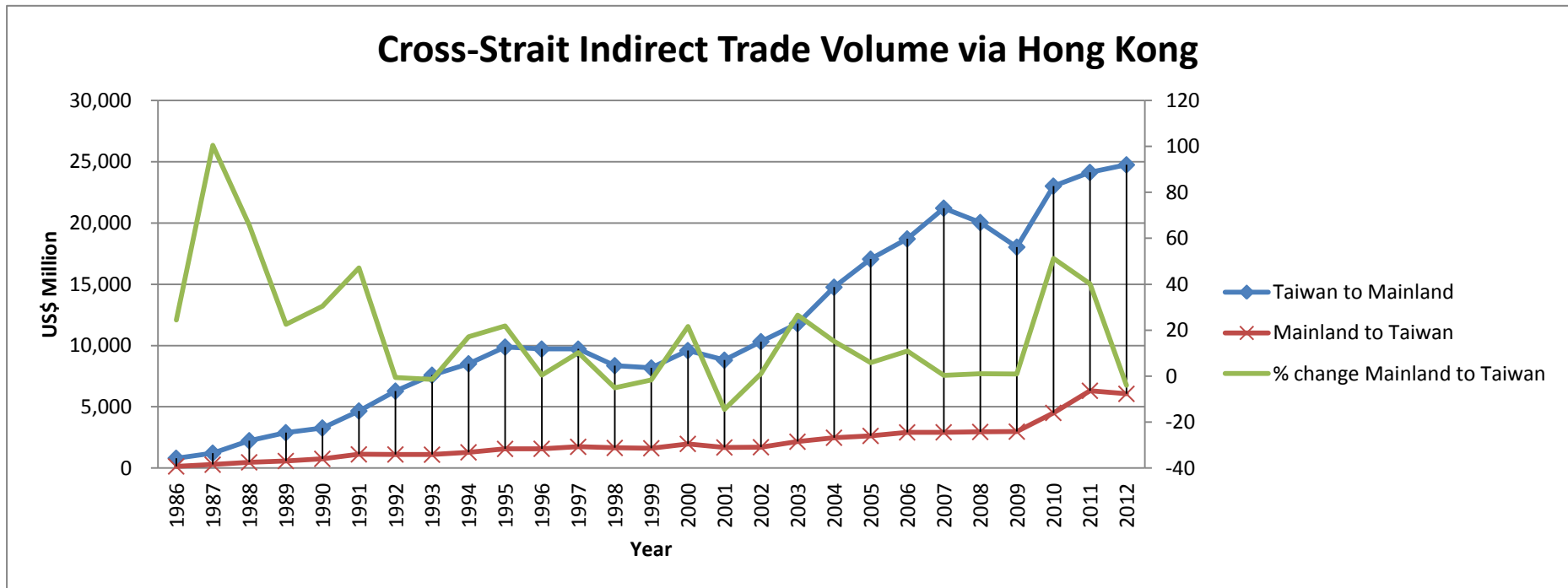
prohibited to have formal relation with Taiwan but informal one. No high-level officers of Taiwan or Hong Kong are allowed to visit both lands and Hong Kong is maintaining an informal representative offices in Taiwan and vice versa. However, the improved of cross-strait relations has gave the Hong Kong to allow Taiwan representative office in Hong Kong replaced the old name from ‘Chunghua Travel Service’ to ‘Taipei Economic and Cultural Office’.

Year	Amount	Year	Amount
2001	435,164	2007	491,437
2002	456,554	2008	618,667
2003	323,178	2009	718,806
2004	417,087	2010	794,362
2005	432,718	2011	817,944
2006	431,884	2012	1,016,356

Source: Mainland Affairs Council

Table 4.3 Hong Kong & Macao Visitors to Taiwan, 2001-2012

The condition of cross-strait relations is directly influence to Taiwan-Hong Kong relations in dealing with non-economy based affairs. The relatively better cross-strait relation is not restricted to China and Taiwan relations but also the tolerance level of Hong Kong that was given ‘high autonomy’ status. Based on the number of visitors to Taiwan data, the amount was not gone beyond 500,000 people before year 2008. The amount of visitors was relatively low compared to the current visitors, more than one million people in 2012. The high volume of trade in economic sector between Hong Kong and Taiwan as well as the recent goodwill reveals in cross-strait relations are giving merit points to impetus the sluggish economy.



Source: Mainland Affairs Council, ROC

Figure 4.11 Cross-Strait Indirect Trade Volume via Hong Kong

4.3 Competitive Environment in East Asia

The gradual transform in the transnational structure in East Asia has induced the trend of hybridization. The structure of transnational network in East Asia was following the boom of Americanization, Japanese flying-geese model and overseas Chinese business networks. Especially to SEA overseas Chinese, China represents vast investment opportunities for these ethnic businesses to evade domestic discrimination.¹³⁶ In Chinese way of “business group”, follow by the Chinese outward engagement attitudes, the Chinese transnational companies has presented some remarkable result in the form of partnership cooperation. This business configuration produces win-win situation to both parties in dealing with the rapid change of market structures. The partnership between Sanyo and Haier in 2002 was a good example which they fulfilled each other yearning in both side markets. For Sanyo, important benefits include privileged access to Haier’s vast sales network in China, the impressive production system in Haier Group. For Haier, the main attraction has been Sanyo’s willingness to sell and support its products in the Japanese market.¹³⁷

Nevertheless, such cooperation provided technology transfer order for the other side to upgrade their technology skills. The successfully story of Haier in establishing its name at international markets has catching attention lately. Indeed, Haier was one

¹³⁶ Ng, B. K. (2007). The Economic Rise of China: Threats and Opportunities from the Perspective of Southeast Asia. *The Copenhagen Journal of Asian Studies*, 25, p. 22.

¹³⁷ Dieter Ernst, Searching for a New Role in the East Asian Regionalization: Japanese Production Networks in the Electronics Industry, (2006). *Beyond Japan: The Dynamics of East Asian Regionalism*: Cornell University Press, pp. 184-185.

of the large firms in 1997 that received funds support from China central government. This was consistent with the Chinese policies in Fifteenth Congress to establish three to five large firms in the world's biggest 500 enterprises by the year 2000.¹³⁸ These policies were made in support to the promotion of private sector and enhance private entrepreneur political status ship. This was the period when China decided to accelerate the procedure of entering the WTO to overcome its unperformed market. Entering WTO is the method chosen to increase competitive pressures on the state sector by exposing the sector to more vigorous foreign competition.¹³⁹

Since established in 1984, Haier achieved consistent increase in yearly sales record. The worldwide sales record has been increased ten times from US\$2 billion in 1984 to US\$20 billion in 2010.¹⁴⁰ In addition, in 2012 the agreement for Haier to acquire Sanyo's washing machine and consumer use refrigerator businesses in Japan, and washing machine, consumer use refrigerator and other consumer electric appliance businesses in Indonesia, Malaysia, the Philippines and Vietnam has finalized.¹⁴¹ The successful acquisition will increase Haier market share in consumer electrical goods and expand the aggressiveness of Chinese transnational structure in East Asia.

In fact, the aggressiveness of outward investments by China is active among private business group in Southeast Asia too. The recent deal of Malaysian Ringgit 80 billion between Country Garden Holdings (CGH) and Iskandar Waterfront Holdings

¹³⁸ Smyth, R. (2000). Should China Be Promoting Large-Scale Enterprises and Enterprise Groups? *World Development*, 28(4), p. 722.

¹³⁹ Shahid Yusuf, K. N., Dwight H. Perkins. (2006). See pp. 82-83.

¹⁴⁰ Haier America Trading, (2011) *Corporate Brochure*, see <http://www.haieramerica.com/about>

¹⁴¹ Haier, *Haier and Sanyo Sign Final Agreement*, see <http://www.haier.com/my/>

is the biggest investment from Chinese investor.¹⁴² Country Garden Holdings was listed at Hong Kong Exchange market in 1992 and the company is mainly concentrating on property business in Guangdong, China. According to the agreement, CGH acquired 55-acres (22-hectares) of prime waterfront land in Danga Bay, at the southern city of Malaysia, here for an integrated development project under prime mister witnesses.¹⁴³ Furthermore, the land acquired by CGH falls at flagship zone A¹⁴⁴ which is the only zone that located in the city-heart of the entire project. This development project is part of The Ninth Malaysia Plan, economic map for the year 2006 to 2010. The plan is to complete its mission and achieve the target of becoming a fully developed nation by the year 2020.

4.3.1 China Economic Rise

Since the execution of China ‘open door’ policy at the end of 1970’s, China is a nett FDI receiver and the receiving amount is increasing every year. Based on World Investment Report, in 2011 China’s inflows FDI hit the historical high level of US\$124 billion outperformed other recipients in East Asia.¹⁴⁵ China is an attractive destination for well-know two criteria, low labor cost and abundance workforce. However, the gradually improved in living standard brought by economic liberalization has raised the labor cost which made China not the cheapest

¹⁴² “Islandar Malaysia exceeds Expectations”, *The Stars*, December 05, 2012.

¹⁴³ Country Garden Holdings, see <http://www.countrygarden.com.cn>

¹⁴⁴ The Iskandar Development project is covering the area of 2,217 sq km which is about 2 times the size of Hong Kong. The five flagship zones have been envisaged to both strengthen existing economic clusters as well as to diversify and develop targeted growth sectors. See <http://www.iskandarmalaysia.com.my>

¹⁴⁵ *World Investment Report 2012*: United Nations Conference on Trade and Development, pp. 43-43.

factory in Asia manufacturing industry. China has to compete with the young members of ASEAN, Vietnam, Cambodia and Myanmar to gain the contract from investors. Especially, after the transformation of Myanmar's political environment from military rule to a civilian administration in 2011 has brought a flock of businessmen to search for business opportunities in the country. It was true to say that the biggest problem of making a business in Myanmar is competition from foreign companies.¹⁴⁶

China's ambition as a competitive foreign funds receiver and funds supplier could explain through the performance at the inward and outward FDI stock over newly industrialized economies. According to figure 4.14, since 1980 Hong Kong is the first investment location that attracted the highest inward FDI in East Asia. In 1990s some investment funds had allocated to China and Singapore but the amount still less than Hong Kong. Hong Kong was an attractive investment city largely due to the former colonist who adopted capitalist system, especially in the financial sector. After the returned of Hong Kong to China in 1997, the outward FDI stock at Hong Kong was increasing gradually and it was about half proportionate to total FDI stock amount. In fact, Hong Kong was used by Chinese Transnational Corporations (TNC) to internationalize the company because many Chinese companies see Hong Kong as a window to observe world market and strategic location for businesses.¹⁴⁷

From the same graph, a barely inflow investment in China could be observed in 1980s throughout early 1990s. In fact, the flow of FDI in early period of 1990s was

¹⁴⁶ "Angling for Myanmar's Business", *The Wall Street Journal*, November 20, 2012.

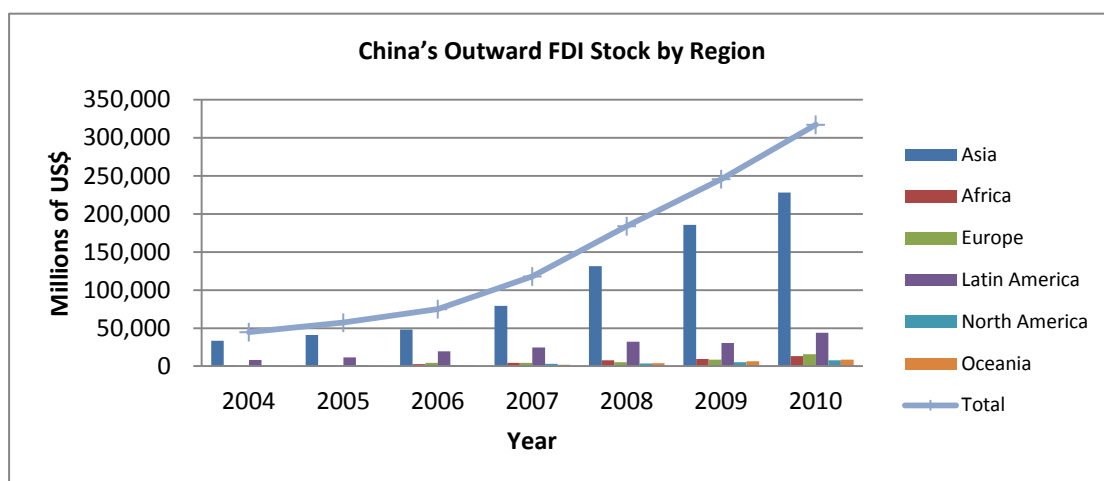
¹⁴⁷ Cai, K. G. (1999). Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy. *The China Quarterly*, 160, p. 870.

mainly come from Hong Kong and overseas Chinese funds. Gradually, China became the top FDI recipient country over the decades. With some \$34 billion in flows, China was the second larger recipient of FDI flows worldwide in 1994, accounting for some 40 percent of all flows into developing economies.¹⁴⁸ By 1996, the total of new FDI was actually increasing and the increasing funds came from large companies in European, Japan and the US. However, the inflow of funds did not capture the impotency of foreign entries because the investors mostly cooperation with existing large State-owned enterprise (SOE) was signed. During the transformation to market oriented economic, China appeared to be moving in a steady and fairly rapid speed towards an industrial economy but profit maximization was not applied yet.¹⁴⁹ Persistently China attractiveness as a destination for labor-intensive manufacturing products was continuing in 2000s. Thanks to the existence of a huge pool of surplus labor in rural area, China will be able to hold on to its competitiveness without significantly raising wages while maintaining high economic growth.¹⁵⁰

¹⁴⁸ *Overview of World Investment Report 1995*: United Nations Conference on Trade and Development

¹⁴⁹ Shahid Yusuf, K. N., Dwight H. Perkins. (2006). *Under New Ownership – Privatizing China's State-Owned Enterprises*: Stanford University Press, pp. 72-73.

¹⁵⁰ Kwan, C. H. (2002). The rise of China and Asia's Flying-Geese Pattern of Economic Development: An Empirical Analysis Based on US Import Statistics. *NRI Papers*, 50, p. 11.



Source: Statistics of Ministry of Commerce People's Republic of China

Figure 4.12 China's Outward FDI Stock by Region

China is also adversely a competitive country in providing FDI funds to overseas investment. The main destination of the funds went to Hong Kong¹⁵¹ as it took out half of total China outward FDI funds. This trend started before Hong Kong was officially return to China in 1997. This serves as part of Beijing's strategy of keeping Hong Kong's economy stable so as to avoid adverse political and economic effects both before and after the Chinese regained sovereignty over the territory.¹⁵² However, the exploitation of privilege by China-backed companies in early 1990s had interrupted the competitiveness in Hong Kong market. The engagement in property speculation with state money without any accountability has been described as an action of undermining the prosperity and stability of the territory, the preservation of which is one of the major objectives of Chinese investment.¹⁵³

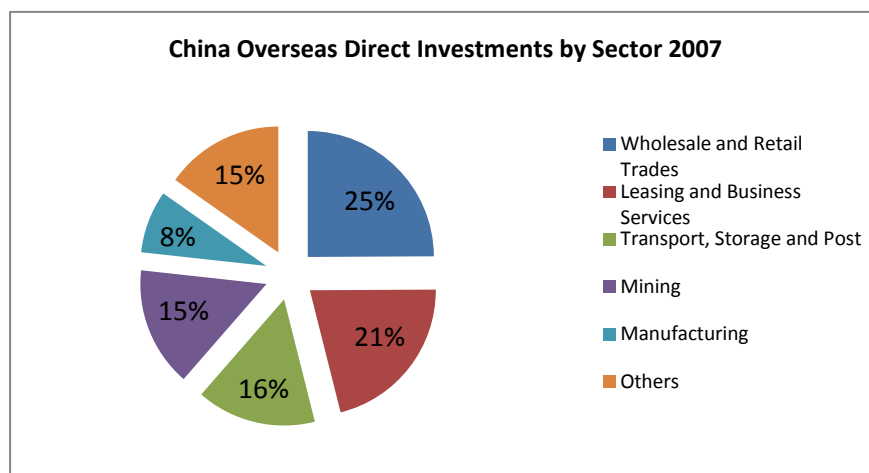
Based on the graph of China outward FDI by stock, China's total outward FDI proportionate to Asia is the steadiest investment which is maintaining at an

¹⁵¹ After 1997, Hong Kong remains as an independent economic entity from China.

¹⁵² Cai, K. G. (1999). Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy. *The China Quarterly*, 160, p. 871.

¹⁵³ Hing, L. C. (1995). Chinese Investment in Hong Kong: Issues and Problems. *Asian Survey*, XXXV(10), p. 951.

increasing trend. As mentioned, China's biggest FDI beneficiary in Asia is Hong Kong that accounted half of total investment in the region. According to the graph, China's overall overseas investment is increasing every year. China upward investment trend has been encouraging even since China upholds the largest reserve in the world in 2006. Therefore, since 2006 the overseas investment is increasing at a rapid rate and hits over US\$300,000 million in 2010. Besides Asia, China is also actively directing the funds to the regions in Africa, Latin America, Europe and Oceania. The sums of amount involved are potentially huge; a consulting firm predicts that China's global investment will reach US\$1 trillion to US\$2 trillion by 2020. This is relatively conservative projection compared with some more bullish forecasts which put the number as high as US\$5 trillion.¹⁵⁴



Source: Finance Yearbook of China 2008

Figure 4.13 China Overseas Direct Investments by Sector in 2007

China mainly invests in natural resources and it does joint-ventures investment with overseas partners. In 2003 China imported more than 80% of its oil from top ten

¹⁵⁴ Stephen Quinn, "China's global investment may hit US\$2 trillion by 2020", South China Morning Post, Dec 15 2012.

suppliers and four of them are of Middle Eastern countries, with Saudi Arabia supplying 16.7%, Iran 13.6%, Oman 10.2% and Yemen 7.7%. Indeed the outward investment in natural resources industry is highly related to China's intention to secure more resources to support local industries. China's imports are heavily focused on only a few countries which happen to sit in an area prone to instability and volatility.¹⁵⁵ China is comprehensible making the priority by safeguarding the natural resources with designed strategies. In addition, China is actively participating in Shanghai Co-operation Organization (SCO) to advance the relationship among the members in order to smoothen the natural resource agreement with suppliers.

On top of that, this is a source for China to exert more influence in Central Asia with the announcement of President Hu Jintao pledged to make US\$10 billion in loans, to support economic co-operation.¹⁵⁶ Hence, in order to overcome China's vulnerabilities part of the strategy is making friends with every regime that has energy in the ground (whether or not the partner regime observes internationally recognized human rights, and whether or not new relationship intrude into sensitive regions).¹⁵⁷ This explained why natural resources rich countries are preferred to welcome Chinese investment because Chinese does not emphasis on democracy and human rights which insist by western people.

Together with active overseas investment attitudes, China outward FDI stock has been increasing significantly over the years. The outward FDI has been viewed by the

¹⁵⁵ Bo, K. (2005). *An Anatomy of China's Energy Insecurity and Its Strategies*. Pacific Northwest Center for Global Security, p. 13.

¹⁵⁶ Teddy Ny, "Wen to push for trade agreements at SCO meeting in Kyrgyzstan", South China Morning Post, Dec 03, 2012.

¹⁵⁷ Lampton D.M. (2008). *The Three Faces of Chinese Power*. University of California Press, pp. 245-246.

Chinese government as an important means of integrating the country into the world economy and strengthening economic relations with neighboring countries.¹⁵⁸ Ironically, China's aggressiveness and competitiveness were viewed as a threat to African countries because they could not compete with Chinese competitive price which resulted ambiguous relationship among them.¹⁵⁹ The discrepancy between the foreign investor and local in business transactions is a common issue. Investors see an investment as a business chance to make profit but local sees it daily life being threatens. Same issue on China overseas investments made in France and New Zealand was occurred with local outcry lately. Both countries defense the same reason that China has the record of counterfeit products reputation which brings uneasiness to local people.¹⁶⁰ In reality, many of them do realize that it is difficult to sustain by their own economy without foreign investors that stimulate market.

On the other hand, the expansion of China overseas investment is bringing much remarkable results lately. For instead, China is a top TNC prospective host economy for 2012 to 2014, largely due to China rapidly increases of its outward FDI which comparable to Singapore outward FDI stock performance. Chinese TNCs have raised awareness of their home country as a source of investment through their active role and the wide spread of their FDI projects over a large number of host economies.¹⁶¹ A number of China overseas investment activities are attracting much attention which involves complex negotiation. The proposal of acquisition of Canadian oil producer

¹⁵⁸ Cai, K. G. (1999). Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy, p.871.

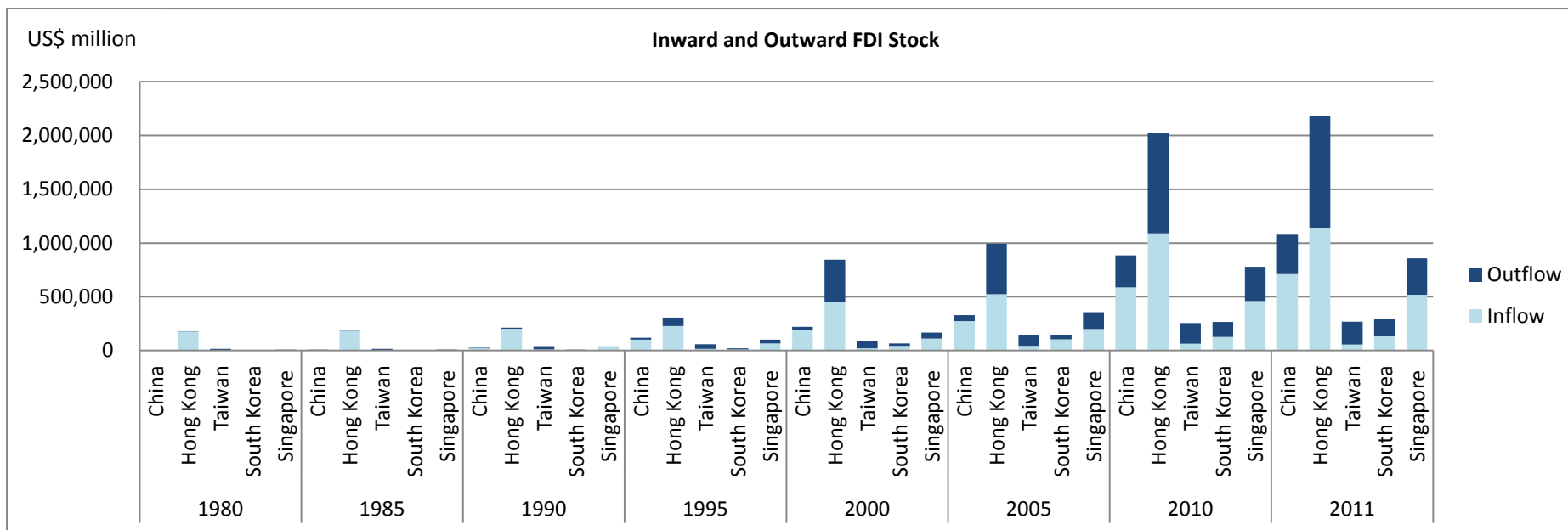
¹⁵⁹ Trying to Pull Together, *The Economist*, April 20,2011.

