

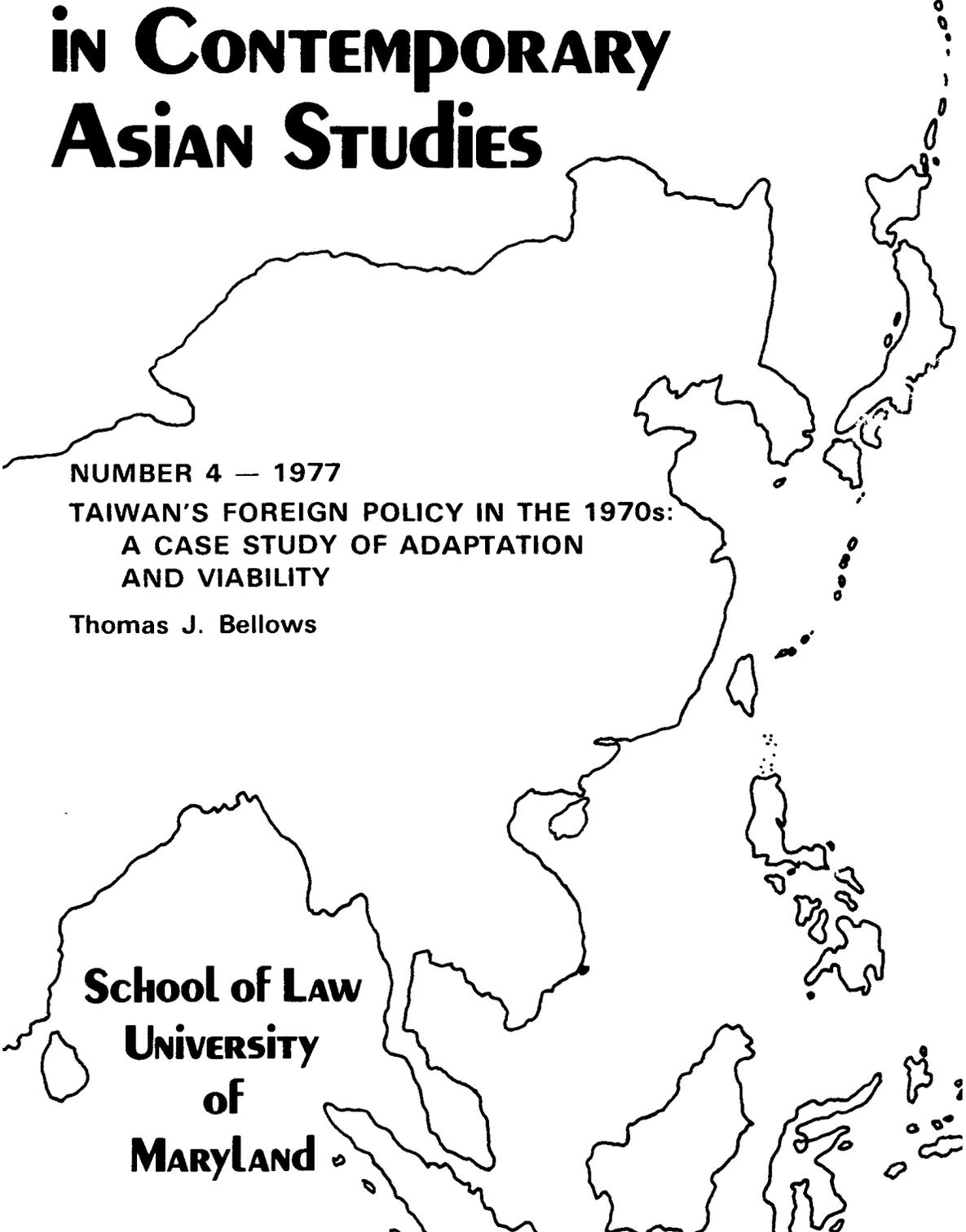
OCCASIONAL PAPERS/ REPRINTS SERIES in CONTEMPORARY ASIAN STUDIES

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TAIWAN'S FOREIGN POLICY IN THE 1970s:
A CASE STUDY OF ADAPTATION
AND VIABILITY

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of
MARYLAND**

An outline map of East and Southeast Asia, showing the coastlines of China, Taiwan, the Philippines, and Indonesia. The map is positioned in the background of the cover, with the title and text overlaid on it.