¹⁶⁰ "China investment stirs fears in France, New Zealand", South China Morning Post, Dec 13, 2012.

¹⁶¹ *World Investment Report 2012*: United Nations Conference on Trade and Development, p. 20.

Nexen Inc by China's state-owned China National Offshore Oil Cooperation (CNOOC) is still on negotiation table. And possibility of talk to buy American International Group Inc's aircraft leasing arm by a group of Chinese companies is revealed lately. Chinese's vigorous attitude towards overseas acquisitions has launched about \$51.3 billion this year, making the country Asia's second-biggest spender on outbound transactions after Japan.¹⁶² However, China aggressiveness in outward investment has been hindered by political opposition that makes the acquisition transaction needs strenuous efforts.

¹⁶² Alison Leung and Ben Berkowitz. "Chinese group in talks to buy AIG air lease arm", Reuters, Dec 12, 2012.



Source: UnctadStat, United Nations

Figure 4.14 Inward and Outward FDI Stock in China and Newly Industrialized Economies

4.3.2 Regional Cooperation or Competitive Environment

The event of Asian Financial Crisis in 1997 is a wake-up call to the ASEAN members and Northeast Asia countries of their financial markets and government systems weaknesses. With the objective of improving the regional financial system, regional elites agreed to establish a surveillance mechanism in East Asia to gain investors confidence and to prevent future financial crisis. In May 2000, ASEAN+3 members agreed to establish Chiang Mai Initiative as a network of bilateral swap agreements among the members during financial difficulties.¹⁶³ Again, CMIM marked the first concrete financial cooperation initiative arising from Asean+3 to show the members earnest efforts to cooperate. In addition, the financial crisis has also pushed for more trade agreement and coming trade negotiation to be done in East Asia.

China reacted aggressively to conclude a free trade proposal with ASEAN and without delay a Framework Agreement on Comprehensive Economic Cooperation was concluded in 2002 to establish the ASEAN-China Free Trade Area (ACFTA) by 2010. In January 2010, the ASEAN Secretariat Dr Surin Pitsuwan had a meeting with China State Councilor H.E. Dai Bingguo to announce China is ready to work with ASEAN to implement ACFTA. At the same time, ASEAN Free Trade Area business portal is launched in China and it served as an information centre for trade and economic cooperation between both members.¹⁶⁴

¹⁶³ Tadahiro Asami, *Chiang Mai Initiative as the Foundation of Financial Stability in East Asia*, ASEAN Secretariat, 2005, p. 3.

¹⁶⁴ ASEAN China Free Trade Area Official Website, <http://www.asean-cn.org/>

Production Area	Number of Affiliate Companies	Number of Employees		Total Vehicle Production (per 1,000 units)	
China	9		31,385		802
Taiwan	1		4,106		152
Indonesia	3	16592	44,719	307	921
Malaysia	1	2726		53	
Philippines	2	3698		26	
Thailand	2	19974		508	
Vietnam	1	1729		27	

Source: Toyota Motor Corporation

Table 4.4 Production of Toyota Manufacturing Company in East Asia, March 2012.

Production Area	Number of Affiliate Companies	Number of Employees	Total Vehicle Production (per 1,000 units)
China	5	10,924	228
Taiwan	2	1,300	7
Thailand	3	5,834	87

Source: Mazda Motor Corporation

Table 4.5 Production of Mazda Manufacturing Company in East Asia, Year-end of 2010.

As mentioned, the trade agreement could bring a greater results depend on the structure of current and future industry. In the automobile industry, ASEAN and China are much regarded as competitive market to attract the overseas fund. According to the table, China has taking over Thailand as Toyota first production country in East Asia. The number of production in China is 445.6 units (2007), 598.5 units (2009), 801.7 units (2011) while in Thailand is 499.2 units (2007), 434.8 units (2009), 507.8 units (2011) respectively.¹⁶⁵ Thailand has concentrated in automobile industry since 1960s and is a leading car manufacturer in Southeast Asia. The attractiveness of China's market has induces the announcement of Nissan plans

¹⁶⁵ Toyota Motors Corporation, Report on Global Sales and Production Figures. http://www.toyota-global.com/investors/ir_library/

to invest \$785 million at north China and Volkswagen plans to increase the plant capacity to build four million cars in China by 2018.¹⁶⁶

Based on Toyota production record, the major plants at China and Thailand implies that Toyota has indeed to expand the car production using the production network in the major car markets. Mazda is applying the same production system in East Asia with smaller car plants. According to the Table 4.1 and 4.2, Mazda plants at China produced 228,585 units and Thailand is 87,348 units of car by the end of 2010. On the other hand, Toyota plants at China and Thailand produced 3 times and 6 times more vehicles using March 2012 data. In spite of Toyota is producing more outputs than Mazda, the trend of overseas production has been increasing over the years. The number of production in China is 109,889 units (2007), 173,788 units (2009), 228,585 units (2010) while Thailand is 51,876 units (2007), 29,408 units (2009), 87,348 units (2010) respectively.¹⁶⁷ By 2010, Mazda vehicle production is concentrated in Thailand resulted Thailand is the central production in Southeast Asia region.

Precisely, ASEAN and China are facing a lot of competition in many areas but it is unavoidable to liberalize the market in order to meet the need of global and local markets. In fact, when both China and Taiwan obtained the WTO membership, Taiwan manufacturing sector faced strong threat of “hollowing out” issue. The practical concern of China was more competitive than Taiwan to provide much

¹⁶⁶ “Volkswagen to build 4 million cars in China: magazine”, *The Reuters*, June 10, 2012. “Exclusive: Nissan plans \$785 million north China plant, to challenge VW, Toyota: source”, *The Reuters*, June 14, 2012.

¹⁶⁷ Mazda Motors Corporation, Report on Mazda’s Profile.
<http://www.mazda.co.jp/corporate/profile/outline/library.html>

lower operational costs had menaced Taiwan's interests.¹⁶⁸ Nevertheless, the signing of ACFTA had boosted the interest of other country like Japan and Korea, to initiate FTA negotiations with ASEAN. The cooperation with ASEAN is an important strategic to China in strengthening its regional position and economic power in East Asia simultaneously. In addition of the underlining reason, it is important to divert the trade alliances from Japan and United States to Asia-Pacific region to safeguard the trade friction issue. Furthermore, based on China experience economic alliances can improve the rouse of capital flows from the signatory nations.¹⁶⁹

In East Asia, various trade negotiations are aimed for liberalizing the existing trade structure to freely access regional market. None of the nation state would want to be excluded from regional integration issue because they realized the cost of begin leaving behind. In 2000s, a range of trade negotiation flooded in East Asia to conclude free trade agreements. The number of FTAs that involved Asia-Pacific countries was more than 200 cases by 2007 while it was less than 50 cases before year 2000.¹⁷⁰ The figures proved again that the wave of FTA is indubitable a vital condition to be competitive in global market. Nevertheless, the flock of FTAs is a significant indication from world-wide trend to compete with other region trade facilities.

¹⁶⁸ In the journal of Hung, C. Y. a. S.-W. (2003). Taiwan's Dilemma Across the Strait. *Asian Survey*, 43(4), 681-696. The authors specifically list out the China cost advantages points and there are (i) construction costs in Shanghai are 35% less expensive, (ii) the water supply is 60% less expensive, and (iii) the bulk gas costs are 30% lower than in Taiwan.

¹⁶⁹ Thuen, W. W. (2007). *Taiwanese Investment and Trade Structure* [Electronic Version]

¹⁷⁰ The data refers to Asian Regional Integration Center Database, access on August 16, 2012. <http://aric.adb.org/>

Country	Proposed	Under Negotiation	Concluded	Total
ASEAN	51	38	97	186
China	7	6	12	25
Japan	8	2	13	23
South Korea	16	7	9	32
Taiwan	2	2	5	9

Source: *The Database of Asian Regional Integration Center, Asian Development Bank.*

Table 4.6 Status of FTAs in East Asia as at July 2012.

The proliferation of FTA among ASEAN, China, Japan and Korea is nevertheless reinforces the trade environment and increase the frequency of commerce. The results of FTA has benefits commercial sector to minimize or cut off the tariff cost that incurred on the shipping goods. The Korean automobile maker Hyundai expressed its gladness of FTA between ASEAN and South Korea that allowed Hyundai to divert the tariff cost to more on advertising, marketing and PR.¹⁷¹ Besides Korea, Japan's automobile industry is benefit from the FTA because the structure of production networks that has long been located at Southeast Asia and China. In spite of this, Japan was cautious of China-Korea free trade negotiation in this year, May 2012. Japan could not afford to be excluded as this would further weaken Japan's trade condition. The China, Japan and South Korea Summit were also concluded on a three-way investment treaty but many difficulties to compile throughout the future negotiation.¹⁷²

In the topic of East Asia community, Taiwan's FTA status is among the worst

¹⁷¹ "Tariff Structure makes Hyundai Competitive", *Malaya Business Insight*, July 23, 2012.

¹⁷² "East Asian powers agree on trade pact talks", *The Reuters*, May 14, 2012.

performance after Hong Kong which obtained at total FTA of 4 contracts. Taiwan which is isolated by the international community is facing a long struggle with the cross-strait neighbor, China because of the sovereignty issue. With the expansion and the spread of China's economic power, Taiwan's diplomacy is facing a huge challenge as the number of diplomatic allies' drops from 28 countries in 2001 to 23 countries in 2010.¹⁷³ This figure creates concern to Taiwan isolation issue and among the signed documents only one has significant impact to Taiwanese economy, the ECFA.

The ECFA is agreed among the scholars and President Ma Yi-Jeou as a noteworthy agreement that could boost the slowdown of Taiwanese economy over the years. As for the result of ACFTA, Taiwan suffers higher tariff rate and confronts more trade barriers which make the trade suffers and the estimated number of jobless workers hits 110,000 people. In addition, the disadvantage brought by various agreements signed without Taiwan has resulted being less competitive, ranked lower in world ranking and share of global trade.¹⁷⁴ By signing the ECFA with China, Taiwan hopes this could accelerate trade agreement with other trade partners. This has also reiterated by President Ma Yi-Jeou that numerous economic benefits are expected through the signed of ECFA with China.¹⁷⁵

In his 2008 inaugural address, he aimed to become further integrated into global trading system in next eight years to fully participate in Trans-Pacific Partnership

¹⁷³ The data refers to Ministry of Foreign Affairs, Republic of China (Taiwan), <http://www.mofa.gov.tw/EnOfficial>

¹⁷⁴ Hong, Z. (2010). *Taiwan-Mainland Economic Cooperation Framework Agreement* [Electronic Version]. *EAI Background Brief*

¹⁷⁵ "Ma expects Taiwan to become a regional trade hub after ECFA". *The China Post*, August 2010.

(TPP)¹⁷⁶ as to advocate the impede Taiwan economy.¹⁷⁷ Adversely, the present bad economy performance has rising the voice of people about the feasibility of ECFA to Taiwan local economy effects. Upon the signed of ECFA, a significant number of Taiwanese people and scholars were doubts about the intention behind the agreement that could jeopardize Taiwan politic position. In addition, the fact of Taiwan is not a member of ASEAN Regional Forum has pushed Taiwan security in East Asia in a danger.¹⁷⁸ Based on the survey resulted by Professor Niou, he stated that China could influence Taiwan’s domestic politics by threatening Taiwan militarily and by enticing it economically.¹⁷⁹ The dependency on economy approach is indeed producing some results favoring to China that would increase China economy leverage.

	2008	2009	2010	2011
Total	3,845,187	4,395,004	5,567,277	6,087,484
China	329,204	972,123	1,630,735	1,784,185
In %	8.56%	22.12%	29.29%	29.31%

Source: Tourism Bureau, Ministry of Transportation and Communication, Rep. of China

Table 4.7a: Number of Visitors from China to Taiwan

	2008	2009	2010	2011
Total	8,465,172	8,142,946	9,415,074	9,583,873
China	188,744	1,516,087	2,424,242	2,846,572
In %	2.23%	18.62%	25.57%	29.70%

Source: Tourism Bureau, Ministry of Transportation and Communication, Rep. of China

Table 4.7b: Number of Visitors from Taiwan to China

¹⁷⁶ TPP is a multi-nations trade agreement that was initiated by the United States, Brunei Darussalam, Chile, New Zealand and Singapore in 2005. The new members in TPP pact are including Australia, Canada, Malaysia, Mexico, Peru and Vietnam. Japan is the next potential 12th member on TPP negotiation table.

¹⁷⁷ "Upholding Ideals, Working Together for Reform and Creating Greater Well-being for Taiwan", President Ma's Inaugural Address, Office of President Republic of China (Taiwan), May 20, 2012.

¹⁷⁸ Waever, B. B. a. O. (2008). *Regions and Power - The structure of International Security*: Cambridge University Press, p. 160.

¹⁷⁹ Niou, E. (2008). The China Factor in Taiwan's Domestic Politics. In P. P. a. J. Meernik (Ed.), *Democratization in Taiwan - Challenges in Transformation*: Ashgate, p. 179.

China approaches to open China's market to Taiwanese businessmen and promoting cultural exchanges have nevertheless produced some outcome that was favoring on China's strategy. In the past, no direct connection to China was allowed before Chiang Ching-kuo released the restriction on allowing family visiting to China. Subsequently, after President Ma improved the relationship with China, agreement such as cross-strait weekend charter flights and opening up tourism in Taiwan for the people of the Mainland Area was signed.¹⁸⁰ These agreements brought tremendously change to the record of visitor in Taiwan that will progressively influence the society. According the table 4.4, both direction Chinese and Taiwanese visitors fall below 10% to the total traveler in Taiwan. The record of Taiwanese that visits to China is merely at 2% out of approximately 8 million of people and Chinese visits to Taiwan is about 8% in 2008. Without delay, a year after the signed of the previous mentioned agreements, the number of visitors from China was increased to 22% which was more than nine thousand people. Precisely, the visitors from China breakthroughs million in 2010 and 2012 with two years continuously took up 30% of total visitors to Taiwan. Similarly, out of the total outbound of Taiwanese citizen to China, the destination to China took about 30% of overseas visitors.

¹⁸⁰ The agreement was signed by the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Strait (ARATS) on 13 June 2008. Cross-strait weekend charter flights were officially launched on July 4. On July 18, the policy of allowing Mainland tourists to visit Taiwan was officially implemented. Refer to Mainland Affairs Council <http://www.mac.gov.tw/>

Chapter V Could Regional Space Accommodate Taiwan?

The close intra-region relationship in East Asia was built far before the impetus of 1997 crisis. The high rates of regional growth and continuous technology transfers have strengthened the state of interdependence among the countries. Not only seeking for better performance in economic sector, a triangular link among ASEAN, China and Taiwan is also tangled over diplomatic issues. Both China and Taiwan are recognized as two economic powers that have shown strong-will to improve the relationship while continuing to have connection with ASEAN in various opportunities.

In 1990s, Taiwan was called ‘economic tiger’ and it has been competing closely with South Korea over technology capability but being secluded in the regionalism issue. The cross strait relations have putting East Asian’s regional issue into more complex way. China applied strict strategy to isolate Taiwan’s international space has annoyed Taiwan’s economic relation with trade partners. Taiwan is connecting well in business world with ASEAN by avoiding sovereignty issue which is emphasized by China as a taboo. Thus, by maintaining the status quo, “Chinese, Taipei” could be the ‘key’ to open up opportunity to participate in the ASEAN+3 Framework and to reduce strong isolation from China.

5.1 Taiwan Strait Issue

Taiwan has a long record of fighting for Taiwanese sovereignty right and the

international space. In Chiang Kai-Shek era, he fought for Republic of China (ROC) as the sole representative of 'China' and in his son's era, Chiang Ching-kuo takes the crucial approach to transfer ROC system in order to maintain the survivor of Taiwan in international society. In 1994 Lee Teng-Hui took up the role to make Taiwan recognized as a sovereignty nation and after opposition party Democratic Progressive Party (DPP) took over the power, Chen Shui-Bien fights for Taiwan's de-jure independency. From state-to-state cross strait relations statement made by Lee Teng-Hui in 1999 to the present incumbent of ROC President Ma Yi-Jeou's cross strait policy "one ROC, two areas" concept. In fact in between 1995-1996, it was the most tension phase of cross-strait relations after Chinese Nationalist Party (KMT) was forced to retreat from mainland China during the Chinese civil war. It was the US's ambiguous cross-strait policies that had calm down China's attempt to use military strength on Taiwan. In actual fact, China sees the US policy as a stumbling block to unify Taiwan with China.¹⁸¹

The normalized relationship between the US and China in 1978 had completely reversed Taiwan's international position and security in international society. The US-China rapprochement was motivated by the common adversary, the Soviet Union, a signal of US strategy of coalition with the enemy to defeat the biggest threat. Referring to the theory of "balance of threat" argued by Stephen Walt, when there is an imbalance of threat (i.e., when one state or coalition appears especially dangerous), states will form alliances or increase their internal efforts in order to

¹⁸¹ Hickey, D. V. V. (1988). America's Two-Point Policy and the Future of Taiwan. *Asian Survey*, 28(8), p. 890.

reduce their vulnerability.¹⁸² By applying the theory to the case of China, China reframed its policy to alliance with US in the belief that Soviet Union imposes more threat to China compared to the US. Ultimately, the coalition marked the beginning of informal relationship among Taiwan and major economic powers.

5.1.1 Cross-strait Historical Encounters

In response to the US progressively shifts the diplomatic policy favoring to China, Chiang Kai-Shek expresses his hopefulness that his faithfulness and loyalty to his friend would also receive the same return as well. Despite, the endless anxiety and uncertainty held by Taiwan, the US moves on according to the plan to normalize relationship with China. Eventually, the first two communiqués were signed between US and China in 1972 and 1979 which marked the end of formal diplomacy relations of the US and Taiwan. The Shanghai Communiqué was seen as a sellout of Taiwan and Chiang Ching-kuo felt a sense of betrayed by US when the US switches recognition in 1979. Based on Chiang's condemnation on this issue, he expressed disappointment to the US which did not safeguard the value of democracy and human freedom. In addition he conveyed that;

Regardless of how the international situation may develop, the ROC as a sovereignty nation will carry on in the light of her glorious tradition by rallying all her people... to continue make progress in social, economic, and political fields... Our late President Chiang Kai-shek had repeatedly instructed our people to be firm and strong and to face adversity and to press on till the task of national

¹⁸² Walt, S. M. (1987). *The Origins of Alliances*: Cornell University Press. Walt explained that by using "balance of threat" we could have better explanation about the political tendency for the other to react not only focusing on imbalances of power.

recovery and reconstruction is completed.¹⁸³

The state of disappointment and indignation were strongly expressed in Chiang's statement to the public. The US's action had brought the people of Taiwan into a grey order that was abandoned by the agreement of Mutual Defense Treaty that was signed in 1954 to safeguard Taiwan's safety. In fact the reality of losing the diplomatic relation with major economic powers and stepping into more isolation situation are the challenges that are faced by Chiang and his descendants until now. The next step of internal change and external policy made by Chiang was important to preserve a stiff international environment in the presence of recognized People Republic of China (PRC). The acknowledging of PRC and the abandoning of ROC were the cornerstone of changing international environment, which made Taiwan turns into ambiguous and complex situation. Despite the continuing reassurance of ROC legal status by the former US President Nixon, the ROC could not escape from the contradictory action of US by accepting the fate of expulsion from UN.

I understand the apprehension in Taiwan, but I believe that that apprehension, insofar as Taiwan's continued existence and as its continued membership in the United Nations, is not justified. You will also have noted that in my foreign policy report I said that we stood by our defense commitments to Taiwan; that Taiwan, which has a larger population than two-thirds of all of the United Nations, could not and would not be expelled from the United Nations as long as we had anything to say about it; and that as far as our attitude toward Communist China was concerned that that would be governed by Communist China's attitude toward us.

In other words, we would like to normalize relations with all nations in the world. There has, however, been no receptivity on the part of Communist China. But under no circumstances will we proceed with a policy of normalizing relations with Communist China if the cost of that policy is to expel Taiwan from the family of nations.¹⁸⁴

¹⁸³ Liu, T. J. (1997). *U.S.-China Relations, 1784-1992*: University Press of America, Inc, p. 332.