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**TAIWAN'S FOREIGN POLICY IN THE 1970s: A CASE
STUDY OF ADAPTATION AND VIABILITY***

THOMAS J. BELLOWS**

A series of diplomatic-political setbacks in the early 1970s suggested that Taiwan — i.e., the Republic of China (ROC) — would progressively suffer political isolation. The political isolation would lead to economic and cultural isolation, and the viability and independent status of Taiwan would draw to a close. A nadir of sorts occurred when the ROC walked out of the U.N. General Assembly on October 25, 1971. A motion to declare the expulsion of Taiwan an “important question,” requiring a two-thirds vote, failed by a four vote margin (55 to 59, 15 abstentions). Taiwan’s position was not helped by the fact that Henry Kissinger, then Assistant to the President for National Security Affairs, was on his second visit to Peking at the time the General Assembly debated the China question. Immediately after the vote, the ROC Foreign Minister, Chou Shu-kai, announced that his government “would not take part in any further proceedings of the General Assembly.” Since the admission of the People’s Republic of China (PRC) to the United Nations, there have been efforts to relegate the ROC to the status of a non-country. It is no longer included in any U.N. statistical reports. The most visible reminder of the ROC’s earlier membership, a marble plaque carrying a quotation from Confucius that was a gift of the ROC, was quietly removed in August 1972. A *New York Times* editorial pointedly assessed the practical absurdity of such actions:

An international statistical summary that ignores this living reality is diminished in its authority — and so is the agency that issues it. But the U.N. authorities have even stooped to the Communist device of trying to rewrite history. At U.N. headquarters here, a plaque identifying the Republic of China as donor has been removed. . . . Such petty manipulation cannot erase the substantial contributions of the Republic of China to a quarter-century of U.N. history.¹

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1. *New York Times*, August 10, 1972.

Potential isolation had threatened two decades earlier. After the start of the Korean War, the ROC was extricated from a situation in which it appeared that the U.S. was preparing to accept a Communist seizure of Taiwan. President Truman made a statement in January 1950, which partly foreshadowed the Shanghai communique 22 years later, declaring that Taiwan was a part of China and that the U.S. would not provide military assistance to the Nationalists of Taiwan.²

Subsequent reversal of this position and renewed American commitments to Taiwan began with the Korean War. By 1971, however, it was obvious that the United States had set into motion a process of accommodations vis-à-vis the PRC. This was manifestly symbolized by the two Kissinger trips to China and the July 15 announcement that President Nixon would soon visit the PRC. The Shanghai Joint Communique of February 27, 1972, reaffirmed what both the ROC and the PRC maintain, that Taiwan is a part of China. Some have interpreted the American statement in the communique as evidence that American commitment to Taiwan was drawing to a close:

The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States Government does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves. With this prospect in mind, it affirms the ultimate objective of the withdrawal of all U.S. forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension diminishes.³

The American position was amplified at a news conference in Shanghai the same day when Henry Kissinger told reporters that American defense obligations under the 1954 Mutual Defense Treaty remained unchanged.⁴

Subsequent actions decreased the American military presence in Taiwan, but not in a way meant to indicate that diplomatic abandonment was imminent. The number of American military personnel has been reduced to 900, less than one-quarter the

2. Harry S. Truman, *Public Papers of the Presidents of the United States: Containing the Public Messages, Speeches, and Statements of the President, 1950* (Washington: Government Printing Office, 1965), p. 11.

3. *Department of State Bulletin*, LXVI:1708 (March 20, 1972), pp. 437-438.

4. *Ibid.*, p. 428.

number stationed there in mid-1963 prior to the Vietnam buildup. U.S. military advisers were withdrawn from Kinmen (Quemoy) and Matsu in mid-1976.^{4a} Two squadrons of F-4 Phantom jet fighters were removed, one to the Philippines in the summer of 1974, while the other was withdrawn in May 1975.⁵ These squadrons had been stationed in Taiwan in January 1973, to replace 48 F-5A fighters that Taiwan had loaned to South Vietnam. American interest in Taiwan's air defense continues, however. The ROC has entered into a joint production arrangement with the Northrup Corporation to construct 100 F-5E "Tiger" fighters at a cost of \$2 million each. The U.S. has extended over \$150 million in credits through 1978 for construction of these interceptors at a plant near the city of Taichung.⁶ The first F-5E fighter rolled off the assembly line on October 30, 1974, the late President Chiang Kai-shek's birthday.

ROC officials are extremely sensitive about any U.S. government action which suggests a diminishing interest in Taiwan. For example, following the death of President Chiang Kai-shek on April 5, 1975, discussions within the American government and between the U.S. and Taiwan governments continued for a week over the stature of the U.S. delegation that would attend President Chiang's funeral. Domestic political pressures and the ROC's intense concern culminated in the naming of Vice-President Rockefeller to head the U.S. delegation.

There was displeasure in Taipei with the October 1974 Congressional repeal of the Formosa Resolution. This resolution had been approved on January 29, 1955, at a time when Quemoy (the largest island in the Kinmen complex) and the Matsu Islands were under heavy daily bombardment from the mainland, and eight weeks after the signing of the Mutual Defense Security Treaty between the U.S. and the ROC on December 2, 1954. The Formosa Resolution made it the President's responsibility to

4a. *News from China*, June 25, 1976.

5. The withdrawal was based on an "understanding" reached between Taiwan and the U.S. in November 1972. No State Department announcement was made at the time of the May withdrawal, although a few press reports appeared in June quoting State Department sources. As of December 31, 1975, there were 2,000 American military personnel in Taiwan, 135 American civilian direct hire, and 992 foreign national direct hire.

6. The F-5E Tiger II is a single accommodation interceptor. It is designed to be used against the MIG-17, -19, and -21. *The Almanac of World Military Power* reports that figures available as of mid-1974 show that the PRC had 1,000 MIG-19 fighters, 1,500 MIG-15/17 fighters and 300 MIG-21/F-9 interceptors. All PRC bombers are outclassed by the Tiger II.

determine if an attack on Quemoy or Matsu was related to the defense of Taiwan and the Penghu Islands (or Pescadores) and to respond accordingly. Congress thus endorsed the President's power to use American forces to resist an attack on Quemoy and Matsu under certain circumstances. The repeal of this resolution, however, did not change basic American commitments under the 1954 Mutual Defense Treaty. The key article in the treaty is Article V which states that an attack in the West Pacific area against the territories of either the U.S. or the ROC is considered dangerous. Such an attack requires each country to "act to meet the common defense in accordance with its constitutional processes." The territorial focus of the treaty is Taiwan and the Penghu Islands. Quemoy or Matsu are not disregarded, however, because Article VI refers to "such other territories as may be defined by mutual agreement."⁷

Both American and ROC officials are quick to point out that the repeal of the Formosa Resolution did not jeopardize American defense commitments to Taiwan. The cornerstone from Taiwan's point of view is the 1954 treaty. If this should be modified in any way by President Ford, substantial foreign policy adjustments might have to be made in Taipei. Despite the 1971 and subsequent diplomatic setbacks, the diplomatic status of the ROC remains viable as of early 1976.

The impact of earlier diplomatic trends which were quite discouraging in 1970 and 1971 has been modified. The stabilizing of the ROC's overall position results primarily from the flexibility and initiative shown by government officials in Taipei. Taiwan faced the distinct possibility of becoming the orphan of Asia, if not a world orphan. The trend toward derecognition first appeared in 1970 when the PRC returned to the diplomatic world scene and began actively seeking out diplomatic ties after the 1969 Ninth Party Congress (see Table 1). Recognition of the PRC accelerated with its admission to the United Nations (see Table 2). There were fewer recognitions in 1973, but the pace quickened in 1974, and included important countries in Africa, Asia, and Latin America. The challenge of diplomatic isolation continues with the Philippine recognition of the PRC in June and Thai recognition on July 1, 1975. This article analyzes the ROC's strategy for survival. The ROC's viability might have been totally undermined as formal

7. For background on American treaty commitments to the ROC, see U.S. Senate, Committee on Foreign Relations, *Hearings before the Subcommittee on United States Security Agreements and Commitments Abroad*, Vol. I, Parts 1-4, 91st Congress, 2d Sess., 1971, pp. 927-931.

political support and participation at the international level eroded, but it has not.

Table 1. Countries Recognizing the PRC between January 1, 1970 and October 24, 1971

Canada*	10/13/70
Equatorial Guinea	10/15/70
Italy*	11/06/70
Ethopia	11/21/70
Chile*	01/15/71
Nigeria	02/10/71
Cameroon*	03/26/71
Kuwait*	03/27/71
San Marino	05/06/71
Austria	05/28/71
Sierra Leone*	07/29/71
Turkey*	08/05/71
Iran*	08/17/71

* Countries previously recognizing Republic of China.

Unchanging Principles and Changing Strategy

The selection of President Chiang's eldest son, Chiang Ching-kuo, as Premier on May 16, 1972, signified important changes in the Taipei political scene. Within a few days, the popular Foreign Minister, Chou Shu-kai, was replaced by Shen Chang-huan. Ambassador Shen had served as Foreign Minister between 1960 and 1966 and immediately prior to his appointment was Ambassador to Thailand. A more cautious individual, he was less given to public comments. The new Foreign Minister at one time was the late President Chiang's interpreter and apparently is close to Madam Chiang.

For some time stories had been circulating that Taiwan was engaging in formal discussions with the Soviet Union and might expand relations to fill a vacuum should the Americans withdraw. On at least two occasions, an "unofficial" Soviet representative visited Taiwan. Former American ambassador to Taiwan, Walter P. McCaughy, has publicly stated that in 1969 "a Soviet correspondent was allowed to visit Taiwan."⁸ Soviet correspondent and reputed KGB agent, Victor Louis, visited Taiwan in November 1971, and had informal talks with Foreign Minister

8. *Ibid.*

Table 2. Countries Recognizing the People's Republic of China since October 24, 1971 (listed chronologically)

Belgium*	10/25/71	Chad*	11/28/72
Bhutan	10/25/71	Australia*	12/22/72
Peru*	11/02/71	New Zealand*	12/22/72
Ecuador*	11/09/71**	Spain*	03/07/73
Lebanon*	11/09/71	Upper Volta*	09/15/73
Rwanda*	11/12/71	Guinea Bissau	09/30/73
Iceland	12/14/71	Botswana*	03/25/74
Cyprus*	12/14/71	Malaysia	05/31/74
Malta*	01/31/72	Trinidad and Tobago*	06/20/74
Mexico*	02/14/72	Venezuela*	06/28/74
Argentina*	02/19/72	Niger*	07/16/74
Bahrain	04/10/72	Brazil*	08/15/74
Greece*	06/05/72	Grenada	10/10/74
Guyana	06/27/72	Gambia*	12/17/74
Japan*	09/29/72	Portugal*	01/06/75
West Germany	10/11/72	Philippines*	06/09/75
Maldives*	10/14/72	Thailand*	07/01/75
Gabon*	10/16/72	Bangladesh	10/01/75
Malagasy Republic*	11/06/72	Fiji	11/05/75
Luxembourg*	11/16/72	Comoro Islands	11/15/75
Jamaica*	11/21/72	Western Samoa*	11/13/75
Zaire*	11/24/72	Cape Verde Islands	04/25/76
		Central African Empire*	08/25/76
		Barbados*	01/11/77**

* Countries previously recognizing Republic of China.