¹⁸⁴ This refer to the "President's News Conference on Foreign Policy" in March 4, 1971 when President Nixon was answering the question whether he was moving toward two-China policy. <http://www.presidency.ucsb.edu/>

Prior to the changing diplomatic alliance from ROC to PRC by the US in 1979, the secret visits of US national security advisor Henry Kissinger in September 1971 and the expelling of ROC from UN in October 1971, had further indicated US's intention to rapprochement with PRC. In response to the changing political environment, Japan normalized the relationship with PRC in September 1972 and denounced its diplomatic relationship with Taiwan. After the breakdown of the relationship, Taiwan was experiencing a numerous case of humiliations in Japan and the most attention-grabbing case was the transfer of property right to PRC that was formerly owned by ROC embassy to Japan. In addition, Japan announced in 1974 a plan to downgrade the privileges of China airlines operation in Japan: the ROC flag could no longer be used and some others restriction on air service issues.¹⁸⁵

On one hand, ROC was under extremely stressed of enduring the break of diplomatic relations with formal recognized allies and the gradual international derecognized fate. On the other hand, the unrest internal identity issues and the vociferous voice of more political space from native Taiwanese had caused Chiang Ching-kuo and Lee Teng-hui to make a series of reformation by localizing the political regime. The Lee's policies were intended to contain both mainlanders (Chinese migration after WWII) and local natives to build new identity of Taiwanese. A very crucial collective identity or consensus that was built in Taiwan due to separation from China and China's annoyance, regardless of the ethnic

¹⁸⁵ Roy, D. (2003). *Taiwan - A Political History*: Cornell University Press, p. 132.

groups; people of Taiwan have to rely on themselves to safeguard their homeland, Taiwan. The design of Lee applied both tactics to win the vote from local natives and to gain trust from mainlanders. He was identified as a leader who upholds Taiwanese identity and retains the Chinese cultural identity.¹⁸⁶

During Lee administration, he had attained to break through the “one China” policy to assert “one China with two nations” policy. He made a trip to Southeast Asia countries in 1994 to seek the support for his policy towards China. According to “1992 consensus” both sides recognize of “one China” but hold its own interpretation. This “1992 consensus” is very crucial event that insistence by China as prevailing condition before any discussion or trade agreement to be held. The idea of President Ma and China is different over the “seeking common ground while reserving differences” under the spirit of “1992 consensus”.¹⁸⁷ Both share the same objective but different aspiration. President Ma has indeed calmed down the tension at the cross strait. In spite of this, his policy has open more international space for Taiwan through closer ties with China remains to be defined.

During the first period of Chen Shui-Bien administration, he has made several changes on the cross-strait relationship. Under the weak economic condition and the tension from the business community, he decided to abandon the policy of “no haste, be patient” found by Lee Teng-hui in 1996 that was formulated to resist the trend of over dependence on China increasingly economic advantage. In fact the “Go South”

¹⁸⁶ Chen, C.-f. S. a. M. (2010). Taiwanese Identity and the Memories of 2-28: A Case for Political Reconciliation. *Asian Perspective*, 34(4), 85-113. The paper has clearly explained the form of localization had induced the democratization of Taiwan. The successful of transition from authoritarian regime to democratic system has ceased the openly advocate discrimination of identity and maintain equality among ethnic groups in support for further reconciliation.

¹⁸⁷ “Ma angers Beijing over ‘one China’”, *Taipei Times*, June 01, 2012.

policy that was mentioned in previous chapter was having the same purpose to minimize the risk of China's economy influence to Taiwan economic environment. In 2001, Chen adopted "active opening and effective management" policy with the purpose to closer economic ties with China and it was pleased by the business community to gradually eradicate "three direct links". Hong Kong Chinese University professor Chong Tai Leung viewed that "This is one step closer to a cross-Straits direct links concept. It also means that Taiwan businessmen expect cross-Straits cargo transport to be profitable."¹⁸⁸ In fact, Chen managed the cross-strait relations at more encouraging approach compared to his predecessor by focus on closer economic ties to enhance national security. On the other hand, his administration has been repeated all the investment to China would regulate and examine under investment security requirements.

Nonetheless, Chen administration policy towards cross-strait relationship was criticized by former vice chairman of ARATS, Tang Subei, as seeking for "cultural independence" in 2001. From the beginning of his inauguration in March 2000, China had never given up its doubts on Chen's sincerity on his attempts to appease the cross-strait relationship. In fact, China attempted to influence Taiwan presidential election on February 2000 by issuing "white paper" to reassert People Republic of China (PRC) has sovereignty on Taiwan. Chen reiterated his cross-strait relations based on the principle of "good-will reconciliation, active cooperation, permanent peace" and pledge to uphold the "Four NOs plus

¹⁸⁸ "Taiwan cash boosts China airport", *CNN*, August 17, 2001.

One”¹⁸⁹ ¹⁹⁰ However, Chen had made several ambiguous statements to describe Taiwan-China relationship during his terms of New Year speech. The term of “political integration” between China and Taiwan was used by him as the long-term goal after the initial step of economic, trade and cultural integration. The word “integration” was left with query of the precise meaning which contains a difference meaning of “unification”. Likewise Lee Teng-Hui, Chen rejected China’s demand for starting political talks and dialogues, on top of that he requested China to renounce military intimidation to make more active efforts to promote a "constructive cooperative relationship" in cross-strait economics and trade for the people.¹⁹¹

Chen couldn’t win the trust from China because he upholds the pro-unification image even before he won the presidential election in the 2000. Chen has been rejected the policy of “one China” when he still at the role of opposition party and after elected as president he considered the “one China” policy as “1992 Spirit” because no agreement was achieved during 1992 KMT and CCP negotiation. CCP couldn’t agree on to hold different interpretation of the meaning of “one China” and the convention ended without agreement. According to a speech made by Lee about Chen’s National Day speech, he reaffirmed that there was no “1992 consensus”

¹⁸⁹ “Four NOs plus One” was a policy declared on May 20, 2000 in Chen Shui-Bian inaugural address, pledging that as long as the PRC does not use military force against Taiwan, his administration would not: 1) declare independence ; 2) change the national title; 3) push for the inclusion of the so-called "state-to-state" description in the Constitution; 4) promote a referendum to change the status quo in regards to the question of independence or unification; and that the abolition of the National Reunification Council or the National Reunification Guidelines will not be an issue. Refer to Office of President ROC <http://english.president.gov.tw/>

¹⁹⁰ President Chen Shui-bian 's New Year's Day Message on January 01, 2003, Taipei Economic and Cultural Representative Office in the U.S. <http://www.taiwanembassy.org/us/mp.asp?mp=12>

¹⁹¹ See Office of ROC (Taiwan) official website <http://english.president.gov.tw/>

during his presidency.¹⁹² Besides the unrecognized statements made by Taiwan, the US preserved to declare who was represented “one China” and during Bush administration, the US has openly expressed support for Taipei’s position that no preconditions be set for cross-strait dialogue.¹⁹³ Moreover, at the beginning of Chen’s administration, Chen has tried to push for numerous goodwill on cross-strait issues but China insisted on accepting “one China” policy as the prevailing to any cross-strait dialogues. China’s inflexible standpoint has hindered the extension of cross-strait relations but in long term goal it has succeeded to seal Taiwan international space with “one China” policy.

Another reason underlying Chen unable to move forward smoothly with the cross-strait relations was because of his vacillation towards China policy. However the driving force behind his uncertain policy was the faction arose in DPP. The opposition party DPP was found in 1986 and mainly it consists of two main factions, Formosa faction (the moderate thought) and the New Tide faction (the radical thought). The Formosa faction was formed by the members involved in Kaohsiung Incident in 1979 who were imprisoned after the incident. On the other hand, the New Tide Faction was formed by exiled in America who was allowed to return in 1981. In 1992 two minor factions were also formed, namely Alliance for Laissez-faire Nation and Justice Alliance. Chen pulled out from Formosa faction and established Justice Alliance with Annete Lu (ROC Vice President 2000-2008).

¹⁹² Jewel Huang, “Lee calls president’s speech deceptive”, Taipei Times, October 12, 2004. In addition, this news reported Lee Teng-hui was emphasizing on Taiwan needs a new constitution to replace the current (2004) unrealistic constitution.

¹⁹³ Sheng, L. (2002). *China and Taiwan - Cross-Strait Relations Under Chen Shui-Bian*: Institute of Southeast Asian Studies, p. 97.

The Formosa faction and the New Tide faction were sharing different kinds of mentality in the form of execution and ultimate objective. For example the self-determination that was stated in party's first congress in 1986, 'the future of Taiwan should be decided by the people of Taiwan'. The definition and execution of this clause has caused disagreement among the party members. To the Formosa faction the self-determination reserves the right of Taiwan people to choose their destiny about Taiwan's future but to the New Tide faction this was a method to pursue independence. Similarly, the disagreement arose in regards to the amendment of party's 'freedom of Taiwan independence' in 1988. The New Tide faction calls for further enhancement to the rights of people while the Formosa faction on passive stance regards the amendment. At a final point, two minor factions came with a conciliatory 'four ifs' to deal with the disagreement.¹⁹⁴ Chen's China policy was needed a tailor-made to accommodate the complex of external cross-strait demand and a series of internal pressure from the factions.

	2005	2006	2007	2008	2009	2010
Taiwan	-	0.2	0.15	0.09	0.13	18.19
Hong Kong	36507.08	42269.91	68781.32	115845.3	164498.9	199055.6

(In millions US\$)

Source: *Statistics of Ministry of Commerce People's Republic of China*

Table 5.1 China Outwards FDI Stock in Taiwan and Hong Kong

Meanwhile Taiwan is cautious about the economic cooperation with China to thwart any trial of political insurgency. This is the reason for controlling Taiwan

¹⁹⁴ Chao, C.-M. (2003). One Step Forward, One Step Backward: Chen Shui-bian's mainland policy. *Journal of Contemporary China*, 12(34), 125-143. The 'four ifs' reserved the right to exercise independence: (1) if the KMT and CCP entered negotiation without the DPP; (2) if the KMT betrayed the interests of the Taiwan people; (3) if the CCP attempted to conquer Taiwan by force; (4) if the KMT refused to implement authentic democracy.

investment in China to preserve Taiwan bargaining power in political issue.¹⁹⁵ Besides being cautious of outward Taiwan investment to China, the inward investment from China vigilantly calculates by the authority of Taiwan. Based on China's outwards FDI records, China's investment in Taiwan was extremely low amid the high tension of distrust between them. Not until 2009, Taiwan has started to liberalize direct-investment which opens some sectors and received application from China. After three years of open-market policy, 284 cases were approved and the aggregates of China's investment amount to US\$308 million¹⁹⁶ in industries including semiconductor and liquid crystal panel with available restrictions. In fact before Taiwan government approved the direct investment in China, all Taiwanese investment passed through the third party, the Hong Kong. Followed by the subsequent signed of investment protection pact and custom pact under the framework of ECFA¹⁹⁷, closer economy and human contact are expecting in the future.

5.2 Regional Marginalization

During the Chen administration, the calling for opening Taiwan international space failed to make any progress because of its stagnation relationship with China. Even though Chen has been using high-profile approach to make Taiwan recognize as independent state, his approach has been criticized as unilateral move that

¹⁹⁵ Deng, P. (2000). Taiwan's Restriction of Investment in China in the 1990s. *Asian Survey*, 40(6), 958-980.

¹⁹⁶ Investment Commission, Ministry of Commercial Affairs, Republic of China, accessed on August 24, 2012.

¹⁹⁷ "Cross-strait Investment Protection Accord Signed", *Taipei Times*, August 10, 2012.

provoked the current status of cross-strait relations. On the other hand, the “dollar diplomacy” used by China and Taiwan to buy the “diplomatic friendship” from developing countries has ended up hammering each other by the manipulation. The Chen’s confrontational approach was ultimately made no improvement on the pragmatic problem of Taiwan to integrate into the global community. In response to the failure of unilateral aggressiveness policy by opposition party, DPP, Ma reversed the policy by acknowledging the “one China” policy. Indeed, the “one China” policy was the line of reasoning for the unresponsive Taiwan’s international space and the key that has been locking Taiwan’s international role. In discovering the reality of Taiwan’s international space that could not be unlocked without cooperation from China, Ma’s approach is to engage with China and framing ECFA as a model of framework for opening Taiwan FTA markets.¹⁹⁸

Prior to become a member of WTO in January 2002, Taiwan has began to study the terms for FTA negotiations. In advance of the negotiation, Taiwan prepared for some promising projects to project better economic cooperation with trading partners. Among the potential FTA negotiation partners, Singapore is one of the targets to conclude a FTA with Taiwan. The FTA discussion was started in year 2001 but it was suspended until now and President Ma reiterates the intention to negotiate FTAs after concluded ECFA with China. The delay for the FTA between Taiwan and Singapore is resulted from the threaten statement came from China to block any intention by Taiwan’s counterparty to conclude FTA with Taiwan.

¹⁹⁸ President Ma adopted three-no policy during his administration and there are ‘no unification, no independence and no use of military force’.

Unfortunately, this threaten statement was working not only Singapore, but New Zealand, Japan and Thailand had made up hollow excuses for not entering into such talks, which obviously afraid of China's wrath.¹⁹⁹ In fact, all the trade and economic ties were remained unregulated between China and Taiwan after both sides failed to find mutual agreement to start cross-strait talks and the relation ended in stalemate.

5.2.1 Taiwan in Search for Regional Recognition

China's strategy to isolate Taiwan internationally has forced Taiwan to withdraw on the APEC meeting at Shanghai in year 2001. Representatives from Taiwan at the Shanghai Leaders' Meeting became an issue when Beijing rejected Taiwan's decision to send former Vice President Li Yuan-zu to represent Taiwan. And the reason given by China claimed that Li was not an economics official.²⁰⁰ Except Taiwan and Hong Kong, APEC is a trade discussion floor that represents by heads of state in the yearly annual meeting. Although Chen has expressed his wish to attend the meeting at Shanghai, China did not attend to his request. Finally, Taiwan withdrew from the meeting after no formal invitation card was sent to Li. As a matter of fact, the Taiwan president's envoy has to be favored by China before dispatches them for the meeting. Without a doubt, the most favorable Taiwan's representative for the past few years is the most senior Taiwan officer, Lien Chen,

¹⁹⁹ Wu, L.-P. (2003). A "One China, One Taiwan" Economic Policy: Why We Need a U.S. - Taiwan Free Trade Agreement. Paper presented at the American Enterprise Institute Wholstetter Conference Center, Washington D.C, p.2.

²⁰⁰ Nanto, D. K. (2001). *Asia Pacific Economic Cooperation (APEC), Free Trade, and the 2001 Summit in Shanghai*: Congressional Research Service, p. 2.

tagging along with his “pro-China” image. Subsequently, China unprecedentedly allowed Lien to represent Taiwan in APEC meeting since Ma took office in year 2008. To Ma’s chagrin, Beijing vetoed him as well and, political sources say, had a say in naming its preferred candidate — Lien. Ma had to swallow this “bitter pill” because it would be politically impossible to oppose him.²⁰¹

Taiwan is aware of the global trend of FTA structure of trade liberalization that could deteriorate its economic condition. However, strategic diplomacy motivations changed with the FTA trend itself, as the number of FTA players and projects grew so it became increasingly costly to stay out of the game.²⁰² In order to limit the cost, Taiwan has been searching several methods to overcome the obstacles. In 2002 when China stressed on threatening statement on Taiwan potential trade agreement parties, Taiwan faced a stumbling block to persuade others on FTA issues. As the result of China insistence, Taiwan decided to be flexible on the title used to sign FTA with potential partners. According to the representative of the APEC forum in Bangkok, four titles Taiwan would agree to in negotiating FTAs with other countries were, in order of preference: "ROC", "Taiwan", "Taiwan Economy" and "Taiwan, Penghu, Kinmen and Matsu".²⁰³ China’s strategy to shut Taiwan international space has indeed effectively exercised and gave the Taiwanese officers a tougher policy making in the future.

Taiwan, to seek for a membership in international organization has faced many obstacles and it has to adjust itself to make Taiwan acknowledge by others.

²⁰¹ Parris Chang, “Taiwan’s APEC envoy was always a PRC pick”, *Taipei Times*, November 15, 2009.

²⁰² Dent, C. M. (2005). *Taiwan and the New Regional Political Economy of East Asia*, p. 396.

²⁰³ Melody Chen, “Nation flexible on own title in FTA talks”, *Taipei Times*, October 17, 2003.

Referring to the case in Olympic Games, Taiwan joined the game in 1960 and in 1981 it changed its title to “Chinese Taipei” after a few round of negotiations. A conflict was occurred during the Beijing Olympic Games when Taiwan was requested to change the title from “Chinese Taipei” to “Taipei, China”.²⁰⁴ The coverage of reunification’s strategy of China has expanded to sports arena to prevent Taiwan from exploiting the games to implement “Taiwan independence”.²⁰⁵ Precisely, China has asserted that Taiwan’s participation in inter-governmental organization or non-governmental organization must meet the demands required by China. Under this strict requirements, Taiwan’s name, flag and national song have to undergo purity process. Referring to Hu Jintao’s speech, he emphasized on the appropriate arrangement of Taiwan’s participation in international organizations should exclusive of the misconception of "two China's" or "one China one Taiwan".²⁰⁶ Indeed, Taiwan’s participation is always attaches with conditions that demanded by China such as no statehood required and the address following Hong Kong and Macau, in “Taipei, China” or without appearing the image of sovereignty state.

In addition, China always monitors Taiwan’s international movement to ensure one China policy is being upheld internationally. China has never renounced of using force to unify Taiwan as this is proved by China’s congress which passed the

²⁰⁴ “Taiwan insists on ‘Chinese Taipei’”, *The China Post*, July 25, 2008.

²⁰⁵ Yu, J. (2008). China's Foreign Policy in Sport: The Primacy of National Security and Territorial Integrity Concerning the Taiwan Question. *The China Quarterly*, 194, p.303.

²⁰⁶ Refer Hu Jintao speech entitled *Join Hands to Promote the Peaceful Development of the Cross-Straits Relationship and Achieve the Great Rejuvenation of the Chinese Nation* on 31 December 2008 at <http://www.china-embassy.org/eng/>

“Anti-Secession Law” in year 2005. In China’s point of view, this means peace but this law allows China to use military force if Taiwan attempts to be an independent nation.²⁰⁷ The tension was high between China and Taiwan when Chen Shui-bian made several attempts to challenge to status-quo of Taiwan. For instance, Chen sought the membership in UN under the name of Taiwan and he advocated exercising for self-determination of Taiwan status. These hazardous actions are worrisome to the neighboring countries who demand for a peaceful resolution in this diverse region. As mentioned in the speech of Rodolfo C. Severino, ASEAN concerns has its roots also in the tremendous growth of economic links and any conflict would put our economies at risk.²⁰⁸

It is important for China to seal Taiwan international space because this relates to nation pride and retains communist power. China has no urgency to unify Taiwan because the main concern is about defending a legal principle and a political fiction of huge importance.²⁰⁹ No one in communist party would accede to Taiwan’s independence from their regime because this would bring disgrace to the leader and mark an awful history. In addition, the internal fraction in Tibet has rise the self-immolation protest to demonstrate the anti-government moves.²¹⁰ In mainland, China facing plenty of unsolved local problems includes the discrimination issues in Urumqi, Inner Mongol and social issues in Hong Kong.

The reality of Taiwan become more isolated society is unavoidable since China

²⁰⁷ “China will not revise Anti-Secession Law”, Embassy of People’s Republic of China in the United States of America, <http://www.china-embassy.org/eng/zt/twwt/t191474.htm>

²⁰⁸ Severino, R. C. (2008). Taiwan’s Economic Relations with Southeast Asia [Electronic Version]. *The First Taiwan-East Asia Conference on Free Trade Agreement*,

²⁰⁹ Waever, B. B. a. O. (2008), pp. 149-152.

²¹⁰ “Self-Immolation protests sparks ‘fatal beating’”, *South China Morning Post*, August 15, 2012.

occupied the seat at UN in year 1971 and Taiwan was formally expelled from its membership. Since PRC occupied the “China” seat at UN, China is using the same tactic that used by Taiwan (Republic of China) before 1971 to seal each other international space. In Chinese words “一山不能藏二虎” reveal that no space was allowed to occupied an extra “China” in this world. And this explained the fundamental underlying the “One China” policy and the strategy to isolate Taiwan. In fact, from 1946 until 1971 (when the ROC occupied the “China seat” at the United Nations), Taipei fought on every diplomatic battlefield to deny Beijing representation in international organizations or other forms of international participation and legitimacy.²¹¹

Subsequently, countries with no formal diplomatic relation with Taiwan are maintaining quasi-embassies to administrate the embassy task at each side. For example the US replaces its formal embassy into the American Institute in Taiwan (AIT) and Taiwan’s formal embassy changed the title to Taipei Economic and Cultural Representative Office in the US. Having the status of non-formal diplomatic relationship is being allowed; “the representatives at AIT are retired or on leave US government servants.”²¹² Similar procedure was also being applied to other countries, in Japan the Taipei Economic and Cultural Representative Office represents Taiwanese government in dealing with foreign affair tasks. On the other hand, limited to these 23 nations who hold diplomatic relations with Taiwan presents the title of Embassy of Republic of China to represent Taiwan

²¹¹ Lampton, D. M. (2008). *The Three Faces of Chinese Power*: University of California Press, p. 69.

²¹² Roy, D. (2003). *Taiwan - A Political History*, p. 140.

government's overseas offices.

Taiwan de facto independence status maintains by this informal contact throughout its non-membership status in the UN. Another democratic country, Australia is not exceptional for binding to China's request by maintaining Australia-Taiwan relations based on the Joint Communiqué with the PRC of 21 December 1972.²¹³ Notwithstanding some possible dangers of remaining communism, Malaysia follows suit switching diplomatic relations from Taiwan to China. Following the end of diplomatic relationship between Malaysia and the ROC on 31 May 1974, the Consulate Office in Taipei was closed down.²¹⁴ Generally, Taiwan has been keeping this silent relation with all the significant countries for more than a few decades. Although Taiwan is not being recognized officially, they operate as a standard state in administration and human-contact socially.

China persists on isolating Taiwan in all kinds of circumstances underneath the closer cross-strait relations of the two economies. The root of the diverse thoughts between China and Taiwan has highly related to the after-reformation from despotic political system. The initiatives take by Chiang Ching-Kuo to guide Taiwan towards a more liberal society has been educating Taiwanese the Western-style of democratic values, for instance the election system. China, on the other hand, is laden with a history of contemporary imperialist abuses and remnants of a collective mind-set left by years of practicing socialism.²¹⁵ The difference of

²¹³ Australian Government Department of Foreign Affairs and Trade, <http://www.dfat.gov.au/>

²¹⁴ Ministry of Foreign Affairs, Malaysia, <http://www.kln.gov.my>

²¹⁵ Chao, C.-m. (2003). Will Economic Integration Between Mainland China and Taiwan Lead to a Congenial Political Culture. *Asian Survey*, 43(2), p. 284.

China's mind-set has widened the degree of social integration where the core of a society is centre at the seven policymaking committees of China's Communist Party.

China's strict standpoint was also become visible in the event of natural disaster take place in Taiwan. Based on the past experience, China disregarded the pressing condition and appeared no compassion over the natural disaster that struck on Taiwan in year 2001 the 7.3 earthquake and Typhoon Toraji.²¹⁶ The humanitarian assistant offered by international correspondents did not arrive immediately because China asserts all the activities must pass through China before execution. Referring to the flood disaster of Marakot in year 2009, it was evaluated by the local and abroad that government had a weak response on the relief activities and it was treated at a diplomatic way. On the other hand, the US authorities responded promptly after the Taiwan raised the need for rescue assistance and dispatching personnel and heavy equipment from American military bases at the port city of Yokosuka in Japan to help with the rescue effort in Taiwan.²¹⁷ The US humanitarian action was treated by President Ma as a signed of two-ways goodwill that was deteriorated formerly. Again the US activity in this natural disaster was phased in a few ways such as "humanitarian assistance" and assisting "the Taiwanese people," as well as a statement that there is "no need to inform China," highlight the significance of this assistance.²¹⁸

In addition, the outbreak of SARS in Taiwan undergo a humanitarian assistance

²¹⁶ See the immediate news from <http://www.taipeitimes.com/News/front/archives/2001/07/31/0000096444>

²¹⁷ See the article at http://www.taiwan.gov.tw/friendship100/story_content.asp?code=B&cittem=B04&lang=en

²¹⁸ James Wang, "Disasters tell us who our friends really are", *Taipei Times*, Aug 27, 2009.

difficulties when the method of news transferring and assistance from WHO was unable to reconcile concerning Taiwan's legal status. The solution by WHO is to seek US help to dispatch assistance to control the spread of SARS virus in the island. China showed no mercy to their same ethnic group who they persist on reunification was suffering terrifying SARS virus in Taiwan. China insists to use pressure to block Taiwan international space which gave the outcome of Chen Shui-Bien declined the invitation from International Telecommunication Union (ITU)-sponsored preparatory meeting for the World Summit on Information Society.²¹⁹ The two sides of cross-strait have been ruled by two completely different political ideologies since 1980s. The interaction on social-culture, relaxed of "three direct links" (the initiated of "Three Mini-Links" by Chen and further liberal by Ma) and economic interdependence may bring them closer but the execution system and policy assessment are on two separate directions.

Indubitably, Taiwan is alert about the globalization that had increased its international position as sovereign state. Country like Taiwan with a population of 23 million people would encounter difficulty to become a prosperous economy entity without engaging to global market and expands its overseas market. China's tactic of "economic pincers" has worked to prevent Taiwan for further expanding as a financial center or a transportation center. Indeed, the tactic succeeded to pull the economic gap nearer and turned China into number one investment country in Taiwan. A rising China with a depletion of Taiwan's economic resources will have

²¹⁹ Brown, D. G. (2003). *China-Taiwan Relations: Chen Adopts a More Cautious Approach*: The Johns Hopkins School of Advanced International Studies, p. 4.

serious implications on Taiwan’s social stability and political confrontation with China.²²⁰ Even though Taiwan plays an important role as an economic entity in Asia, China raise has further refrain many countries to openly support Taiwan international participation. To create a suitable international space for Taiwan is a continuing task for the Taiwanese leader and China’s future political development is relevant to Taiwan politic future.²²¹ Precisely, this is an unavoidable reality that Taiwan has to calculate into the international space breakthrough framework.

5.2.2 Outlook of Taiwan Membership Status

Year	Body	Status	Title
1960	International Olympic Committee	Member	Chinese Taipei (since 1981)
1966	Asian Development Bank	Member	Taipei, China
1991	APEC	Member	Chinese Taipei
2002	WTO	Member	Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)
2009	WHA (WHO)	Observer	Chinese Taipei

(Taiwan is a member of 32 International Bodies and an observer status in 16 International Bodies.)

Source: Ministry of Foreign Affairs, ROC.

Table 5.2 Taiwan Membership Status in International Body as at August 2012.

Based on Table 5.2, Taiwan’s latest achievement participating in the international organization was succeeded to reserve an observer seat in the World Health Assembly (WHA), the highest decision making of WHO. Participating in more significant

²²⁰ Sheng, L. (2001). One Year of the Chen Shui-Bian Government: Ice Across the Taiwan Strait. *International Politics and Security Issues* (2), p. 9.

²²¹ Wang, V. W.-c. (2002). The Chen Shui-bian Administration's Mainland Policy: Toward a Monus Vivendi or Continued Stalemate? *American Asian Review*, XX(3), p. 123.

organization is always unquestionably a tough task for Taiwanese representatives. Although this is not an easy task, Taiwan never gives up in submitting application for entering as a member or an observer. Opening up more international spaces for Taiwan is part of President Ma's mission while in administration; this was his declaration during his inaugural speech.²²² Even though the observer seat in WHA is on renewable condition, it is a significant accomplishment for Taiwan's isolation issue. Participating in international organizations is not solely the topic of international space breakthrough. The information exchange in WHA is highly connected to the populace as it concerned the food standard and the health and safety of its citizens. Therefore, Taiwan fights for its international space not merely for politics, but the population's necessities are also considered.²²³

Taiwan's difficulties in the international arena could be observed through the representative title in international organizations. The most comfortable name to both parties at the cross strait is "Chinese Taipei", eventually it was accepted by both sides several times. According to the past records, this name creates minimum controversy over the participation of Taiwan in international organizations. As mentioned earlier; after concluding EFTA with China, Taiwan is working tirelessly to conclude a FTA with Singapore. The recent news reported that if the agreement concludes it will be named the Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP).²²⁴ The titled chosen by Taiwan in this trade negotiation with Singapore is following the formula of

²²² President Ma's Inaugural Address, Office of President Republic of China (Taiwan), May 20, 2012.

²²³ "Joining UN a must for the health of Taiwanese", *Taipei Times*, June 29, 2012.

²²⁴ Helen Ku, "Singapore free-trade pact may be inked soon: MOEA", *Taipei Times*, January 08, 2013.

WTO membership.

By avoiding the sovereignty issue, Australia is one of the countries that are encouraging in Taiwan to participate in international organizations where consensus could be achieved.²²⁵ On the other hand, the US also supports Taiwan's participation in WHA and other organizations that do not require statehood.²²⁶ The root of Taiwan's marginalization in international organization is correlated to the derecognized Taiwan as sovereign country under the "one China" principle. Moreover, this is the cause of Taiwan's trade partners that applying close contact at the private sector but keeping a distance at diplomatic relation at the same time. The indirect contact with Taiwan is acceptable under China's supervision and to keep the tolerant level as long as no force reunification and no declaration of independence.²²⁷

Based on the 2007 public opinion on cross-strait relations survey published by Mainland Affairs Council; 73.4 percent of respondents support the name of 'Taiwan' in the bid for UN membership. On the other hand, 66.5 percent of the respondents agreed that China was the cause of Taiwan's lack of participation in international organization and in its development of diplomatic relations.²²⁸ The public opinion had nevertheless revealed the successful of DPP to generate the identity of Taiwanese in the island. Alternatively, Taiwan's international difficulty issues have been identified by more than half of Taiwanese was mainly due to China's domination. The survey results provide some hits to China's policies making on cross-strait relation. It

²²⁵ Australian Government Department of Foreign Affairs and Trade, <http://www.dfat.gov.au/>

²²⁶ "US Questions WHO's name for Taiwan", *Taipei Times*, May 18, 2012.

²²⁷ Clough, R. N. (1975). *East Asia and U.S Security*: The Brookings, p. 82.

²²⁸ Refer to Mainland Affairs Council official website <http://www.mac.gov.tw>

is unavoidable to take into account the Taiwanese yearning as Taiwan has been enjoying the freedom and the rights as a citizen for more than a decade.

The raise of China is an inevitable fact which ascertains the fast economic growth and increases military expenses. However under the influence of globalization the European financial crisis has affected the economic slowdown in China which suffers a drop of 2.4% in FDI inflows early 2012. The GDP dipped below the estimated 8% growth.²²⁹ In addition, the tensions over the dispute islets of the South China Sea is worrisome, as China grows without discipline and it could posed a high challenge to make global adjustment.²³⁰ As a matter of fact: China transformed from a closed economy to the world's second largest economy after the US surpassed Japan in 2010. Together with the economic evolution, has possessed China the power to influence its beneficial countries in the benefit of its diplomatic remedy. Again, it has proved to be at the breakdown of the construction of Code of Conduct in the prevailing ASEAN Summit 2012 reflects the short of unity in ASEAN and the feebleness of ASEAN less developed countries.

Despite the fact that ASEAN was awarded East Asian integration-driven in Asean+3 Framework, ASEAN could not take the driver's seat by showing strong leadership under the unstable unity. Looking at ASEAN's ineffectual performance, the option of wishing ASEAN could appeal for some leeway, as Taiwan's regional space is limited. On the other hand, the relationship between Taiwan and Japan has maintained an informal but close economic alliance. As already mentioned, a formal

²²⁹ "China January-April FDI inflow at \$37.9 billion, outlook dark", *The Reuters*, May 15, 2012.

²³⁰ L.Curtis, G. (1994). *The United States, Japan, and Asia*: W.W.Norton&Company, p. 197.

diplomatic relation with Taiwan would alienate China, hence a meticulous policy is indispensable. Since the effect of the 1952 peace treaty, the diplomatic contact between Taiwan and Japan turned to sour but the private sector is on burgeoning relation.

There are unspoken agreements between them in this informal relation which enable a pragmatic approach to solve the erupting conflicts, a considerable faith in one another.²³¹ For instance, Taiwan was one of the prompt donors during Japan's natural disaster that occurred March 11, 2011. Despite the show of assistance these two countries do not maintained formal diplomatic relation, humanity has gone beyond constraints. In response to Taiwanese helpfulness, Japanese foreign ministry sponsored a gratitude trip to Taiwan by Japanese students. Taiwan donated the highest amount of aid approximately US\$260 million, in the world to Japan for aftermath rebuilding.²³² However, a pleasant people-to-people relationship could not surmount the pressure from China to isolate Taiwan's diplomatic space. As a matter of fact China gives a remunerative space to Taiwan in participating in WHA as an observer in the purpose to support President Ma's presidential seat.²³³

²³¹ "Be Pragmatic about the Diayutais", *Taipei Times*, August 23, 2012.

²³² "Japanese students visit to thank nation for 2011 quake aid", *Taipei Times*, March 07, 2013.

²³³ Winkler, S. (2012). Taiwan's UN Dilemma: To Be or Not To Be. *Taiwan-U.S. Quarterly Analysis*, 9.

Chapter VI Limitation of ASEAN+3

The extensive financial cooperation under ASEAN+3 agenda has produced notable results for the past 15 years. The thriving assessment on financial sector is increasing the confidence level of other regional sectors could follow the footsteps. The immediate sector that was thought to be containing more common interests is establishing regional free trade agreements. It is undeniable that the foreseeable profits are immense; however, the route to materialize it is the toughest task. In fact, in East Asian regionalism we lack one of important criteria to build a functional ASEAN+3 that is leadership. The incapability in certifying a leader has been tagging along since the formation of ASEAN which no visible leader except generally acknowledged, Indonesia. Precisely, the most eligible Japan with the highest per capita income did not prepare to take the crown amid its serious economic recession. In addition, Japan's immediate neighbor, China, would not permit Japan to undertake the driver seat to lead East Asia to the regional community mission.

Furthermore, a successful regional grouping we need the continuing interests and cooperation among regional powers. In the case of ASEAN+3, this is a serious issue that needs further attention. Unsurprisingly, the competition between China and Japan are keen as this was illustrated in the Chapter three previously. Set aside the difference in ideology, the recent hot topic is the disputes island at East China Sea. A number of controversial incidents occurred and brought further away to conciliate both sides for promoting regionalism. In fact, it is difficult to find a compromising way to overcome the distrust that was contained within them. The distrust is the blockages that cause

the relatively unmovable free trade negotiation between China and Japan is delay embarking for long time. These two regional powers are crucial in setting the regionalism path towards advance future. Therefore, the unrest historical guilt and territorial disputes are intractable hindrance which has been dragging the performance of East Asian.

Moreover, ASEAN roles in ASEAN+3 have been limited at neutral position in comforting disagreement between China and Japan on leadership issue. ASEAN was selected to lead ASEAN+3 as it is very difficult to compromise these two East Asian powers and both countries have to relatively be less aggressive to cause any threat in their position. However, it is clear that ASEAN could not fairly produce much leadership aura because it consists of many countries with limited power. These countries have limited capacity to carry out the complex regionalism vision and do not produce much outcome. The two strong regional powers are much needed to produce essential leadership for turning the current framework into regional institution. On the other hand, some ASEAN members are experiencing unresolved dispute with China and every party insists on their rights. Apparently, disputed islands issue spread to the trade sector that had incurred “banana trouble” that was experienced by the Philippines on the export to China. In fact the regional instability due to various disagreements is worrisome to the progress of ASEAN+3 whether it could endeavor to promote beyond financial sector.

6.1 ASEAN on Self-protection

It is obvious that ASEAN would prefer to stay away from the complicated cross strait issue rather than excessively involved in it. The realistic of the capitalist world and stability of domestic politics resulted ASEAN's members to be self-reliance in constructing security and foreign policy. The extended security alliance between US and Singapore was built under regional security threat that Singapore experienced since independence from Malaysia in 1965. The issue of relocating US Navy based in Subic Bay in 1992 had raised contrasting opinions of the degree of US involvement in Southeast Asia.²³⁴ Although, ASEAN insisted on no military alliances in the region, Memorandum of Understanding was signed by Singapore to welcome the relocated US Navy from Subic Bay. After a series of memorandum amendments in 1990s, Singapore hosts approximately 65-70 permanently stationed American military personnel attached with the Commander Logistics Group, Western Pacific (COMLOG-WESTPAC) at the Sanbawang terminal.²³⁵

The unique characteristic of Singapore was well considered by Lee to administrate the city state. They understand that “in a small, predominantly Chinese state surrounded by larger Islamic neighbors – ‘a Chinese island in a Malay sea’ – enlightened rulers need to clamp down on dangerous expressions of jingoism and racism from the masses below.”²³⁶ In awareness of geographically disadvantage to

²³⁴ Wortzel, L.M. (1993). *The ASEAN Regional Forum: Asian Security without an American Umbrella*, Diane Publishing, p. 13.

²³⁵ William T. T (1999). Assessing U.S. Bilateral Security Alliances in the Asia Pacific's “Southern Rim”: Why the San Francisco System Endures, p. 13.

²³⁶ Daniel, A. B. (2000). *East Meets West - Human Rights and Democracy in East Asia*: Princeton University Press, p. 196.

Singapore's security concern, a pragmatic stage survives without the US's present was unbearable. Practically, Singapore's core strategy is to cooperate with a Washington that is constructively involved in the region, all the while reaping the security and economic benefits to be realized from building cooperative relations with Beijing and building the PRC into regional multilateral structures.²³⁷ Lately, US military rebalancing in Asia-Pacific would involve the LCS (Littoral Combat Ships) stationing in Singapore, a rotational U.S. Marine Corps presence in northern Australia and military cooperation with the Philippines.²³⁸ Singapore is participating actively as US security partner with the view that China is performing aggressively in the region. The satisfaction in militarily cooperation has portrayed Singapore as a close defense and economic partner of the US, in corresponding to the US declaration's pivot to the Asia-Pacific region.²³⁹ Moreover, Singapore is located at a strategic crossway that is geographically central location for the US's navy exposure.

Singapore is well-known and established business hub in Southeast Asia. It has established itself as an attractive business environment for Chinese investors. Moreover, Singapore possessive characteristic of centered hub for multinational organizations headquarters has extended its role to more territorial, India. In corresponding to their outlook, Singapore is capable in provision of financial capital, project management and regional working, while India possesses entrepreneurial talents, resilience and managerial and technical expertise.²⁴⁰ The prospect of

²³⁷ Lampton D.M. (2008). *The Three Faces of Chinese Power*. University of California Press, p. 183.

²³⁸ Jim Wolf, U.S. plans 10-month warship deployment to Singapore, *Reuters*, May 10, 2012.

²³⁹ "Obama thanks Singapore PM for military co-operation", *South China Morning Post*, April 03, 2013.

²⁴⁰ Rao, Y. M. C. V. B. (1995). *Singapore-India Relations - A Primer*: Singapore University Press, p. 122.

complementary each other strength has pushed for further economic alliance between Singapore and India. On the other hand in Singapore, especially in resource-related activities such as offshore oil and commodity trading is an indication that Chinese firms are attracted by Singapore's competitive cluster of international trade.²⁴¹

Besides Singapore, ASEAN stands the opportunity to attract more investment funds from China, one of the largest global FDI suppliers. Throughout the history, Singapore possesses a strong and strategic location of East-West business route. In particular, Singapore with its strategic location can serve as a bridge between China and India, as well as between China and Middle East countries.²⁴² Singapore has been supporting China to integrate into the globalization economic to avoid China aggressiveness that could risk the security of East Asia. Precisely, the joined of China into WTO is signaling its trade partners that business runs in China would follow the regulations that follow globally standards. In fact, China expands with discipline is the most desirable situation to the neighboring countries that are relatively weak position. It was clear to Singaporean that as much as one might hope for China's peaceful rise, it is not assured.²⁴³

²⁴¹ Yeo, F. W. a. H. S. (2002). *China's Rising Investment in Southeast Asia: How ASEAN and Singapore Can Benefit*: Singapore Ministry of Trade and Industry, p. 114.

²⁴² Ng, B. K. (2007). The Economic Rise of China: Threats and Opportunities from the Perspective of Southeast Asia. *The Copenhagen Journal of Asian Studies*, 25, p. 24.

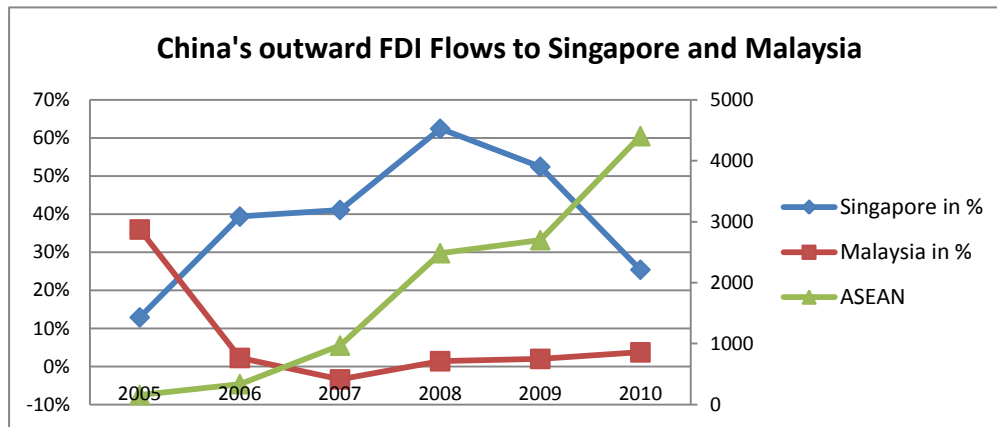
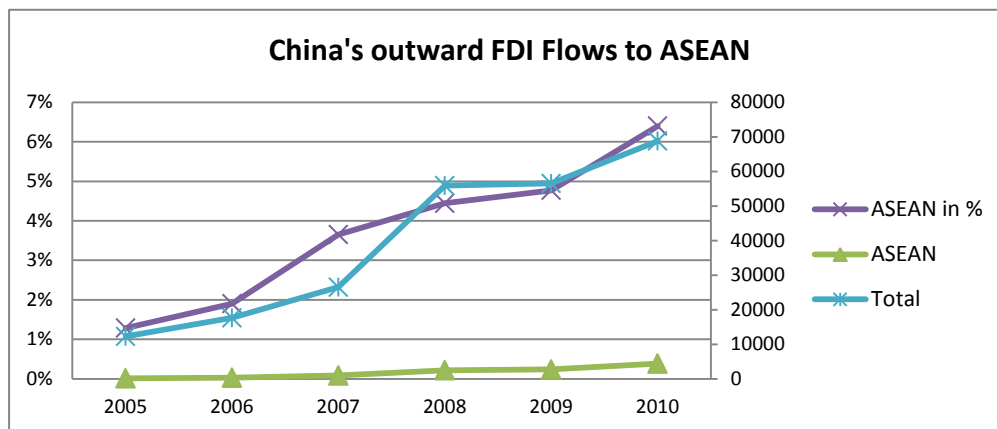
²⁴³ Lampton D.M. (2008). *The Three Faces of Chinese Power*, p. 184.

In million US\$

	2005	2006	2007	2008	2009	2010
Singapore	20.33	132.15	397.73	1,550.95	1414.25	1,118.50
Malaysia	56.72	7.51	-32.82	34.43	53.78	163.54
ASEAN	157.71	335.75	968.08	2,484.35	2,698.10	4,404.64
Total Outflow	12,261.17	17,633.97	26,506.09	55,907.17	56,528.99	68,811.13

Source: 2010 Statistical Bulletin of China's Outward Foreign Investment

Table 6.1 China's Outward FDI flows into Singapore and Malaysia, 2005-2010



Source: 2010 Statistical Bulletin of China's Outward Foreign Investment

Figure 6.1 China's Outward FDI to ASEAN, Singapore and Malaysia, 2005-2010

The above statistic is showing China's FDI flows to Singapore and Malaysia. This would be used to observe China's investment in SEA's economies caused quandary in designing policies with China. As noted, China military aggressiveness has alerted by regional members and has been persistently requesting balancing power

in East Asia. Pragmatically, China extended its influence in the economic sector that is unable to be resisted from urging investment from China by ASEAN countries. The deep economic relations between ASEAN and China were discussed in previous chapter. Individually, in 2009 China made a large amount of investment in Singapore consisting 52% of total investment in ASEAN. This is more than half of China investment whereby in 2005, Singapore was only accounted 13% of total investment in ASEAN. In five years time, the investment relationship in SEA was pulling to a new high. Despite of China's high outflow to Singapore, in 2010 China diverted its funds to other ASEAN countries that could benefits China trades and also diplomatic relations. In addition to China's outward FDI flows, Singapore is also China's highest FDI stock destination with US\$6,069 million (42% of total FDI stock in ASEAN).