** Date of severing relations with the ROC.

Chou.⁹ Chou may have played a role in arranging for these visits and informally supported such contacts when talking to correspondents. Chou's replacement by Shen in 1972 was partly interpreted as a rejection of such policies at that time.¹⁰ There also were rumors and speculations that Taipei might enter into unofficial discussions with PRC officials. In order to end these speculations, Premier Chiang outlined four "unchangeable principles" of foreign policy to the Legislative Yuan on September 29,

9. The *Far Eastern Economic Review*, 88:26 (June 27, 1975), p. 5, correctly reported that Victor Louis visited Taiwan again in December 1974 for top-level meeting with Nationalist leaders.

10. In a recent, far-ranging and often critical analysis of America's domestic and international condition, Madame Chiang Kai-shek attacked detente between the U.S. and the PRC, but in the case of U.S. Soviet relations observed: "With the present mature and reasoned leadership in the Kremlin, detente embodies the necessary goodwill to build upon." Madame Chiang Kai-shek, "We do beschrei it," *Free China Review*, XXV:5 (May 1975), p. 22.

1972. The unequivocally anti-Communist principles included "national recovery" of the mainland.¹¹ The hard line in practice is implemented through a pragmatic strategy of survival and growth: 1) strengthen existing diplomatic relations; 2) encourage foreign trade and foreign investment in Taiwan; and 3) "all out" diplomacy which stresses economic, technical, cultural and educational interaction with selected countries, regardless of whether or not the country officially recognizes the ROC.

Economic Conditioners. A major factor in the ROC's survival is its economic position and emphasis on international trade. Taiwan is in the highest decile of countries when calculating the percentage of GNP exported. Through 1974, as Table 3 shows, the role of foreign trade in its economy has grown remarkably. Significant modifications in the interdependence of the ROC and the world economy would require a major reorientation of Taiwan's entire economic structure.

A brief review of the ROC's economy reveals a shift between 1952 and 1974 from a principally agricultural country to diversified agriculture and industry with emphasis on foreign trade. Total foreign trade in 1952 was \$303 million, while in 1975 the total was \$11.254 billion¹² (all dollar amounts in this article are U.S. dollars). Sugar and rice alone accounted for 80% of the exports in 1952, while agricultural products and processed agricultural products together constituted 95% of 1952 exports. During 1975, industrial products accounted for 83.6% of the exports, processed agricultural products were 10.8% of the total and agricultural products constituted 5.6%.¹³

Taiwan's economic progress since 1952 is an example which other countries might well review. Taiwan has: (1) stressed labor intensive industry; (2) labor intensive agriculture; (3) geographically dispersed industry; and (4) tied agricultural development in with industrial development, one manifestation being the emer-

11. Two of the four principles clearly implied that the ROC would not become the Republic of Taiwan, and it would not cooperate with the Soviet Union. The four principles are reproduced in Republic of China, *China Yearbook: 1972-1973* (Taipei: China Publishing Co., 1973), p. 9.

12. Economic Planning Council, Executive Yuan, *Taiwan Statistical Data Book*, 1974, p. 168; and *China Post*, January 9, 1976.

13. Percentages were obtained from K. T. Li and W. A. Yeh, *Public Policy and Economic Development on Taiwan* (Taipei: Council for International Economic Cooperation and Development, April 1969), p. 4; and *Free China Weekly*, XVII:4 January 25, 1976), p. 1.

Table 3. Percentage of GNP Expected

ROC		ROC		Comparison — 1973	
1952	8.5	1970	27.1	U.S.A.	5.4
1955	6.3	1971	33.0	Japan	8.9
1958	8.6	1972	40.8	France	14.3
1961	11.1	1973	47.8	United Kingdom	17.5
1964	16.9	1974	39.8	West Germany	19.3
1967	17.9	1975	35.1	Canada	21.2

Sources: Percentages for ROC derived from data in Economic Planning Council, Executive Yuan, *Taiwan Statistical Data Book*, 1974 (Taipei: Republic of China, June, 1974); the *China Post*, January 15 and February 18, 1975; Republic of China, *Weekly Newsletter*, No. 139, (January 27, 1976), p. 3; and *Free China Weekly*, XVII:3 (January 18, 1976), p. 4. Percentages for the comparison were taken from United States-Japan Trade Council. *A Comparison of Selected Economic Data* (Washington, D.C.: United States-Japan Trade Council, 1975).

gence of a substantial agri-industrial system.¹⁴ Taiwan is a prototype of agricultural, industrial, market and export developments complementing one another and advancing together. The export thrust is significant because it has involved so many aspects of the economic system and hence has brought benefits to most elements of the population.