By comparing China's FDI flows with Malaysia, it is startlingly a minor investment of the total amount of foreign investment. It became much insignificant amount when it was compared to China's outflows funds to Singapore, the first economy and Malaysia is the third economy in SEA. Despite of two-ways trade between China and Malaysia has been improved and China became Malaysia top trade partner, investment sector is running much behind. In discovering the shortcoming, Malaysian Prime Minister Najib Razak has been implementing various investment opportunities to attract cooperation with China. Recently, the joint-investment by China and Malaysia including the agreements on launching the industrial park for running a few sectors such as railway manufacturing and machinery components. China and Malaysia have established two industrial parks at

both sides which are located at Guangxi Zhuang Autonomous Region in south China, and the other at Kuantan in Malaysia's northern area.²⁴⁴

In diagnosing Malaysia-China relations, Lim stated a very clear aim that Malaysia would not like to be leaving behind in China's 'go global' phenomenon that could benefit Malaysian economy by attracting more Chinese investment to Malaysia. During Mahathir's era, he has been emphasized the crucial role of Japan in East Asian region and encouraged his famous "look East policy" to learn Japanese value in various dimensions. However, a wise man like Mahathir would not misdiagnose the regional phenomenon that China was expanding the wings to cover its influence. Consistently with his "look East policy" he later included China as part of the policy by encouraging closer economic ties and learning Chinese language. In his speech in an international conference on "the Future of Asia"²⁴⁵, he had positive view that Asia would be a success in achieving world economy status in 2020 provided in peaceful environment. Mahathir perceived that the growing economy of China was an important element for Malaysia to realize the goal of turning into a developed country. In regard to cross-straits issue, Mahathir was also carried out prudent policy in dealing with both economically importance to Malaysia. In fact "Taiwan factor" was a challenged policy for Mahathir to find a balancing point within economic diplomacy.

In Najib's administration, engaging deeper trade and investment with China is important agenda for sustaining economy growth amid a weak economic environment in Europe and the US. Najib was well aware of the importance in building strong

²⁴⁴ Referred to news information at ASEAN-China Center, <http://www.asean-china-center.org>

²⁴⁵ Referring to Mahathir speech record at <http://www.mahathir.com> on May 19, 1995.

connection with China which is a common practice in doing business with Chinese. In order to win the heart of Chinese government, he has been portraying his earnestness on conducting goodwill relations with Chinese by pointing out an important “connection” in the past. After the WWII, in the fear of spreading communism most countries did not hold diplomatic relation with PRC. However, follow by the changed of geopolitics and US signaling to recognize PRC, Malaysia be the first SEA country to normalized relationship with PRC in 1974. This importance historical event was coincidentally conducted by Najib’s father, the late Tun Abdul Razak Hussein that marked a beginning recognition by SEA countries. Together with the opportunity, Najib has been promoting his father’s credit to capture some Chinese’s favor on disseminating a portion of investment funds to Malaysia.

To assist Najib’s objective in stimulating extensive foreign direct investment funds, he needs to make Malaysia an attractive environment for locating the funds. In his first year inauguration, he had recognized Malaysia’s incompetence as the top investment destination to foreigner was nevertheless due to the “Bumiputera policy”. In order to preserve “Bumiputera” interests in Malaysia, “Bumiputera policy” was introduced in economic policy after a dreadful racial riot in 1969. In facing the rapidly changed of international environment, he took the initiative to revise the prolonged questionable policy of Bumiputera or Malay in traded companies policy’s share ownership. In fact, most of Malaysian leaders would prefer to avoid the share ownership issue because this is a sensitive topic. Moreover, all the doubts on the Bumiputera rights are taboo to be discussed or challenged in Malaysia society. In

realizing the competitive regional environment and the economic competitiveness were damaging Najib addressed the following:

The pursuit of sustainable equity requires a focus on effective and meaningful economic participation, not just ownership. A 30% minority stake in a given company in fact does not provide an avenue for representative participation. Further, it has been shown that the lack of capital results in the 30% stakes held at company level not being sustainable.²⁴⁶

On the diplomacy topic, Malaysia's position likewise other ASEAN countries are playing insignificant role in major diplomatic affairs. The ASEAN weak political influence was emphasizing in China's affairs. As a matter of fact, China's market provides a huge business opportunities and China brings a pool of funds that are irresistible. Regarding the cross-straits relation, Malaysia plays no weight in defending Taiwan but lean towards China, after gradually pressure from China. The signed of Joint Communique between China and Malaysia in 2004 in regards of affirmation of China succeeded to lock Malaysia-Taiwan diplomatic exchange. Malaysia banned all diplomats from visiting Taiwan in official manners to avoid provoking China. Subsequently, on the same year the case of Lee Hsien Loong visits Taiwan has brought protest from China. In fact, Malaysia actually believe that China and Taiwan will come into reunification state in given time, without external intervention.²⁴⁷ The hope of economic benefits could give some leverage in inducing ASEAN to open trade negotiation like FTA with Taiwan is unworkable.

²⁴⁶ Referring to Prime Minister official website <http://www.pmo.gov.my> on June 06, 2009 Speech Record.

²⁴⁷ Leong, S. (2006). *Malaysia-Taiwan Relations: Political Imperatives Prevailing*. Paper presented at the China-Southeast Asia Relations and the Taiwan Issue.

In million US\$

Year	China FDI Flows to ASEAN	Total FDI Flows to ASEAN	Share of China in FDI Flows into ASEAN
1996	127.1	30867	0.41%
1997	49.37	32541	0.15%
1998	302.47	18270	1.66%
1999	135.8	14703	0.92%
2009	1852.6	46896	4%
2010	2784.6	92278	3%
2011	6034.4	114110	5.3%

Source: ASEAN Statistic 2013; ASEAN-China Economic Relations Report 2001

Table 6.2 China Investments in ASEAN, 1996-1998; 2009-2011

In additional to the data on China's outflow FDI to ASEAN, Singapore and Malaysia, the above data on China investments in ASEAN enhanced the transfer role of China. China's investment in ASEAN before entering WTO in 2001 was insignificant to FDI total inflows to ASEAN. On the other hand, ASEAN was the net investor in two-ways investment to China, whereby China average 1% investment in 1990s was inadequate to be noted. During ASEAN was the net investor to China, most of the investment deals between ASEAN and China were aimed to secure ASEAN investor's welfare in China. However the current situation is not performing like the past and it has been transformed to catch up China rapidly outwards development. China actively invests in ASEAN has slightly surpassed the US (5.1%) in the total share of FDI flows into ASEAN.

Based on the data, the highest scored of China's inflow share to ASEAN was in 2011 with 5.3% compared to the tiny investment in 1990s, the performance has much improved. In foreseeing more investment from China, the investment cooperation between ASEAN and China is non-longer be weighted to ASEAN's interests. Since China's role has been increasing in SEA, the investment cooperation catches ASEAN

member's eyes to get a share of the potential remuneration from China. In fact, the data reflects that China could actually change its economic power in 10 years time from a net FDI receiver to global outward investor now. Skillfully, China built the essential economic power in this century, to overcome its impoverished image and spreads Chinese power for its will.

The breakdown of ASEAN summit in July 2012 regarding the proposed Code of Conduct with China is further illustrating the vulnerability in regionalism. Cambodia, the host of 2012 ASEAN meeting, has become an important ally to China despite a strong disagreement occurred in the group by some of the members. Four loan agreements for unspecified projects worth about US\$420 million were signed, another three loan agreements, worth more than US\$80 million are expected to be signed this year, Aun Porn Moniroth said, adding that Wen had also promised a grant of 150 million yuan (US\$24 million) as “a gift” for Cambodia to use on any priority project.²⁴⁸ The money-oriented connection between the Chair of ASEAN 2012 and China was disappointed by the members who were upholding a peaceful resolution in SEA dispute. Precisely, China has succeeded to use “divide-and-conquer strategy”²⁴⁹ on its weak ASEAN countries in dealing with the disputed separately than unity.

The failure of solving the SEA dispute through multilateral means has induced some ASEAN members to seek support from the US. The discussion on SEA dispute was deteriorated in the November, East Asia Summit, came close to a breakdown when Hun Sen adopted a draft statement saying there was a consensus not to

²⁴⁸ Prak Chan Thul, “China gives Cambodia aid and thanks for ASEAN help”, Reuters, September 04, 2012.

²⁴⁹ Kaplan, R. D. (2012). *The Revenge of Geography*: Random House, p. 209.

“internationalize” the South China Sea dispute beyond ASEAN and China.²⁵⁰ The tension on the South China Sea issue has forced some members to welcome US involvement in order to safeguard their territory interest. When US policy accommodates East Asian common interests and demonstrates a strong commitment to regional stability and prosperity, momentum for Asian-only forums through defensive regionalism will likely decrease, and vice versa.²⁵¹ Consequently, the outcome of extra regional dependence is needed when regional framework could not provide desired solution. The external resource has been urged by Singapore that is judicious on its relationship with China to avoid any misinterpretation as a subordinate to China political clout.

By monitoring the sequence of events, ASEAN is a cracking body which is fragile by the exclusive lures for personal benefits. The ASEAN was chosen as the driving force in endeavoring ASEAN+3 and East Asia Summit because of ASEAN’s neutrality in dealing with influential members. In spite of begin selected as the summit’s driver, ASEAN could not make use of its influence to keep upright on sensitive issues. After all, the solution will be guided by the arranged agenda such as the failure of concluding disputed at South China Sea between China and part of ASEAN members. In fact, ASEAN is popular selection as a mediator because of its uninfluenced role compared to major decision maker. ASEAN serves less impact in dealing with complicated regional issues and indecisive among themselves. The most

²⁵⁰ Grudgings S. and Yue T., “Analysis: China courts friends in region; for others a show of strength”, Reuters, November 21, 2012.

²⁵¹ Shiraishi, P. J. K. a. T. (2006). *Beyond Japan: The Dynamics of East Asian Regionalism*: Cornell University Press, Naoko Munakata, Has Politics Caught Up with Markets?, p. 132.

likely reasons are ASEAN's members too small to counter impact and they need overseas support in embryonic growth.

On one hand, Indonesia is continuing its role as ASEAN's Big Brother likewise China's role in ASEAN+3 frameworks. Indonesia's existence has been described in both inevitable involvement in regional affairs and a hindrance for promptly regional advancement. The size of a country shapes its overall regional position. Although, Indonesia is far behind China in term of size, Indonesia possesses the largest land size and population in Southeast Asia region. Indonesia's sizable magnitude has relatively shaped its influential character as a precondition for a fruitful collaboration. In contrast, Indonesia was also designated with the title of "slowest coach"²⁵² for the sluggish result in ASEAN economic cooperation. Southeast Asia's diverse ethnicity and progression are the cause of transpired, distribution of costs and benefits on mutual projects. The unsolved distribution issue was consistently deferring the advancement of ASEAN economic development.

6.1.1 China's influence in ASEAN's CLM nations

In Thousand US\$						
Year	Total	South Korea	China	Taiwan	ASEAN ⁱ	ASEAN+3
2010	2,690,764	1,026,586.4	694,157.8	91,839.1	321,374.6	2,042,118.8
2009	5,859,426.7	120,637.9	892,674.8	27,159.8	667,682.8	1,685,758.9

Note: (i) ASEAN invested in Cambodia is included Malaysia (3rd Investor in 2010), Vietnam (4th investor in 2010), Singapore and Thailand.

Source: ASEAN-Japan Centre

Table 6.3 FDI to Cambodia, 2009-2010

²⁵² Ariff, M. (2008). *Economic Regionalism in ASEAN, East Asia & APEC*: Malaysian Institute of Economic Research, p. 44.

In particular, Cambodia is a young developing country in ASEAN that began to invite FDI in 1994 after passing the law on investment and approved US\$10.89 billion of investment in 2008. The largest share of accumulated FDI was from China with 23.97% and followed by Korea with 10.68%.²⁵³ Based on the data collected the table 1 shows that in 2009, China is the top investor in Cambodia and follows by Singapore with US\$272,485.2 thousand of investment. Even though, the top investor position was overtaken by South Korea in 2010 by over US\$1 billion of investment, China consistently inserts funds to Cambodia has maintained at top three investors position. The trend of investing in Cambodia is likewise follow by Taiwanese investors. They are not leaving behind with the record of invested US\$27 million in 2009 and reached the ranked of 5th investor in 2010. The investment in Cambodia is mainly come from Asia countries. Based on 2010 FDI records, ASEAN+3 accounted three-quarter, 76% of total funds receipt while US reported 1.3% of total investment in Cambodia. However, the amount of US's investment is on increasing trend from US\$1,209.1 thousand in 2009 to US\$35,969.3 thousand in 2010.

In Thousand US\$						
Year	Total	China	South Korea	Australia	ASEAN ⁱ	ASEAN+3
2011	2,320,066.8	693,175.8	112,735.1	76,982.3	559,377.5	1,388,488.5
2010	2,538,879.4	607,386.5	26,514.5	256,803.4	980,437.7	1,621,380.4

Note: (i) ASEAN invested in Laos is included Vietnam (2nd investor in 2011), Thailand (3rd investor in 2011), Singapore, Malaysia and Cambodia.

Source: ASEAN-Japan Centre

Table 6.4 FDI to Laos, 2010-2011

²⁵³ Refer to Council for the Development of Cambodia, <http://www.cambodiainvestment.gov.kh> accessed on December 18, 2012.

Laos's main investors are from China and Vietnam which invested 24% and 33% of total investment of Laos respectively in 2010. Vietnam was the top investor country in 2010 that invested US\$844,789.6 thousand and the 2nd in 2011 with US\$366,750.8 thousand. The investment in Laos has roll up over US\$3 billion and the invested projects mainly in industrial and agricultural sector.²⁵⁴ Besides Vietnam, China also imposed much influence in Laos's economic development. China is the top investor in 2011 and surpasses Vietnam total investment in Laos. After China, South Korea is one of the active investor in Laos and has increased the investment funds approximately five times in 2011. According to the data, ASEAN+3 accounted the largest share of source countries with 64% in 2010 and 60% in 2011 of total investment. Intra-regional investment has indeed an important investment source for CMLV countries as proved by the high level of investment share. Likewise in Cambodia, China was attracted by the primary sector in Laos that could provide natural resources to China internal demand.

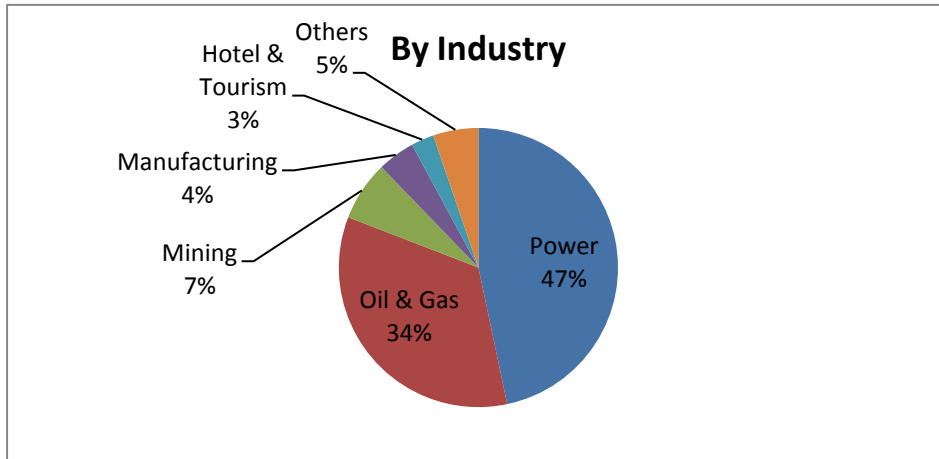
In Million US\$						
Year	Total	China	Hong Kong	South Korea	ASEAN ⁱ	ASEAN+3
Cumulative 1988-2011	40,424.7	13,947.2	6,304.5	2,938.9	12,783.3	29,881.29
2010	16,140.9	5,081.1	5,394.7	2,482.5	3,182.6	10,746.2

Note: (i) ASEAN invested in Myanmar included Thailand (2nd Cumulative Total), Singapore (6th Cumulative Total), Malaysia, Indonesia, Philippines, Vietnam and Brunei.

Source: ASEAN-Japan Centre

Table 6.5 FDI to Myanmar, Cumulative 1988-2011; 2010

²⁵⁴ "Vietnamese enterprises invests over \$3b in Laos", Vietnam Business Times, December 06, 2011.



Source: ASEAN-Japan Centre

Figure 6.2 Cumulative Total FDI to Myanmar by Industry, 1988-2011

Myanmar was under a long military rule before it slowly opens the country for overseas investment recently. Based on the cumulative total investment data, China recorded the highest investment source country from 1988 to 2011. China is maintaining a close alliance with Myanmar has highly related to the political element. Besides, Hong Kong is part of the committed investors in Myanmar and it is the top investor in 2010 with approximately US\$5 billion of FDI funds. The trend of investing at Myanmar is followed suit by South Korea which was ranked the 4th investor in Myanmar with cumulative funds of US\$3 billion. In the case of ASEAN, ASEAN countries invested 32% of cumulative total that is slightly lower than the share of China, 35% of the total. The involvement of ASEAN+3 countries has significantly impacted in this young economy that accounted for 74% of total investment share.

According to the cumulative total FDI by industry data, about half of the funds were directed to power industry but the number of cases is 5 out of 456 in all. The second industry is oil and gas that accounted 34% of investment and involved 104 cases. In addition, in 2010 it was the highest invested industry taken US\$10 billion of

total US\$16 billion investment. The third popular industry is mining follows by manufacturing industry with a relatively small involvement compared to the previous mentioned industries. Similar to the resource rich countries, Myanmar is attracting China to supply more funds in the factor of economy and political relations. Besides attracted by resource rich industry, low-wage countries like Cambodia and Vietnam have received substantial Chinese FDI in labor-intensive manufacturing.²⁵⁵ China holds the highest reserve in the world and aggressively exercise outward FDI around the world has imposed a certain influence over the local economic growth.

6.2 Taiwan Potential Trade Agreement Contract in SEA

The emerging ASEAN countries are extensively appealing to become an attractive business environment for investing destination. In addition to portray them as the best investment region, the new ASEAN members are taking the advantage of their embryonic economy for enormous opportunities. Based on the presented data at the chapter four, the ASEAN total trades to Taiwan and China proved that ASEAN became the favorite trade destination. The trade with both destinations, China and Taiwan are eventually increasing for the recent few years. Besides trade plus point, the individual ASEAN nation's FDI records at the previous section was showing China close intra-regional investment and it implies a significant influence on current each ASEAN member's development. Even though China makes a significant investment in all ASEAN countries, the combination of ASEAN+3 regional

²⁵⁵ Voss, J. K. H. (2010). *The Impact of Chinese Outward Investment: Evidence from Cambodia and Vietnam*: German Development Institute, p. 4.

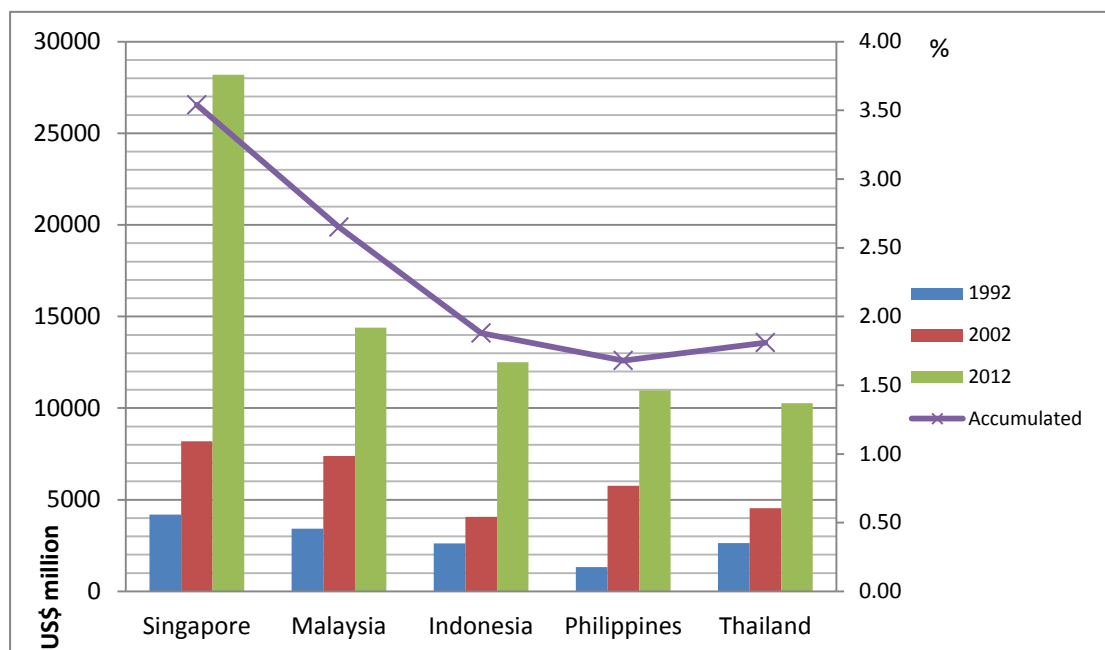
influences is much superior in advancing regional based growth. The inseparable regional economic ties are reflecting at the root of active business activities that was planted before the prosperous of state-led trade agreement in East Asia.

The proliferation of FTA in East Asia is pushing Taiwan's diplomatic difficulties into another challenge. In the previous chapter shows that there is only five concluded FTA in Taiwan's record after participating in WTO for 20 years. The scarcity of concluded FTAs between Taiwan and trade partner has steered Taiwan to practice "flexible diplomacy" for any slight of chances ahead. In fact, Taiwan trade environment in SEA became tough since China overtook Taiwan over trade volume with ASEAN countries. Taiwan's limitation in diplomatic space becomes more and more visible when China's economic power is mushrooming. China was actually extended its both diplomatic and economic pillars at an appropriate instance where the proliferation of state-led cooperation such as FTA.

Taiwan made more headway in the 1990s because of that time China was diplomatically isolated following the 1989 Tiananmen Square massacre, cross-strait tensions were easing and Taiwan was a more important economic power in the region than China... various Taiwanese premiers and President Leng Teng-hui were able to make high-level visits to some ASEAN states.²⁵⁶

When Taiwan was established its economic influence in SEA in the 1980s, the popularity of state-led trade agreement was not prominent to complete a business. The growth of China at the beginning of the early 21 century was catching up with the enthusiasm to conclude trade agreements with trading partners.

²⁵⁶ Tsang, S. (2008). *Taiwan and the International Community*: Peter Lang. p. 197.



Source Bureau of Foreign Trade, ROC

Figure 6.3 Taiwan's Total Trades with ASEAN 5 Countries, 1992; 2002; 2012

The data above shows Taiwan's total trades with individual ASEAN 5 countries with the comparison in 1992, 2002 and 2012. These five countries are Taiwan's top 15 trading partners in 2012. Singapore and Malaysia especially, they are important top 10 trading partners to Taiwan since both accumulated trade from 1992 to 2012 are 3.5% and 2.6% respectively. Besides Singapore and Malaysia, the other three ASEAN 5 countries are growing a trade reliance with Taiwan giving the increasing trade volumes in 30 years. The astonishing twofold trade volume from 2002 to 2012 between Taiwan and Singapore illustrate the deep trade relations in this ten year. It would also explained part of the reason, Singapore was selected as the FTA negotiation partner when Taiwan was framed working its FTA drafts paper in early 2000s. Even until recently, the negotiation is still running and is expecting a positive outcome.

The trade negotiation between Taiwan and Singapore receive an extensive spotlight in concerning Taiwan regional space. Taiwan's stagnant regional space is making the current trade negotiation with Singapore a crucial step. Taiwan and Singapore have been in warm relations ever since Singapore was administered by Lee Kuan Yew. Prior to the deceased of the late Chiang Ching-kuo in the 1988, Singapore and Taiwan relations were maintained at a goodwill gesture. Lee was also reported that he had made frequent trip to Taiwan during his administration but less after he left the office. Both Singapore and Taiwan are actually shared many values and similarities that boost bilateral relations. Under the agreement of "operation starlight" that was signed in 1975, Taiwan pledges to provide training space for Singapore to conduct military training activities. This agreement solves Singapore scarce lands problem and enshrines Taiwan little political clout.

The stagnant trade negotiation between Singapore and Taiwan has made Taiwan's trade agreement at an under-developed state. Singapore recognizes ROC as the only legitimate representative of China and insists on attaching "one China" policy in trade agreement with Taiwan. After a few rounds of failure, the succeeded in concluding ECFA with China is opening some light to ASTEP negotiation. China chooses to give Taiwan some economic remuneration to enlighten cross-strait strained relations during Chen Shui-bien administration. In addition, China's move is also soothing some frustrated emotion of Taiwanese people in response to China's strangulation strategy to seal Taiwan's international space. China began to realize that "whenever Beijing blocked Taipei's diplomatic initiatives, public support for pro-independence

movement rises.”²⁵⁷ This could be used to explain the logic behind China to readjust the strategy towards cross-strait relations.

The progress of ASTEP negotiation was reported to be smooth and it is expecting to come into effect early next year.²⁵⁸ The current trade negotiation between Singapore and Taiwan is consistent with their prolonged characteristic which is low-profile. They both shared pragmatic approach in dealing with sensitive topic to avoid unnecessary provocation. The ASTEP negotiation is following the formula under the WTO rules since both of them are members. Based on WTO membership, Taiwan was registered under the name “Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)”. Therefore the current negotiation should not create controversial issue since it follows WTO’s formula and negotiates as a territory.

In addition the negotiation is pursuing not a fully treaty but an agreement similar to ECFA that was signed between China and Taiwan. The decision to negotiate an economic cooperation agreement instead of FTA was considered to avoid China’s displeased response. Taiwan especially, has been treating ASTEP carefully and seriously since the beginning of negotiation. The ASTEP is a crucial trade agreement to open up Taiwan regional space and it will be used as a model to conclude other trade agreements. The ASTEP could be deconstructed to sound “An important STEP” for Taiwan to breakthrough constraint regional space and more integrated into

²⁵⁷ Tan, N. (2011). *ECFA's Regional Impact and the Taiwan-Singapore FTA Negotiations*. Paper presented at the Living with Giants: A Canada-East Asia Dialogue on Regional and Global Issues, p. 5.

²⁵⁸ Consultations on Taiwan-Singapore Economic Agreement Completed, *Kuomintang News Network*, <http://www.kmt.org.tw> May 20, 2013.

regional community. Taiwan's hope for a successful trade negotiation with Singapore is completely comprehensible.

On the other hand, the feasibility of ASTEP to Taiwan trade condition is part of the discussion. The doubt on ASTEP impact to Taiwan since the current import tariff rate is low. Additionally, the negotiation has been negotiating for about ten years and a certain date for concluding ASTEP is uncertain. However, the ASTEP restart the negotiation soon after ECFA was signed. Therefore, Taiwan has the strong belief that the ECFA is a certain assurance in concluding ASTEP with Singapore. Besides the uncertainty of concluding date, opposition party is arguing about the risk of negotiating trade agreement under the name of "Chinese Taipei". The title "Chinese Taipei" formula has been using by Taiwan to participate in international organization in order to avoid China's wrangle. However, opposition party argued that the continuing of "Chinese Taipei" formula is a potential danger to downgrading Taiwan's sovereignty. Such formula could harm Taiwan's international image and slowly "Taiwan" will disappear from the international standing.

Based on the various arguments, the ASTEP should provide more benefits to Taiwan current condition. Taiwan could not afford to be left behind from FTA trend; further more since it is a trading nation. If the negotiation is successful, Taiwan is recommended to invite Malaysia for a similar trade negotiation since Malaysia is Taiwan's second trading partner in SEA. It will be more fruitful to negotiate trade agreement with Malaysia than turning the next target to ASEAN as a group. Bilateral negotiation seems to be more realistic and potential compromise because it

emphasizes on less sovereignty image. Any negotiable in group implies all members possess same sovereign status and it is unbearable for China.

6.3 Disputed Island Issues

Besides the enthusiasm to push for regional cooperation in trade and investment sectors, East Asian is confronted by the territory disputes that are on high fever now. The declaration by China to claim almost the whole South China Sea area had driven discontented anger among ASEAN claimants. Some members in ASEAN had expressed dissatisfaction over the Chinese way of handling the disputes by insisting on bilateral negotiation approach. The confrontations between China-Vietnam and China-Philippines were broke up a few times in order to firmly secure their insistence on the islets rights. The tension among the claimants has brought the region on height nervousness because the unrest was persisted for few months. During these few years of embryonic growth in Vietnam, it is unavoidable to be connected with China's economic clout but territory dispute has never give in to economic consideration.

The breakdown of ASEAN Ministerial Summit in July 2012 to conclude a common statement regards China's aggressive attitude on claiming dispute areas was an assessment to ASEAN's unity. After an extensive concentration on land invasions, China readdresses the adventure towards sea exposure. China had a long history on land war in seizing neighboring territory but had neglected the extension of sea lane. Precisely, the dispute islands issue has been prolonged for decade of times but not until recent years the dispute became severe confrontation among claimants. China

domain in height economy growth is the main vaccination for its broad exertion of the nine-dash sea lane claims. In addition, China was also succeeded to make use of its economic power to polarize ASEAN's unity by shifting to its own interest. In fact, Mearsheimer argued that command sea power is not as great as land power to win a war because navy serves as auxiliary but army on land has surpassed. The function of command sea power in wartime is by exercising blockade at enemy's entrepots to coerce into surrendering a war. However, there are two reasons to break through a blockade, "great powers have ways of beating blockades and the populations of modern states can absorb more pain without against their governments."²⁵⁹ Despite the command of the sea power brings limitation to win a war, strong navy is inevitable element for turning into influential country.

The failure to conclude Code of Conduct with China has revealed the weakness of regional grouping in East Asia. The ASEAN was easily divided based on their distinctive country interest because it was not formed on common ground basis. Basically, the group was divided into China's ring, Laos, Cambodia and Myanmar, and in dispute group, Vietnam, the Philippines, Malaysia and Brunei. Again Indonesia plays the role as ASEAN's Big Brother to amend the fractured ASEAN after the annual summit breakdown. Consequently, the Indonesia's top diplomat made the initiative to ASEAN countries with the aimed to find a common ASEAN position on the South China Sea issue.²⁶⁰ In such territorial issues, Indonesia acts neutral territory to mediate the disagreements by searching a balancing act of the sea disputes.

²⁵⁹ Mearsheimer, J. J. (2001). *The Tragedy of Great Power Politics*: W.W. Norton & Company, pp. 94-95.

²⁶⁰ Manuel Mogato and Ho Binh Minh, "Indonesia seeks to mend SE Asia rift over South China Sea", *Reuters*, July

The territorial disputes are not limited to the area in South China Sea, the similar territorial issues are also happen between China and Japan over Senkaku islands (Diaoyutais) ownership. Both sides are aggressively prepared themselves to defense their territory claim on Senkaku islands. Based on the news it was reported, the phrase “fighting wars” was repeated as many as 10 times in an article that not more than 1,000 words in China. And military training in Japan was not leaving behind, as much as 20 aircraft, 300 personnel and 33 vehicles was involved in the exercise in response to Chinese ships trespassed Japan’s Senkaku island area.²⁶¹ The territory dispute in East Asia has increased the tension between China and Japan and it has extended to the most important tie, economic sector.

Nevertheless, the Japanese Prime Minister Shinzo Abe with his hawkish image has making his first inaugural visits to ASEAN countries to tighten economy and security allies in Southeast Asia. The visit “sends an important message”²⁶² that Japan wants to continue its economic power as the biggest source of investment funds to the region. A political analyst said that “it is a more compassionate relationship, not simple one of economic rationale”²⁶³, over Japan subsequent activities in Southeast Asia amid Japanese economy downturned. In the middle of China aggressive assertion on almost all South China Sea, Japan emphasized on strengthening both security and defense with ASEAN. Dexterously, Japan is grabbing the prime

18, 2012.

²⁶¹ Choi Chi-yuk, “PLA officials say troops are to prepare for war amid territorial disputes with Japan”, *South China Morning Post*, January 15, 2013.

²⁶² Linda Sieg and Jonathan Thatcher, “Japan’s Abe turns to Southeast Asia to counter China”, *Reuters*, January 16, 2013.

²⁶³ *Ibid.*

opportunity to reinforce two-way relations in condemn their common adversary, the China.

The territory disputes are inevitably involved Taiwan to reassert their legitimacy claim on the islands. Taiwan has endorsed 'East Asia Peace Initiative' by making East Asia a 'peace cooperation' region in solving the tensions on the dispute issues. In response to Vietnam's Law on the Sea that places the Shisha (Paracel) Islands and Nansha (Spratly) Islands under Vietnam's sovereignty and jurisdiction, the Ministry of Foreign Affairs (MOFA) of Taiwan has again reiterated their position to have a peace settlement by holding a dialogue with these claimants.²⁶⁴ Despite, Taiwan consistently appeal for peace resolution regarding the dispute islands issues, Taiwan's constructive statements has never received much attention among the claimants. In spite of less influent on the problem solving, Taiwan persists on using the negotiation table and discussion to support jointly developing the resources in the area, while putting aside differences over sovereignty.²⁶⁵

Unfortunately, Taiwan's proposal will remains unheard by regional members until both China and Taiwan come out with a solution on cross-strait issues. However, Taiwan's persistence on voicing out the rights is vital for raising the profile of Taiwan in East Asia. On one hand, Taiwan passively to maintain its slightly regional space by consistently supporting for peaceful resolution and joint development at disputed areas. On the other hand, it is on Taiwan's favor to urge for fishing rights treaty with Japan at the area near to Senkaku Islands. In fact, Taiwan has been dealing hard with

²⁶⁴ The Republic of China (Taiwan) protests Vietnam law claiming South China Sea Islands, MOFA Republic of China (Taiwan), released on January 07, 2013

²⁶⁵ Mo Yan-chih, "Ma defends development in cross-strait relations", *Taipei Times*, January 16, 2013.

Japan to extend fishing coverage for legal rights of trawler assessment at northern Taiwan. The fishery treaty was delayed for few years but it came into conclusion recently that Japan agreed to allow Taiwanese fishermen to catch the fish near Senkaku Islands. According to the news, “the jointly managed waters will be defined by the geographic latitude-longitude system, with Taiwan's fishery area expanded”²⁶⁶, in replacing the Law of Sea Treaty 12 nautical miles.

In Taiwan, President Ma has treated this agreement as an importance political impact and a successful joint operation step forward. He expressed his appreciation to this “special relationship” with Japan but Japan’s representative reiterated the agreement solely on fishery issues²⁶⁷ to avoid any misinterpretation for political purpose. However, it is difficult to control the interpretation from the other side or by outsiders and Taiwan is searching numerous ways to enhance its international standing for example catching Scotland diplomatic relation prior to become an independent nation-state. In fact, the fishery agreement is an importance breakthrough to Taiwan disputed islands issues and significant to political purpose but also irking China for such agreement between Japan and Taiwan. China will definitely be irritated but it is on Japan’s benefits to solve part of Senkaku Islands’s problem prudently with Taiwan. In response to fishing-rights accord, Taiwanese authorities voiced that “they would kick out mainland trawlers caught in areas covered under the

²⁶⁶ Minnie Chan, “Tokyo, Taipei agree on fishing rights near Diaoyu Islands, irking Beijing”, *South China Morning Post*, April 11, 2013.

²⁶⁷ Mo Yan-chih, “Ma hails Taiwan-Japan relations after pact”, *Taipei Times*, April 12, 2013.

accord”²⁶⁸, this exaggerated or provocative response should be avoided for expanding into unnecessary arguments.

After a few times of confrontation with China especially maritime related incidences, Japan was in cautious to safeguard its territory from Chinese. Japan was well aware of the possibility of ‘double Chinese’ joining together to against it which could jeopardize Japanese position in territorial defense. In fact, in 2012 Japan Coast Guard experienced “water war” with Taiwanese patrols ships at Senkaku area due to Taiwanese fishing boats did illegal sailing. On the other hand, China is charging Japan for undermining the acknowledgement of ‘one China’ policy by extending the Senkaku islands disputes to fishing-rights accord with Taiwan. According to Taiwan former President Lee Teng-hui comments, he thinks that fishing-rights accord is a way Japanese to return kindness of Taiwanese who donated significant amount to Japan’s 311 earthquake.²⁶⁹ Indisputably, this could be small part of the reason but should not be the main consideration for Japan to derive the solution to segregate disputes islands issues.

The practical operation of ASEAN+3 in regional disputes does not show much functions to conspicuous issues among the Southeast Asia and Northeast Asia nations. Precisely, ASEAN+3 was not fundamentally built for regional security cooperation but it has extended the framework coverage towards making a peaceful region. The eruption of the competition has induced high vigilance and increase addition defense facilities for indeterminate brink of war. The apprehensive struggle was explained by

²⁶⁸ Minnie Chan, “Taiwan would ‘expel’ mainland trawlers under Japan fishing deal”, *South China Morning Post*, April 10, 2013.

²⁶⁹ Chris Wang, “Leng Teng-hui says nuclear power plants still needed”, *Taipei Times*, April 12, 2013.

M. Taylor Fravel that “the fundamental tragedy of territorial disputes is that each country believes its actions are purely defensive and just protecting their claims and that the actions of opponents are offensive”.²⁷⁰ Precisely, all the claimants hold the prejudiced belief which does not give any help to the complicated situation. As mentioned, ASEAN is not a strong but a delicate group that was successfully tested by China. China is generously giving funds support to ASEAN ally such as Cambodia in the form of \$500 millions soft loans and \$48millions grants, once again extending China’s will in Southeast Asia.

By moving forward to the ASEAN+3 stage, ASEAN lacks of unity to negotiate with China and the remaining two members, Japan and South Korea, are expecting to be mediators with nonaligned position. However, Japan is also on territorial issues with China that was overflowed to economic sector and terrifying riots in China. Besides the Senkaku islands disputes, Japan is facing the same disputes with South Korea concerning the Takeshima islands (Dokdo) located at Sea of Japan. In fact, both cases are prolonged issues that remain after WWII in the unsettled or problematical of transferring sovereignty circumstances. In addition, China has been insisting on solving the disputes with ASEAN claimants bilaterally would unquestionable rejects Japan and South Korea’s involvement. Overall all ASEAN+3 members are facing territorial disputes among themselves and these issues are treated bilaterally, not ready to be solved on ASEAN+3 summit tables.

²⁷⁰ Paul Eckert, “Disputes over small islands pose big conundrum for U.S”, *Reuters*, December 16, 2012.

The state of growing security uncertainty has created the chaos of regional security assistance from the US. In particular, some ASEAN members were taken the pleasure in the US asserting military commitment in Asia-Pacific amid the lengthy duty in Iraq and Afghanistan. However, the US acts prudently by not provoking its economic alliances, China, and reassures the US's determination to work with China. In addition, some articles tried to justify the US's military commitment in Asia as kind of minor adjustments because the US is under a severe budget constraint at home. The US prolonged commitment in Iraq and Afghanistan has excessively exhausted the military budget and its huge trade deficits with China have made the largest economy in ailing. During the unfavorable conditions, the US's force in Asia is maintained but it is no good denying that US military power in Asia has already reached its high-water mark.²⁷¹

Upon the astonishing economy growth, China has been holding the ambitious to conquer the sea power at the East hemisphere following the footsteps of the US to dominant maritime. The US's Asia-Pacific alliances are relatively vital for far western America to monitor Asia's on land or sea lane occurrences. Precisely, China intends to deteriorate the US's influence in East Asia especially in maritime issues by destroying all the alliances' connection with the US.

Alfred Thayer Mahan offers the intellectual arguments that address what the US stands to lose economically and militarily—and all that China will gain—if there is a profound shift of power in the Western Pacific.²⁷²

²⁷¹ Trefor Moss, "Military the weakest link in US 'pivot' to Asia", *South China Morning Post*, December 17, 2012.

²⁷² Milikh, S. C. a. A. (2012). Mahan's Naval Strategy: China Learned It. Will America Forget It? *World Affairs* (March/April).

In fact, the US military enforcement and ASEAN security enhancement activities were warned by China, “If ASEAN takes sides, it would lose its relevance”.²⁷³ The China reinforces naval forces in order to secure its interests on sea and seeking to break through the extensive sea wall at East China Sea. However, nothing is more provoking China to exercise the equipped naval forces and bunch up military facilities, Taiwan declares independence. Cross-strait issues categories as the most sensitive affair in contemporary China’s regime. The serene cross-strait relations was built during President Ma first term administration that was bringing closer economy, social-cultural and made Taiwan furthest dependence on China’s market. The shortfall of Taiwan diplomacy with China comes to light with the doubts that the US earnest on standby Taiwan with advance equipments support.

However, Kaplan explained that the US will not simply abandon Taiwan in considering US bilateral relationship with other alliances in Asia-Pacific. In fact by violating the alliance’s trust, this would buoyant advance relation to China and encouraged the US’s undesirable Greater China outcome.

The concept of strengthening the U.S. air and sea presence on Oceania reflects a compromise between resisting Greater China at all costs and acceding somewhat to a future Chinese navy role in policing the First Island Chain, while at the same time making China pay a steep price for military aggression on Taiwan.²⁷⁴

Indeed, all the military upgrading and security alliance by the Philippines, Vietnam, Singapore as well as Japan, South Korea and Taiwan are aiming for a

²⁷³ This was commented by China’s Vice Foreign Minister Fu Ying during an interview with Thailand’s Nation newspaper, Martin Petty, “Booming Southeast Asia in a quandary over US-China rivalry”, *Reuters*, July 08, 2012.

²⁷⁴ Kaplan, R. D. (2012). *The Revenge of Geography*: Random House, p. 225.

balancing point of regional influences. China exertive behavior on disputed islands such as reiterates its rules at disputed water and using the nine-dash line map as new PRC passports have stirred discontented arguments among claimants. On top of that, China has recently allowed holding tourism at the destination of Paracel Islands that is under China control from 1974 but a disputed island now.²⁷⁵ China's aggressiveness on asserting China's ownership of the disputes area is irking neighboring claimants, especially Vietnam and Philippines. Undoubtedly, China has actually binding the time for conquering the disputes area was actually threatening neighboring countries. Shee raised a pragmatic suspicion regards China that:

Is China only paying lip service to the adherence to the principle of international law while at the same time consolidating its control, waiting until such time its navy will be strong enough to "liberate" all the islands/reefs in the Spratly?²⁷⁶

Singapore Prime Minister Lee Hsien Loong urged member of Asia to be aware of any miscalculations that could set back regional growth.²⁷⁷ In principle, all the claimants are doing all means to defense their protective belonging from swallow by other nations. Hence, every nation is adjusting their policy to meet the balancing point by avoiding the direct confrontation or unnecessary war. Indubitably, China wants to avoid war with any parties of the world too because it would not bring benefits to China's long built economic growth and status. Likewise, Taiwan is upgrading military force in every budget years for national defense reason without actual intention to break into war with China. With no exception, China consistently

²⁷⁵ Benjamin Kang Lim, "China to let tourists visit disputed South China Sea islets", *Reuters*, April 07, 2013.

²⁷⁶ Shee, P. K. (2004). *The Political Economy of Mahathir's China Policy: Economic Cooperation, Political and Strategic Ambivalence. Ritsumeikan Annual Review of International Studies*, 3, p. 70.