Strengthening Official Interactions. During the 1970s, the ROC had emphasized strengthening diplomatic ties, cultural and educational exchanges, and commercial relations such as trade and foreign investment, the latter not completely controlled by the official foreign policy institutions. This section analyzes those parts of Taiwan's global interactions which are entirely government controlled. The trend of official diplomatic relations has not favored Taiwan. Between 1963 and mid-1975, countries formally recognizing the ROC dropped from 66 to 26 while the number recognizing the PRC went from 50 to 112. In 1976, the ROC lost the Central African Empire (formerly a Republic) and Cape Verde Islands, but elevated its consulate-general to embassy status with the Republic of South Africa. In addition, ROC lost Barbados at the beginning of 1977.

14. In 1963, for example, processed agricultural exports totaled \$149 million and in 1974 the total was \$592 million. Dollar amounts taken from Board of Foreign Trade, Ministry of Economic Affairs, *Foreign Trade Development in the Republic of China*, p. 16; and *China Post*, January 15, 1975.

It is difficult to stop the current world trend toward recognition of Peking, but Taipei is making great efforts to reinforce existing relations and stabilize the number of countries recognizing the ROC. This is a difficult objective. President Ferdinand Marcos of the Philippines visited the PRC in June 1975, and announced from Peking that as of that date diplomatic relations were established between the two countries. The joint communique stressed non-interference in each other's internal affairs. A trade agreement was signed the same day. Taipei worked diligently between Mrs. Marcos' ten-day visit to the PRC in September 1974 and the June announcement to dissuade the Philippines from recognizing Peking since ROC officials were convinced, correctly so, that Thailand would recognize Peking within a few days of the Philippine recognition. Thai recognition occurred on July 1, 1975, during a visit by Prime Minister Kukrit to Peking. Singapore may then, as its own leaders have predicted, be the last ASEAN nation to establish diplomatic relations with the PRC.

Continued American recognition is important if a respectable modicum of official diplomatic relationships is to be maintained. Premier Chiang recently enunciated what he regarded as the first practical objective of Taiwan's foreign policy: "We shall do our utmost to maintain bilateral relations with friendly countries and especially to strengthen our alliance with the U.S."¹⁵

Taiwan opened two new consulates in the U.S. during 1973-74 (Atlanta and Kansas City) and reactivated the consulate in Portland. These offices publicize the ROC's political position and facilitate the expansion of commercial ties between the two countries. Official ROC policy for well over a year has been that Taiwan's favorable balance of trade with the U.S. should be reduced, and an effort is being made to import more American goods. In some cases importers are encouraged to place orders with American firms, even though Japanese or other countries of origin goods might be less expensive.

Trade also follows and stabilizes the diplomatic flag in other cases. The past year has witnessed considerable exchanges of dignitaries between Taiwan and Jordan, Saudi Arabia, and Central American countries recognizing the ROC, as well as efforts to expand trade with these friendly countries. Foreign assistance is also used to strengthen ties, though in the case of a

15. *Free China Review*, XXIV:10 (October 1974), p. 16. This strategy was reiterated to the author in conversations he had with government officials in Taipei.

donor nation such as Taiwan these must be selective and not require massive expenditures.

The first major technical assistance effort which proved politically successful began in the 1960s. This effort was stimulated by the 1960 U.N. General Assembly vote when the ROC lost two votes, dropping to 42, while the PRC gained five, up to 34. A diplomatic campaign began, with emphasis on Africa. During 1960, 17 states were admitted to U.N. membership, 16 of them in Africa. Between 1960-62, 23 African countries gained independence. Thirteen recognized the ROC; five recognized the PRC; and five recognized neither. Eight African nations which abstained on the U.N. China vote in 1961 voted against the PRC in 1962. At the time the Cultural Revolution drew to a close in mainland China in 1969, the ROC had diplomatic relations with 24 African countries. In part, this was a result of the PRC's diplomatic ineptitude of the 1960s. It was also a consequence of Taiwan's export of an "agricultural revolution" to parts of Africa. This was not a case of aid leading to subversion, but aid, among other objectives, sustaining needed diplomatic support.

During the 1960s and through 1971, one political payoff of these missions was the support African nations gave the ROC. Another story was the incessant and relatively successful push of the PRC's "smiling diplomacy" during the 1970's to reduce the number of countries recognizing Taiwan in Africa and Latin America. Table 4 summarizes the ROC's exchange missions which remain important in maintaining a small nucleus of recognition for the ROC in Africa and Latin America.

Table 4. Number of ROC Personnel Participating Annually in Overseas Technical Missions (Unit: 1 person)

	1961	1964	1967	1970	1971	1972	1973	1974	1975
Africa	15	121	518	702	738	721	479	255	204
Latin America	—	6	22	48	23	52	82	103	120
Other	29	96	100	63	40	49	60	51	7

Sources: Secretariat, Committee of International Technical Cooperation, *International Technical Cooperation* (Taipei: Committee of International Technical Cooperation, 1974), pp. 2-3 and *Taiwan Statistical Data Book, 1976*, pp. 232-233. Missions go almost exclusively to countries recognizing the ROC.