²⁷⁷ "Singaporean PM warns against 'miscalculations' in Asia", *South China Morning Post*, April 04, 2013.

advances its military and naval forces for altering others activities while avoiding confrontation. Consequently, the hazardous behavior of regional menace was urging by UN Secretary General Ban Ki-moon that “The current level of tension (North Korea crisis) is very dangerous, a small incident caused by miscalculation or misjudgment may create an uncontrollable situation”.²⁷⁸

For instance, China is facing predicament on North Korea issue especially its Korean ally declared war against the US and making Korean Peninsula on high cautious. It is an important decision for China to reconsider China-North Korea relations amid war provocation by Pyongyang recently. China’s President Xi Jinping warned unilateral action by regional member that cause regional disorder for personal interests should be avoided at Boao Forum in Hainan province. On top of that, China has recently emphasized its rhetoric on North Korea dangerous behavior as well as retraced on backing North Korea customary. The North Korea lasting ally, China has been irritated by its non-stop trouble making behavior which drives China into stressed quandary. Especially, North Korea initiated the current Korean Peninsula crisis has given China numerous pressure from the US and neighboring countries to respond harshly regards its ally risky behavior. Even though, China possesses the image of military aggression to neighboring countries on Disputes Island issues, avoiding the regional disturbances is ultimate priority in China defense policy.

Despite China was annoyed by the US’s substantial attention on East Asia region, China has to accept that US plays an important role and has the capability to maintain

²⁷⁸ “South Korea raises alert level as North readies missile test”, *South China Morning Post*, April 10, 2013.

regional stabilization. The US's existence with the increasing arm sales to East Asian alliances was annoyed by China but China alerts it has no fully control on Korean Peninsula issues. As a matter of fact that "China is aware its influence on North Korea is diminishing because Pyongyang believes it does not have to heed Beijing's concern".²⁷⁹ Besides the possibility of losing its buffer zone at north region, the worst scenario that China would like to shun is the unstable border between China and North Korea from flooding by uncontrolled refugees and affecting its social stability. In fact the cost of war is too high to swallow and the cost of neighboring instability is too high to digest.

Amid the regional complexities in stability issues, the role of superpower appears to be requisite in resolving exacting and tricky conflicts. However, by narrowing the affairs from Korean Peninsula crisis to disputes islands issues, China is opposing the involvement of third party in disputes islands negotiated meeting. Unquestionably, both affairs should be treated separately because the natures of the problems are different. Nevertheless, the heated discussions are part of regional issues that is working up by regional elites to solve the differences to avoid eruption of war. Consistently, the current trend of geopolitical environment is discouraging the practice of hegemony power to the direction of alliance system. The diminishing US power is encouraging military cooperation with alliance partners to prop US's military budget constraints. Besides, the US reports in 2007 regards the strategy on sea power in 21st century "emphasizes on cooperation", encourages consolidate of sea power, "in

²⁷⁹ Teddy Ng, "China caught in a dilemma over crisis with North Korea", *South China Morning Post*, April 10, 2013.

concert with its local allies from Africa to Northeast Asia, in order to keep the seas safe for commerce.”²⁸⁰

In regional security issues, the role of regional group, ASEAN+3 does not demonstrate much practical function to cooling down the tense situations. The ASEAN+3 does not work directly on security issues which seem to be much needed at the moment to mediate disputations. However, the limited capacity in ASEAN+3 has constrained on the early stage of regionalism theory that is financial and trade cooperation. In fact, the limited function of ASEAN+3 reflects the vulnerability of regional grouping and reveals that the final dominance is on the strongest military holder. Putting another way, the value of common compromise was not constructed from the starting point of regional framework building by the ASEAN+3 members. Eventually, the sense of cooperation beyond financial and trade sectors is not expecting in short period of time. Therefore, the tension arises from territorial disputes together with China’s guarded defense in East Asia, has generated a rigid circumstance that is not foreseeing to be disentangled by regional framework shortly.

²⁸⁰ Kaplan, R. D. (2012). *The Revenge of Geography*: Random House, pp. 111-112.

Chapter VII Conclusion

Unlike regional crisis management facilities and governance projects, which in their current forms are complementary to continued globalization defined largely in American terms, currency cooperation runs against the more immediate market and political incentives faced by most countries in Asia.²⁸¹ Asia as a whole is a dynamic region. The process of moving towards monetary cooperation is appearing in every Asean+3 ministries meeting each year. However, ASEAN members are divided according to respective economic development needs in which national interest is a barrier. In fact the East Asian governments are integrated pragmatically to reach their own goals. They are not in the regional activity to seek for a close integration but tactical integration to intimate into the globalize environment, “i.e. they have integrated up to the point where it has been useful for them to do so.”²⁸² The upgrading of CMIM and the launched of surveillance system are presenting the negotiation achievement since 1997 financial crisis. Deeply, how ASEAN will pursue in the future by using a commentator’s statement that could reflects SEA current environment:

The life of Mrs Thatcher also makes me realize one other thing. One can have allies and colleagues but when it comes to the pressure caused by change and revolution, people’s interests will diverge.²⁸³

²⁸¹ Shiraishi, P. J. K. a. T. (2006). Creating a Regional Arena in *Beyond Japan: The Dynamics of East Asian Regionalism*. Cornell University Press, p. 126.

²⁸² Bruce, S. A. a. A. W. (1999). *The Asian Model: A Crisis Foretold?*, p. 206.

²⁸³ Li Hong, “A great leader’s way”, *South China Morning Post*, April 25, 2013.

The divergence is ultimately the underlying weakness in East Asian regional records. The question, then, is whether the Asian countries are willing to move to a tighter form of policy coordination. Even ignoring the deep issue of national sovereignty, the case made has to be desirable and possible.²⁸⁴ Therefore the limitation of ASEAN in regionalism engagement is foreseeable weak and tight.

Taiwan's discomfited status in the international arena could be different in private sector and formal standing. Apparently, the interaction between Taiwan and ASEAN in microeconomic is regard as smooth without barriers. They are freely to trade with each other without engaging with formal agreement that could challenge China's tolerant level. Taiwan had a close trade record with ASEAN before China surpassed Taiwan as ASEAN's top trading partner in 1998. Unfortunately, the goodwill with ASEAN would not help to resolve Taiwan regional space issue in East Asia because ASEAN member like Malaysia has a little legitimacy to interfere the complex cross strait issue.²⁸⁵ The complex diplomatic status stimulates the stumbling block for concluding FTAs and participating in international organizations. Despite the political difficulties, signing FTAs with trade partners is essential to safeguard Taiwan trade opportunity and de facto state status.

In spite of Taiwan imposed restriction on the investment towards China in 1996, it faced the dilemma of reversed its policy to liberalize the restriction of cross-strait investments in 2002. The Taiwanese economy could not resist the economic

²⁸⁴ Wyplosz, C. (2010). *An Asian Monetary Unit?* : The Graduate Institute, Geneva, p. 3.

²⁸⁵ Leong, S. (2006). *Malaysia-Taiwan Relations: Political Imperatives Prevailing*. Paper presented at the China-Southeast Asia Relations and the Taiwan Issue.

environment changed despite aware of national security threat from China. The progressive of Taiwan released the investment cap to China and the concluded ECFA with China are signaling the pragmatic of economy comes first, before politic issues. Moreover, the flow of diplomatic issues have to give in to economic benefits is reflecting the realistic side of political economy. On the other hand, Taiwan's relation with ASEAN is predicted to further breakthrough and under China's surveillance. Leszek argued that a discrepancy was formed in between Taiwan and ASEAN economic diplomacy which was the "economic value and its formal relationship".²⁸⁶

Nevertheless, ASEAN will continuing to welcome both economic alliances with China and Taiwan but China is a big client that ASEAN could not afford to lose. On one hand, ASEAN will remind the needs to comfort China with the "respect" that China needs in regional standing. On the other hand, ASEAN will not resist Taiwan's goodwill to promote economic growth by putting aside sensitive political constraints. Obviously, everyone is graving profit from economic remuneration in contemporary "money occupation" society. The other thing that ASEAN members want to avoid is aggressiveness that induces threat to their national interests. By safeguarding their economic interests, cross-strait issue would not be of concerned as long as it is under peaceful circumstances.

Although, the growing economy of China is serving to ASEAN's interests, none of the members have actually believed China will arise in disciplined way. Even though, most of ASEAN countries hold diplomatic relation with China and

²⁸⁶ Leszek, B. (2001). Taiwan's Economic Diplomacy towards ASEAN. *Politics & International Relations Series, PIRS-2001-01*.

acknowledge Taiwan is part of China, they are still having vague economic diplomacy with Taiwan. Especially, a few cases that was mentioned above, the visit of Lee in 2004 and a trip made by Malaysian Minister of Transport in 1998 to Taiwan. Although, Malaysia began the diplomatic relation with China in 1974, Malaysia restricts the ministers to make official visit to Taiwan in 2004. Practically, not until China becomes influential economic power, SEA members do not act seriously on cross-strait relations.

However, Taiwan is not completely isolated from the international community as there are some records of successful cases here. Taiwan should utilize its previous succeeded experiences to expand its space in East Asia. Likewise in the case of TPP, many foreseeable obstacles ahead but it is important for Taiwan to open its market for more trade opportunities and to alleviate the isolation problems. Despite the US role was not examined in this dissertation, the positive attitude from Unites States regards Taiwan international space is essential to encourage Taiwan's activity in international organizations. On the contrary, the root of the issue lies on the cross strait relations which China reasserts this as "domestic issue". Again, it was proved in Taiwan's membership in International Civil Aviation Organization (ICAO) which receives support from Chinese President Hu Jintao to gain the entry bid for Taiwan.²⁸⁷

No doubt China remains as the "key" for Taiwan international space but Taiwan should be aware that "putting all the eggs in a basket" is not a practical way for investment. The policy of engaging with China is necessary to preserve two-ways

²⁸⁷ "Taiwan on the Course to Regain Global Aviation Body Membership: President", *The China Post*, September 10, 2012.

trade relations and maintain peace atmosphere. By following the approach in WHA, Taiwan could propose to participate in group meeting for example research groups and financial related meeting under ASEAN+3 Framework using the title of “Chinese Taipei” which does not depict the sovereignty of Taiwan. Even though China emphasis that Taiwan’s participation in international organizations has to be taken case-by-case basis²⁸⁸, it could be done at a certain tolerant level based on recent cross-strait relations advancement.

Precisely, the attempt to assert “Chinese Taipei” as Taiwan’s international recognized official name comes with both advantages and disadvantages result. The advantage is the recognition of “Chinese Taipei” would be wider international space for Taiwan’s trade agreements and regional participation. The decades long of obstacles on sovereignty issue could be more relaxed and reduced for regional benefits. On the other hand, the disadvantages are on the cost of Taiwanese where the vanished of identity Taiwan replaces by “Chinese Taipei”. Ironically, this would be the preferable outcome that was planned by the China in pursuit of diminishing Taiwan to the road of unification. China well planned tactic has been describing as the seemingly harmless practice of calling Taiwan “Chinese Taipei” is slowly creeping in and transforming the Taiwanese public’s national identity.²⁸⁹ In aware of the petrifying and undesirable outcome, an appropriate social education is extremely essential to differentiate official name (Chinese Taipei) and genuine identity (Taiwan). Thus, the common suggestion would be increasing related topic on such issue by

²⁸⁸ Winkler, S. (2011). Biding Time: The Challenge of Taiwan's International Status. *Taiwan-U.S. Quarterly Analysis* 7.

²⁸⁹ “Editorial: ‘Chinese Taipei’ belittles Taiwan”, *Taipei Times*, March 07, 2013.

writing articles and allow scholars to comments and evaluations.

The verity of China's direct influence on Taiwan international space issue is a matter of truth. The remarkable of growing China domestic economy and extending external economic power has nevertheless threaten Taiwan efforts to break through the marginalization issue. These inevitable realities of changing political environment have reveals the source of Taiwan international space is non-longer in the hand of state governance. Contrarily, the decision to bring in democratic system to Taiwan has educated Taiwanese the value of human right as a Taiwan citizen. Borrowing Byron Weng's doubt that "how can the Taiwanese, who have fought for and succeeded in building a democracy, find this Hong Kong model of an SAR political system enticing".²⁹⁰ Even though China has a high autonomy in selling point, Hong Kong current social or political obstacles retract any potential of accepting "one country, two systems" model.

In addition, the smooth transition power from KMT to DPP in 2000 had once again proved by Taiwanese the legitimacy of democratization. While coercion is non-longer a bargaining chip to complete China's "Great China" dream, a relatively civilized method to solve cross-strait issue is encouraging. Borrowing the statement made by Ray Burghardt from American Institute in Taiwan;

If you want to stop cross-strait progress, the fastest way to bring it to a halt would be to remove Taiwan's sense of security and sense of deterrent capability. Beijing is never going to accept that logic, but we believe it deeply, as does Taiwan.²⁹¹

During the DPP in power, the value of 'self-determination' has implicitly

²⁹⁰ Weng, B. S. J. (2002). "One Country, Two Systems" from a Taiwan Perspective. *Orbis*, Fall.

²⁹¹ William Lowther, "US has 'never interfered in Taiwan-China talks'", *Taipei Times*, April 25, 2013.

implanted into Taiwanese society that they have the right to decide the destiny of Taiwan. This phenomenon of changing the core of Taiwan sovereignty issue to the hand of Taiwanese people is attentive under the both contemporary Taiwan and China governance parties. Precisely, China's cross-strait policy contents of the yearning for winning Taiwanese people's hearts. In Wang's article, he has mentioned a few times that China's treatment on recent Taiwan international space was considered to win Taiwanese people's hearts and minds by reducing their frustration over Taiwan international isolation issue.²⁹² The need of captivating Taiwanese people hearts is part of Chinese government policy making consideration. During an interview with South Morning Post, Myanmar pro-democracy leader, Aung San Suu Kyi gave an answer on the view on China political reforms by supporting the view that, people "will decide in which direction they want the country to go."²⁹³

Taiwan international space lies on Taiwanese people's hands. However, they are many scholars addressing the important role of Taiwan trade partners to appeal for its leeway. This would lead Taiwan to become more dependent on external power to gain the recognition by the international society. The newly elected South Korean president in Dec 2012 was viewed by Taiwanese former representative to South Korea as "Taiwan hand", which gives Taiwan a chance to advance bilateral relations as well as more leeway to deploy its global economic engagement strategies.²⁹⁴ Optimistically, it is possible to give Taiwan a better chance to propose a bilateral trade contract in

²⁹² T.Y.Wang, W.-c. L. a. C.-H. Y. (2011). Taiwan's Expansion of International Space: opportunities and challenges. *Journal of Contemporary China*, 2011(20), 249-267.

²⁹³ George Chen, "US, China have roles to play in Myanmar, says Suu Kyi", *South China Morning Post*, January 29, 2013.

²⁹⁴ Shih Hsiu-Chuan, "Next S Korean president a 'Taiwan hand': pundit", *Taipei Times*, December 21, 2012.

correspond to its personal connection with the Korean president. However, it is also mentioned in the same article that South Korea holds high trade surplus against China that could not ascertain the reality of “Taiwan hand”.

China’s policy on cross-strait relations with aiming future reunification has to rule out the use of force on Taiwan issue. The use of force would backfires China’s peaceful rise policy or regional peace-making China. A social disorder created would be much serious than the migration of Hong Kong citizen to overseas in order to seek insurance policy. The occurrence of Tiananmen Square in 1989 was a consequence of outflow human capital that was a crucial force of the city as financial center in Asia.

The most vital issue is not capital but people. People, especially the most skilled workers, are leaving Hong Kong in large numbers.. The rate rose to around 60,000 in 1990-92, reflecting the Tiananmen Square crisis. To pessimists, the brain drain means doom.²⁹⁵

In fact, country with high political risk would affect the investor confidence as well as increase the overall regional risk. The uncertainty of China’s stability has raised the apprehension of overseas investors to relocation the production plants. The case of anti-Japanese arose again in September 2012 after Japan nationalized three islets at dispute area, has affected the sales performance of station companies and the overall economic conditions of both China and Japan. Based on reported news, Toyota Motor suffered for about fifty percent of sales lost²⁹⁶ and the textile industry attempted to search for new location in Southeast Asia to divest the risk.

²⁹⁵ Overholt, W. H. (1993). *The Rise of China - How Economic Reform is Creating a New Superpower*: W.W. Norton & Company, p. 212.

²⁹⁶ Norihiko Shirouzu, “Toyota China sales tumble again in Nov, though pace eases: executive”, *Reuters*, December 02, 2012.

Precisely, there is an increased in tension of security level in East Asia because of the mounting assertion of dispute islands ownership among the claimants. The unrest situation has been rising, to mention a few, by the Philippines's decision to bring the case to UN, China's certainty to conduct naval drill at sensitive dispute areas, Vietnam's firmness to assert its sovereignty and cooperating with India to explore natural oil and gas at the disputes areas.²⁹⁷ The fear of China uncontrolled growth has never ruled out from the thoughts of regional community thought. In order to rise peacefully without alarming the neighbors, China has to be conscious of the practicing theory of "balance of threat" which was much effective than "balance of power". The "balance of threat" has actually:

For instance, Washington has had relatively conciliatory relations with Canada and Mexico despite obvious U.S. predominance and why the stronger United States had more allies during the Cold War than a weaker Soviet Union, when balance-of-power theory would suggest the inverse.²⁹⁸

As mentioned in previous section, the newly inaugural Japanese Prime Minister Shinzo Abe has sent his Finance Minister Taro Aso to visit Myanmar and Foreign Minister Fumio Kishida to the Philippines soon after the cabinet was formed. The visit follows by his personal inaugural foreign trip to three Southeast Asia countries to assert Japan regional position. Even though, Japan has reiterated China is an important trade partner, Japan's trip to Southeast Asia has inevitably contained suspicious intension to China.

Although an aggressive China may perhaps bring China's longing power, it could

²⁹⁷ Ben Blanchard, "China to conduct naval drills in Pacific amid tension", *Reuters*, January 30, 2013 and Frank Jack Daniel, "Amid China tensions, Southeast Asia looks to India", *Reuters*, December 18, 2012.

²⁹⁸ Lampton, D. M. (2008). *The Three Faces of Chinese Power*, p. 76.

also results sympathy on the weak side. Since East Asian members have the shortcoming to segregate politics and economy issues, it always result an inefficient practice in problem solving. By considering the current unpleasant regional relationship especially on disputed island issues, Taiwan should not panic on its economic marginalization concern. In fact, Taiwan should continuing practicing “flexible diplomacy” as there is a slight chance of breaking through the regional space. To Taiwan the bilateral trade discussion seems to be more realistic to its current strained regional space compared to multilateral regional forum. Alternatively, the high frequency on disputed islands event was testing the ASEAN+3, that it is not ready to facilitate the peace-maker job. Even though, the disputed islands issue has directly involved half of ASEAN+3 members, China has nevertheless is still insisting on bilateral solution and breaking away from multilateral negotiation.

Appendices



Source: The U.S. Central Intelligence Agency from the University of Texas Libraries
<http://www.lib.utexas.edu/maps/asia.html> accessed on May 15, 2013.