Selected technical assistance, then, is an important aspect of Taiwan's overall diplomatic effort. Because a majority of the countries recognizing the ROC are small, developing countries, a

nation such as the ROC can have some economic and political impact, despite the inherent fiscal limitations on its efforts. A dependable albeit small base of countries will provide the minimum necessary for international legitimacy. Taiwan continues to hold memberships in at least 15 international organizations, including the Asian Development Bank, IMF, World Bank, and the International Development Association. Without a nucleus of formal recognition, official participation in international organizations would be rather difficult unless an official to China recognition policy was followed by several countries and was tolerated by both the ROC and the PRC. Despite adverse circumstances, Taiwan's diplomatic policies have been surprisingly successful.

Trade and Investment

International trade and investment have been important in the development of Taiwan's economy. They also are influential in maintaining ties with countries recognizing the ROC and facilitating interaction with countries which do not recognize Taiwan. This section seeks to show how Taiwan's visibility and sovereignty are relevant to various private groups and organizations throughout the world. Wide trade contacts and substantial international investment should help to convince non-governmental groups and also governments that useful purposes are served if Taiwan maintains its sovereignty.

Trade. Table 3 indicated the predominant position of foreign trade in Taiwan's economy, and suggested this degree of dependence was among the highest in the world. Recent increases are phenomenal. The spectacular increases began in 1970 when total trade was \$2,952 billion as compared to \$12,620 billion in 1974, \$11,254 billion in 1975, and \$15.67 billion in 1976.^{15b}

The expansion of foreign trade has not been without its problems. The largest trade deficit ever recorded, \$1,356 billion, occurred in 1974. The ROC is limited in the restrictions it can impose on imports, though in part as a result of a drop in total trade, the 1975 deficit was reduced to \$611 million. The 1976 surplus was \$490 million.^{15b}

During the last two decades consumer goods have averaged only 5.5% of imports; the remainder were either capital equipment

15a. *Free China Weekly*, December 31, 1976, p. 1.

15b. *Ibid.*, January 10, 1977, p. 1.

16. *China Post*, January 18, 1976.

(31.7% in 1975) or agricultural and industrial raw materials (61.6% in 1975).¹⁶ Furthermore, Taiwan, at least initially, has been vulnerable to the multitudinous international inflation recession pressures. The actual economic growth rate in 1974 was 0.6%, the lowest since 1952 when economic development began,¹⁷ but by 1975 it was 2.8% and in 1976 it was 11.5%.^{17a} Importation of petroleum products increased by only 10% in 1974, but import costs went up \$400 million, or 133%.¹⁸

There also are positive indicators in the Taiwan economy which should not be disregarded. Both the wholesale and urban consumer price indexes dropped in January 1975, when compared to December 1974. The budget surplus for the 1974 fiscal year was \$399.5 million, bring the total cumulative surplus to \$963.2 million. Foreign exchange reserves actually increased by 5.5% between January 31, 1974, and January 31, 1975.¹⁹ The Export-Import Bank committed a \$500 million loan in January for purposes related to the "Ten Basic Projects" referred to below. During January/February 1975, two American banks loaned \$800 million for major construction projects. The level of official and private American financial commitment is high.²⁰

Despite these positive signs, discussions the author had with ROC officials suggested that a more inward looking attitude toward development is emerging. This is supported by occasional public statements such as Premier Chiang's statement that Taiwan's "economy cannot depend wholly on exports and our domestic market is yet to be developed."²¹ The combining of various construction programs into the "Ten Basic Projects" and the determination to go ahead despite rising costs, is an acknowledgement that Taiwan's economic infrastructure needs updating, not only to facilitate foreign trade programs but to provide the necessary basis for expanding domestic economy. The expansion of heavy industry which parallels the "Ten Basic Projects" will reduce the need to import capital goods (31.7% of

17. *Ibid.*, February 6, 1975.

17a. *China Daily News*, December 31, 1976, p. 1.

18. *Ibid.*, January 3, 1975.

19. Data supplied by the Department of State.

20. Support for the ROC by the Export-Import Bank of the U.S. has been exceptional. Cumulative support from its inception in 1934 through June 30, 1974, excluding the recent loan, was \$1.683 billion. Only three developing countries received more from Eximbank during this period — Brazil, Mexico, and Iran. The total loaned to Asia for this period was \$13.337 billion. Export-Import Bank of the United States, *Cumulative Records* (Washington: Eximbank, 1975), pp. 36-90.

21. *Free China Review*, XXIV:10 (October 1974), p. 20.

imports in 1975) and will enable Taiwan to supply a greater share of its own industrial needs. It also can better compete in terms of exporting a larger percentage of capital intensive, more technologically sophisticated goods.