A-1 East Asia Map

DEVELOPING MEMBER ECONOMY	NATIONAL ACCOUNTS						
	Per Capita Gross National Income (GNI), Atlas Method (US\$)	Annual Real Growth Rates (%)					Gross Domestic Investment (% of GDP)
		Gross Domestic Product (GDP)		Value Added			
				2011			
	2010	2010	2011	Agriculture	Industry	Services	2011
Afghanistan	410	8.4	5.7	-15.8	6.6	15.0	25.1 ^s
Armenia	3,200	2.1	4.5	12.6	0.3	5.8	31.1
Azerbaijan	5,330	5.0	0.1	5.8	-4.3	6.5	17.1 ^s
Bangladesh	700	6.1	6.7	5.0	8.2	6.6	24.7
Bhutan	1,870	9.3	8.3	0.6	8.4	9.4	49.0 ^s
Brunei Darussalam *	31,800 ^a	2.6	2.9	-5.8 ^s	1.7 ^s	3.8 ^s	15.9 ^s
Cambodia	750	6.0	6.8	3.3	13.9	5.0	17.2 ^s
China, People's Republic of	4,270	10.4	9.2	4.5	10.6	8.9	47.8
Cook Islands	...	0.2	3.4	14.4 ^s	-2.7 ^s	-0.4 ^s	...
Fiji	3,630	-0.2	2.1	8.3	0.3	1.5	43.7 ^a
Georgia	2,690	6.3	7.0	5.5	9.7	5.6	21.9 ^s
Hong Kong, China	32,780	7.0	5.0	3.9 ^s	7.6 ^s	7.0 ^s	22.9
India	1,270	8.4	6.9	2.5	3.9	9.4	35.4
Indonesia	2,500	6.2	6.5	3.0	5.3	8.5	32.8
Kazakhstan	7,580	7.0	7.5	26.7	3.3	7.7	25.4 ^s
Kiribati	2,000	1.8	3.0	1.4 ^a	-1.6 ^a	-2.2 ^a	...
Korea, Republic of	19,890	6.2	3.6	-1.0	4.2	2.7	29.5
Kyrgyz Republic	830	-0.5	5.7	2.3	8.8	5.2	27.4 ^s
Lao People's Democratic Republic	1,040	7.5	7.8	1.0	15.6	7.9	...
Malaysia	7,760	7.2	5.1	5.6	2.5	6.8	22.2
Maldives	5,750	5.7	7.5	-1.1	5.9	8.0	26.0 ^a
Marshall Islands	3,640	5.2	5.0	24.8 ^s	-6.0 ^s	3.2 ^s	57.0 ^s
Micronesia, Federated States of	2,740	3.1	1.4	1.0 ^s	16.3 ^s	2.5 ^s	33.3 ^a
Mongolia	1,870	6.4	17.3	0.3	10.1	17.1	58.5
Myanmar	...	5.3	5.5	...	...	...	12.2 ^a
Nauru	...	0.0	4.0	...	...	...	...
Nepal	490	4.0	3.5	4.1	1.4	3.6	30.2
Pakistan	1,050	3.8	2.4	1.2	-0.1	-4.1	13.4
Palau	6,560	0.3	5.8	6.0 ^a	-11.6 ^a	-1.8 ^a	31.2 ^s
Papua New Guinea	1,300	7.4	8.9	4.5	11.1	10.4	...
Philippines	2,060	7.6	3.7	2.6	1.9	5.0	21.8
Samoa	2,980	0.2	2.1	-2.7	2.9	2.4	...
Singapore	40,070	14.8	4.9	3.0	6.8	4.3	22.4
Solomon Islands	1,030	7.1	9.3	-1.3 ^a	1.3 ^a	-1.3 ^a	14.8 ^a
Sri Lanka	2,240	8.0	8.3	2.5	9.6	8.8	29.5
Taipei, China	19,260	10.7	4.0	1.9	4.4	3.1	21.2
Tajikistan	800	6.5	7.4	7.9	5.9	13.5	24.8 ^a
Thailand	4,150	7.8	0.1	3.8	-3.9	3.8	26.6
Timor-Leste	2,220	9.5	10.0	0.4 ^s	21.6 ^s	11.6 ^s	26.2 ^s
Tonga	3,290	0.3	-0.3	0.3	4.4	0.8	29.4 ^s
Turkmenistan	3,790	9.2	9.9	...	...	...	60.0
Tuvalu	4,760	-0.5	1.0	0.4 ^s	-8.2 ^s	3.9 ^s	...
Uzbekistan	1,280	8.5	8.3	6.6	6.7	12.7	23.5
Vanuatu	2,640	2.2	4.3	1.7 ^a	9.2 ^a	6.8 ^a	25.8 ^s
Viet Nam	1,160	6.8	5.9	4.0	5.5	7.0	32.6

Source: Basic Statistic 2012, Asian Development Bank

A-2 Per Capital Gross National Income and Gross Domestic Product

3-6. Per Capita National Income
(At Market Prices)

Period	At Current Prices				At 2006 Prices After Adjustment of Terms of Trade	
	US\$		NT\$		Amount (NT\$)	Real Growth Rate (%)
	Amount	Nominal Growth Rate (%)	Amount	Nominal Growth Rate (%)		
1952	207	34.4	2,127	34.5	28,780	8.2
1955	210	14.1	3,268	14.2	33,245	4.3
1960	155	16.5	5,653	16.7	38,435	2.9
1965	216	6.9	8,645	7.0	51,774	5.1
1970	369	11.1	14,767	11.1	71,844	7.2
1975	882	4.0	33,497	4.0	94,985	2.7
1980	2,150	22.0	77,386	22.0	139,769	3.0
1984	2,947	12.7	116,768	11.4	171,180	9.2
1985	3,045	3.3	121,375	3.9	176,372	3.0
1986	3,765	23.6	142,498	17.4	201,849	14.4
1987	4,947	31.4	157,673	10.6	224,632	11.3
1988	5,948	20.2	170,183	7.9	240,192	6.9
1989	7,134	19.9	188,419	10.7	258,452	7.6
1990	7,628	6.9	205,105	8.9	270,480	4.7
1991	8,473	11.1	227,244	10.8	289,950	7.2
1992	9,843	16.2	247,655	9.0	305,124	5.2
1993	10,244	4.1	270,335	9.2	320,947	5.2
1994	11,068	8.0	292,861	8.3	337,967	5.3
1995	11,882	7.4	314,748	7.5	352,337	4.3
1996	12,330	3.8	338,582	7.6	371,273	5.4
1997	12,652	2.6	363,109	7.2	391,973	5.6
1998	11,419	-9.7	382,087	5.2	406,701	3.8
1999	12,279	7.5	396,244	3.7	418,837	3.0
2000	13,299	8.3	415,336	4.8	434,906	3.8
2001	11,821	-11.1	399,665	-3.8	413,565	-4.9
2002	12,077	2.2	417,639	4.5	432,214	4.5
2003	12,549	3.9	431,947	3.4	445,044	3.0
2004	13,602	8.4	454,718	5.3	461,118	3.6
2005	14,412	6.0	463,778	2.0	467,219	1.3
2006	14,724	2.2	478,968	3.3	478,968	2.5
2007	15,192	3.2	498,912	4.2	492,557	2.8
2008	15,194	0.0	479,214	-3.9	462,242	-6.2
2009	14,271	-6.1	471,797	-1.5	471,405	2.0
2010	16,413	15.0	519,067	10.0	512,663	8.8

Source: See Table 3-1.

Source: Taiwan Statistical Data Book 2011

A-3 Taiwan Per Capital Income

School Year	% of School-aged Children Enrolled in Elementary Schools	% of Elementary School Graduates Enrolled in Junior High Schools	% of Junior High School Graduates Enrolled in Senior High Schools	% of Senior High School Graduates Enrolled in Schools of Higher Education
1952-53	84.00	34.85	56.96	26.27
1955-56	92.33	43.94	63.13	44.27
1960-61	95.59	52.24	75.88	43.41
1965-66	97.15	58.23	78.53	38.30
1970-71	98.00	78.59	82.66	41.92
1975-76	99.29	89.47	85.82	39.80
1980-81	99.72	96.14	85.16	44.64
1985-86	99.85	98.73	71.31	40.19
1986-87	99.87	99.04	77.13	40.98
1987-88	99.89	99.51	79.32	46.26
1988-89	99.90	99.09	79.51	45.53
1989-90	99.90	99.62	79.60	44.40
1990-91	99.89	99.77	84.70	48.58
1991-92	99.90	99.28	86.09	51.94
1992-93	99.79	99.54	88.32	59.15
1993-94	99.89	99.53	87.78	61.32
1994-95	99.93	99.83	88.49	57.38
1995-96	99.91	99.75	89.17	56.58
1996-97	99.94	98.89	90.70	58.88
1997-98	99.92	99.18	92.02	61.95
1998-99	99.94	99.60	93.94	67.43
1999-2000	99.92	99.89	94.73	74.35
2000-01	99.94	99.79	95.31	74.77
2001-02	99.95	99.15	95.97	77.13
2002-03	98.04	99.70	95.48	81.21
2003-04	97.29	99.44	95.74	82.20
2004-05	98.23	99.42	96.03	86.01
2005-06	98.46	99.31	94.88	88.44
2006-07	97.77	99.54	96.23	91.13
2007-08	97.79	99.66	96.26	93.61
2008-09	97.74	99.79	95.38	95.34
2009-10	98.01	99.85	97.63	95.56
2010-11	98.01	99.91	98.15	95.24

Source: Taiwan Statistical Data Book 2011

A-4 Taiwan Education Level

Date	Venue	Discussion Points	Support by Institutional and individual country
1999 March 18	Ha Noi, Vietnam Deputy Finance Ministers and Deputy General Bank Governors	<ul style="list-style-type: none"> ● Discuss financial and macroeconomic ● To solve the rapid movement of short-term capital flow 	<ul style="list-style-type: none"> ●
1999 Nov 28	Manila, Philippines Heads of State/Government Joint Statement	Commitment to handling their mutual relations <ul style="list-style-type: none"> ● Purposes and principles of the UN Charter ● Five Principles of Peaceful Co-existence ● Treaty of Amity and Cooperation in SEA ● Principles of Intl Law East Asia Vision Group	<ul style="list-style-type: none"> ● ADB – update East Asian economic and financial development
2000 May 06	Chiang Mai, Thailand The Joint Ministerial Statement of the ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● Monitoring of capital flows “Chiang Mai Initiative” <ul style="list-style-type: none"> ● an expanded ASEAN Swap Arrangement ● bilateral swap arrangement [BSA] ● repurchase agreement[ReAgreement] 	<ul style="list-style-type: none"> ● ADB ● Japan – technical assistance ● China Korea - technical assistance through training programs ● Surveillance mechanism <ul style="list-style-type: none"> ■ Economic Review and Policy Dialogue (ERPD) to facilitate information exchange and lead peer review
2001 May 09	Honolulu, USA The Joint Ministerial Statement of the 4 th ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● Regional self-help and support mechanisms, international financial reform and short-term capital flows ● ASEAN Swap Arrangement enlarged to U\$1B effective 2000/11/17 ● BSA&ReAg – Korean/Japan, Msia/Japan, Thailand/Japan ● To establish a East Asia study group – economic 	<ul style="list-style-type: none"> ● ADB ● China – training courses on Economic Reforms and Development [Oct&Feb01] ● Korea – supported working visit by ASEAN senior officials and training program, organized seminar on early warning system modeling n joint regional monitoring

		reviews and policy dialogues	<ul style="list-style-type: none"> ● Japan – financial assistance – monitoring of capital flows & mechanisms to promote financial stability
2002 May 10	Shanghai, China The Joint Ministerial Statement of the 5 th ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● BSAs – Japan/Korean, Japan/Thai, Japan/Philippines, Japan/Asia, China/Thai, China/Japan US\$17B ● 1st Study Group in Myanmar on 4th April 2002 ● Monitoring of capital flows, Brunei, Indonesia, Japan, Korea, the Philippines, Thailand and Vietnam, agreed to bilateral exchange of s/t capital flows data ● Japan-ASEAN Financial Technical Assistance Fund's – strengthen the monitoring system 	<ul style="list-style-type: none"> ● ADB – technical support for regional early warning systems ● China – training courses on Economic Reforms and Development
2003 August 07	Makati, Philippines The Joint Ministerial Statement of the 6 th ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● BSAs – increased to 12, US\$31.5B ● Agreed to examine ways to enhancing the Effectiveness of Economic Reviews and Policy Dialogues(ERPD) by Study Group – Set up ASEAN+3 Finance Cooperation Fund to support ERPD ● Agreed to development regional bond markets. To better utilizing aggregate savings and minimizing the risk of maturity and currency mismatches ● Established Six Voluntary working group [Chairman's Press ABMI] – to study domestic and regional bond markets and financial cooperation 	<ul style="list-style-type: none"> ● ADB – technical support for ABMI and EWS ● Japan and ASEAN Secretariat on Monitoring System for Short term Capital Flows- Phase II – workshop ● China – training courses on Economic Reforms and Development
2004 May 15	Jeju, Korea The Joint Ministerial Statement of the 7 th ASEAN+3 Finance Ministers	<ul style="list-style-type: none"> ● BSAs – increased to 16, US\$36.5B ● Working group ● ABMI to assist to allocate the large pool of savings in Asia to fund productive investment in the region 	<ul style="list-style-type: none"> ● Japan – ASEAN Financial Technical Assistance Fund(JAFTA) and Korea, Malaysia provided technical support ● JAFTA has provided assistance to strengthen

	Meeting	<ul style="list-style-type: none"> ● ABMI Focal Group to coordinate the activities of 6 working group ● Launched of AsianBondsOnline Website (ABW) to provide information n promote market transparency ● 1st Research Group meeting in March 2004 in Manila ● New Basel Capital Accord 	<p>monitoring system and capacity in generating and compiling more accurate and timely data</p> <ul style="list-style-type: none"> ● China – training courses on Economic Reforms and Development ● ADB – technical assistance
2005 May 04	Istanbul, Turkey The Joint Ministerial Statement of the 8 th ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● CMI – to strengthen our self-help and support mechanism in East Asia. Basic principle 1) to address short-term liquidity difficulties in the region 2) to supplement the existing international financial arrangements ● To enhance effectiveness of the CMI <ul style="list-style-type: none"> - Integration and enhancement of ASEAN+3 economic surveillance - Clear-defining of the swap activation process and the adoption of a collective decision-making mechanism - Significant increase in the size of swaps *ASEAN Swap Arr doubled from US1B to US2B - Improving the drawdown mechanism *withdrawn without the IMF-supported program increased from 10% to 20% ● ABMI will introduce a roadmap and possible issuance of Asian currency-basket bonds could be explored under this. ● Agreed on study Asian Bond Standards 	

		<ul style="list-style-type: none"> ● Research Group – 1) Capital flow liberalization and institutional arrangements 2) Capital market development including fostering asset mgmt industry 3) Policy coordination forward in the region 	
2006 May 04	Hyderabad, India The Joint Ministerial Statement of the 9 th ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● The second phase of the CMI Review <ul style="list-style-type: none"> - Collective decision-making procedure for the swap activation was adopted - To explore the ways for further strengthening surveillance capacity in EA, the Group of Experts (GOE) and the Technical Working Group on Economic and Financial Monitoring (ETWG) would be launched. ETWG – developing and spreading the Early Warning System - Total swap size has reached US\$75B ● ABMI, size of the local currency bond market has more than quadrupled since 1997 - Following the issuance of Pan-Asia Bond in 2004, the achievements included <ol style="list-style-type: none"> 1) local currency-denominated bonds issued by various international and foreign institutions such as Bath-denominated bonds 2) local currency-denominated bonds issued through securitization 	<ul style="list-style-type: none"> ● International Financial Institutions (IFIs), ADB and IMF continuing support ASEAN+3 initiatives related to the regional surveillance activities ● Endorsed research on <ul style="list-style-type: none"> ■ Toward greater financial stability in the Asian region: Exploring steps to create regional monetary units ■ Financial conglomeration in the East Asian region: Recent trends and implications for regional financial market development
2007 May 05	Kyoto, Japan The Joint Ministerial Statement of the 10 th ASEAN+3 Finance Ministers	<ul style="list-style-type: none"> ● BSAs – increased to US\$80B ● Taskforce on CMI Multilateralisation – to carry out further in-depth studies on the key elements of the multilateralisation of the CMI 	

	Meeting	<ul style="list-style-type: none"> ● ABMI Working Groups to study Exploring New Debt Instruments for Infrastructure Financing, Promotion of Securitization of Loan Credits and Receivables n Promotion of Asian Medium Term Note (MTN) Programmed ● Research Group 1) Development of Database on Corporate Credit Information 2) Development of Capital Market to Widen and Diversify SME Financing 	
2008 May 04	Madrid, Spain The Joint Ministerial Statement of the 11 th ASEAN+3 Finance Ministers Meeting	<ul style="list-style-type: none"> ● Agreed on CMIM will be underpinned by rigorous principles ● To strengthen ERPD, such as increasing dialogues and developing a standardized format for the provision of information & data ● Multilateralised CMI at least US\$80B, amt of contribution btw the ASEAN n the Plus Three would be "20:80" ● Endorsed the New ABMI Roadmap, 4 key areas <ul style="list-style-type: none"> ■ Promoting issuance of local currency-denominated bonds ■ Facilitating the demand of local currency-denominated bonds ■ Improving regulatory framework ■ Improving related infrastructure for the bond markets ● The Steering Group will be established to monitor and coordinate these activity 	Surveillance mechanism: ASEAN Secretariat established a Macroeconomic and Financial Surveillance Office (MFSO)

		<ul style="list-style-type: none"> ● Encouraged to launch private sector group in the development of bond markets ● Research Group <ol style="list-style-type: none"> 1) Development of Corporate Credit Information Database and Credit Guarantee System 2) The Trend of trade, Foreign Direct Investment and Monetary Flows in East Asia and its Policy Implication 3) New Financial Products and their impact on the Asian Financial Markets 	
2009 Feb 22	Phuket, Thailand Report from the Finance Ministers of the ASEAN+3 to Heads of States/Governments	<p>Multilateralisation of the Chiang Mai Initiative</p> <ul style="list-style-type: none"> ● Size increased from US\$80B to US\$120B, proportion of contribution 20:80 ● An independent regional surveillance unit will be established to promote objective economic monitoring ● After surveillance mechanism becomes fully effective, the IMF de-linked portion may be increased above the current limit of 20% ● Recognized the important roles of Multilateral Development Banks (MDBs) in developing agenda and supporting in the areas of infrastructure and trade finance 	
2009 May 03	Bali, Indonesia The Joint Ministerial Statement of the 12 th ASEAN+3 Finance Ministers	<p>Agreement has been reached on all the main components of the CMIM [refer to publish document for more details]</p> <ul style="list-style-type: none"> ● To establish independent regional surveillance unit ● Hong Kong, China, is participating CMIM 	<ul style="list-style-type: none"> ● ADB – technical assistance to the pilot project on cross-border infrastructure bonds issuance by Lao govt in Thailand

	Meeting	<p>ABMI – promoting the local currency bond markets and recycling of regional savings towards developing regional bond markets</p> <ul style="list-style-type: none"> ● Endorsed the establishment of Credit Guarantee and Investment Mechanism (CGIM) as trust fund of the ADB with an initial capital of US\$500M <ul style="list-style-type: none"> ■ Objective – support the issuance of local currency-denominated corporate bond <p>Research Group</p> <ol style="list-style-type: none"> 1) Ways to Promote Trade Settlement Denominated in Local Currencies in EA 2) Regulation and Supervision for Sound Liquidity Risk Management for Banks 	
2010 May 02	Tashkent, Uzbekistan The Joint Ministerial Statement of the 13 th ASEAN+3 Finance Ministers Meeting	<p>CMIM agreement came into effective on 24th March 2010</p> <ul style="list-style-type: none"> ● Agreed on the key elements of regional macroeconomic surveillance unit of the CMIM, ASEAN+3 Macroeconomic Research Office (AMRO) <ul style="list-style-type: none"> ■ Monitor and analyze regional economies ■ Early detection of risks ■ Swift implementation of remedial actions ■ Effective decision-making of the CMIM ● Agreed to the adjustment in the contribution of Indonesia, Malaysia, Philippines, Singapore and Thailand for them to contribute equally <p>The establishment of the CGIF with an initial capital of US\$700M.</p>	

		<p>The Group of Experts’ findings and suggestions to be further evaluated by technical working group on Regional Settlement Intermediary (RSI).</p> <p>Endorsed the establishment of ASEAN+3 Bond Market Forum (ABMF).</p> <ul style="list-style-type: none"> ● To foster standardization of market practices ● Harmonization of regulations relating to cross-border bond transactions <p>Set up a ‘Taskforce on the Future Priorities of ASEAN+3 Financial Cooperation’, to support on further enhancing the regional financial cooperation.</p> <p>Research Group</p> <ol style="list-style-type: none"> 1) Possible Use of Regional Monetary Units – identification of issues for practical use 2) Lessons from Asia’s Experiences with Sudden Capital Flows 3) Fiscal and Financial Impacts of the Climate Change and Policy Challenges in East Asia 	
2011 May 04	Ha Noi, Viet Nam The Joint Ministerial Statement of the 14 th ASEAN+3 Finance Ministers Meeting	<p>CMIM</p> <ul style="list-style-type: none"> ● Endorsed the ‘Operational Guidelines for Enhancing Effectiveness of CMIM’ <p>ABMI</p> <ul style="list-style-type: none"> ● The operation of the CGIF last November with an initial capital US\$700M ● ABMI has contributed to developing efficient and liquid bond market since 2003 	

		<p>Research Group</p> <ol style="list-style-type: none"> 1) Dealing with Commodity Price Volatility in East Asia 2) Roles and Functions of the Banking Sector in the Financial System of the ASEAN+3 Region 3) Role of Regional Financial Safety in Global Architecture <p>'Taskforce on the Future Priorities of ASEAN+3 Financial Cooperation'</p> <ul style="list-style-type: none"> ● Assess previous achievement and proposing new priority areas ● Three possible areas for future cooperation <ul style="list-style-type: none"> ■ Infrastructure financing ■ Disaster risk insurance ■ Using local currencies for the regional trade settlement 	
2012 May 03	Manila, the Philippines The Joint Ministerial Statement of the 15 th ASEAN+3 Finance Ministers Meeting	<p>CMIM</p> <ul style="list-style-type: none"> ● Double the size from US\$120B to US\$240B ● To increase the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014 ● To lengthen the maturity and supporting period for <ul style="list-style-type: none"> ■ IMF linked portion from 90 days to 1 year and from 2 years to 3 years ■ IMF de-linked portion from 90 days to 6 months and from 1 year to 2 years ● To introduce a crisis prevention facility called "CMIM Precautionary Line [CMIM-PL]" ● To adopt "CMIM Stability Facility [CMIM-SF] as the 	<p><u>CMIM</u></p> <p>5 qualification criteria</p> <ol style="list-style-type: none"> i. External position and market access ii. Fiscal policy iii. Monetary policy iv. Financial sector soundness and supervision v. Data adequacy <p>Restriction of dual-drawing from both CMIM-SF and CMIM-PL</p> <p>Decision-making made by ELDMB</p>

		<p>name for Crisis Resolution Mechanism [CRM]</p> <ul style="list-style-type: none"> ● To allow executive Level Decision Making Body [ELDMB, Deputies' Level Meeting] to flexibly apply the 5 qualification criteria. <p>AMRO</p> <ul style="list-style-type: none"> ● To accelerate the preparation to institutionalize AMRO as an international organization <p>ABMI</p> <ul style="list-style-type: none"> ● 10th Anniversary Seminar ● ABMI New Roadmap <ul style="list-style-type: none"> ■ Follow-up issues ■ Additional issues ■ New issues/ Relevant issues 	<p>ABMI New Roadmap</p> <p>Follow-up issues</p> <ol style="list-style-type: none"> i. Launching CGIF guarantee programs [TF1] ii. Developing infrastructure-financing schemes [TF1] iii. Fostering an investment-friendly environment for institutional investors & transmitting the ABMI's knowledge to institutional investors[TF2] iv. Enhancing ABMF activities [TF3] v. Facilitating the establishment of the RSI [TF4] <p>Additional issue</p> <ol style="list-style-type: none"> vi. Further developing the govt bond markets [TF2] vii. Enhancing financial access to consumers and SMEs [TF3] viii. Strengthening the foundation for a regional credit rating system [TF4] <p>New issue</p> <ol style="list-style-type: none"> ix. Raising financial awareness [TF4] <p>TF1: Promoting Issuance of Local Currency-Denominated Bond</p> <p>TF2: Facilitating the demand of Local</p>
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			Currency-Denominated Bonds TF3: Improving Regulatory Framework TF4: Improving Related Infrastructure for the Bond Markets
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Source: ASEAN+3 Meeting Documents

A-5 Summary of ASEAN+3 Finance Minister Meeting Statements

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