Foreign trade will not be deemphasized, but there is growing recognition that the domestic market can be better developed so that national well-being should not completely depend on foreign trade. A certain caution and critical review of the international economic situation is apparent. One reason for this concern was observed by the author when he recently visited the Nantze Export Processing Zone in Kaohsiung. One of the few American owned companies operating in this particular EPZ manufactures and exports Indian motorcycles for the American market. Output was 1500 units per month, half the plant's capacity. The necessity of foreign trade is obvious, but there are the now obvious dangers of fluctuating markets, layoffs, and economic turndown. There is a new realism, and a manifestation of new and cautious attitudes about the role of foreign trade as the ultimate and immutable underpinning of Taiwan's domestic and international positions.

Taipei is also attempting to diversify its trade and reduce its dependence on a few countries. There has been diversification in terms of dollar amounts, but in percentage distribution the data is less encouraging as shown in Table 5. In 1952, Japan and the United States provided 67% of Taiwan's imports (the former 44.7% and the latter 22.2%) and took 56% of its exports (52.6% to Japan and 3.5% to the U.S.).²² The percentage share between Japan and the U.S. had adjusted over the years, but the excessive percentage concentration on the two countries remains. Trade with Europe is increasing, but total trade with Asian countries other than Japan continues to drop because of the percentage decline in exports.

The government has had some success in encouraging the direction of trade. Taiwan ranked 16th in countries exporting to the U.S. in 1974 and was 10th in terms of purchasing American goods.²³ During the past 30 months considerable effort has been expended on increasing American imports and reducing Taiwan's favorable trade balance. The *China Post* has noted that in 1973 and 1974 the ROC was America's 12th largest trading partner in a field of 145. This newspaper, which reflects the government's views in foreign affairs, predicts that Taiwan will rank 7th by

22. *Industry of Free China*, XIX:6 (June 1963), pp. 110-115.

23. U.S. Bureau of the Census, *Statistical Abstract of the United States: 1974*, 96th edition (Washington: GPO, 1975).

Table 5. ROC's Major Trading Areas by Percentage of Total Exports/Imports

	Exports				Imports			
	U.S.A.	Japan	Europe	Asia*	U.S.A.	Japan	Europe	Asia*
1963	16.4	31.7	8.6	31.2	41.7	29.7	7.2	7.5
1966	21.8	24.0	9.7	32.8	26.7	10.4	8.8	7.9
1969	38.0	15.0	9.9	32.2	24.1	44.2	9.7	9.1
1972	41.8	12.3	11.3	17.5	21.6	11.5	9.1	11.3
1973	37.4	18.4	12.9	15.8	25.1	37.6	12.3	11.3
1974	36.1	15.0	14.6	20.0	24.1	31.8	14.6	22.7
1975	34.3	13.2	15.0	23.1	27.8	30.4	12.6	21.2

Sources: (1) Taiwan statistical data book 1976, pp. 184-193 and (2) Board of Foreign Trade, Ministry of Economical Affairs, *Foreign Trade Development in the Republic of China* (Taipei: China Art Printing Works, 1974), pp. 22-27.

* Other than Japan.

1976.²⁴ Diversification or reorientation of trade sometimes can complement or facilitate political objectives.²⁵

Taiwan does, however, face difficulties in its U.S. trade in addition to the current state of the American economy. The global recession has generally taken a heavy toll on textiles and electronics, and these are two of its principal industrial exports. Furthermore, Taiwan must compete against Hong Kong and South Korea, who also export heavily to the U.S. and who have been among the world's leading countries in building an industro-export program. Despite those handicaps, Taipeh sees a paramount need to strengthen its trade relations with the United States.

Taiwan's second most important trading partner is Japan, but there are serious difficulties here as well. Taiwan's trade deficit with Japan was \$1.336 billion in 1974, just \$20 million less than its entire trade deficit. The Board of Foreign Trade decided in the fall of 1974 to license certain imports from Japan and limit the importation of Japanese spare parts. During 1974 the Board imposed restrictions on 700 Japanese commodities and in January 1975 the sourcing of 104 "non-essentials" was limited to the U.S.

24. See, for example, *China Post* editorials of March 19, 1974, and February 20, 1975.

25. The PRC is even more obvious in its use of trade to achieve political objectives. A recent news story reported that the PRC sold 75,000 tons of high speed diesel fuel to Thailand at the "friendship" price of 93 cents per ton, \$12 cheaper than the world market price! Bank of America, Asia Representative Office, *China Spotlight*, 2:5 (May 1975), p. 4.

and Europe. These restrictions have produced only limited results. The trade deficit with Japan in 1975 was \$1.101 billion, a drop of \$235 million compared to 1974 but nearly double Taiwan's overall 1975 deficit of \$611 million.²⁶ The trade deficit with Japan 1976 was roughly estimated to be the 1974 figure.^{26a}

Juxtaposed against the trade imbalance is the competitive advantage many Japanese goods have and the long-standing trade relationships which are difficult to realign. One economist has concluded that during the 1970s, 72 to 86% of Japanese exports will be heavy industrial goods.²⁷ One reason Taiwan imports so much from Japan is its industrial surge. It is difficult to forego these Japanese purchases if quality is competitive and prices are lower. Proximity is also a contributing factor. Earlier Japanese rule of Taiwan and postwar trade patterns have reinforced ROC/Japanese commercial relations.²⁸

International Investment. International investment provides needed economic input, technical skills, and marketing networks. It also is a reason for many private groups to have a special interest in Taiwan's independent status. External investments from 1952 through 1975 totaled \$1.405 billion.²⁹ Overseas Chinese provided 29.2% of the total figure, with the balance officially classified by the ROC as "foreign investment." Two-thirds of the external investment, 67.4%, has come into Taiwan since 1969. Nearly one-third of the aggregate external investment (\$446 million) has come from the U.S., 23.5% more than the overseas Chinese total (\$361 million). External investment in 1975 was slightly over \$118 million with \$70.9 million classified as foreign investment and \$47.2 million from overseas Chinese sources. American investors provided 58% of the total 1975 "foreign investment" and the Japanese share in 1975 dropped

26. *Republic of China*, Weekly Newsletter No. 139, January 27, 1976.

26a. *China Daily News*, January 6, 1977, p. 1.

27. Donald R. Sherk, "Post-Vietnam Asia: Trade and Investment Trends in the Pacific," *Pacific Community*, V:2 (January 1974), p. 245.

28. Japan is anxious to augment the level of commercial transactions between the two countries. In a major foreign policy statement before the Diet on January 24, 1975, Foreign Minister Miyazawa noted that "There will be no change in our policy of maintaining business-like relations with Taiwan," *Japan Report*, XXI:5 (March 1, 1975, Special Supplement), p. 2.

29. Georgie Wang and Margaret Han (eds.), *Free China Today* (Taipei: Epoch Publicity Agency, 1974), p. 109; and *China Post*, January 13, 1975 and January 12, 1976.

sharply to 19.7% as compared to 35.7% in 1974. External investment in 1976 was 150 million, 27% above 1975.^{29a}

External investment reveals two immediate problems. First is the impact of the international economy. Taiwan's incoming investments during 1974 showed an increase of 4.13% over the same period in 1973.³⁰ But by the end of 1974, incoming investment was 23.9% below 1973, although 1974 was the second highest year ever recorded. There was another sharp decline of 37.6% in 1975, although the total 1975 investment of \$118,175,000 was still a respectable sum given the global economic situation. A sustained decline in external investment could, however, have negative political as well as economic implications.

A second, at least potential problem has been the substantial level of Japanese investment. The author's discussions on Taiwan indicated that while ROC/Japanese trade patterns need adjusting, there were no overt or covert efforts to discourage Japanese investment. Other than an outright limitation on Japanese investments, which the ROC cannot afford, there may be no alternative other than substantial Japanese investment balanced by diversification and increasing dollar investments from other countries. One economist concludes that overseas Japanese investment is shifting to labor intensive, lower-wage industries because of the rapidly rising Japanese wage scales. Therefore, we are entering a new era of Japanese foreign investment³¹ which will maintain the attractiveness of Taiwan. There are inherent limitations which preclude any major modification of ROC/Japanese commercial relations.

International investment facilitates ROC's domestic economic development as well as builds the distribution and marketing ties that a trading nation like Taiwan requires. Such investment also manifests political commitment and confidence by private groups which will contribute to the future political survival of the ROC.

ROC Relationships With Countries Not Having Diplomatic Ties

ROC government officials regularly point out that Taipei has economic, cultural, and educational ties with over 110 countries. Premier Chiang not long ago reaffirmed ROC's intentions "to

29a. *China Daily News*, January 1, 1977, p. 2.

30. *Asia Research Bulletin*, IV:5, Part 3 (October 31, 1974), p. 20.

31. Donald R. Sherk, "Post-Vietnam Asia" (*supra* note 27), p. 249.

maintain relations with friendly countries." He did not limit friendly countries to those that had not recognized the PRC, but said: "more than a hundred countries continue to maintain economic, trade and cultural relations with us. We shall never permit the Communists to succeed in their sinister designs to isolate us."³²

Dating back to 1971, Taiwan adopted a more flexible foreign policy. One unusual example is the Libyan Arab Republic. Although Libya recognized the PRC in June 1971, ambassadors were never exchanged, and the ROC embassy in Tripoli remains open. Taiwan also reacts less immediately when a country recognizes the PRC. Gambia, for example, recognized the PRC on December 12, 1974, but it was not until December 28 that Taipei formally announced that it would suspend its diplomatic relations with Gambia. During the intervening two weeks it was possible for the ROC embassy to effect other unofficial ties which would not sever all contact between the two nations. The breaking of diplomatic ties does not mean the end of all substantive ties. In fact, as the following examples show, unofficial transactions may grow.

A rank-ordering of Taiwan's top ten trading partners in 1973 — U.S.A., Japan, West Germany, Hong Kong, Indonesia, Australia, Canada, United Kingdom, Singapore, and the Netherlands (ranging from \$2.63 billion to \$131 million total trade) — reveals that only one among the "top ten," the United States, maintains formal diplomatic relations with Taipei. West Germany, for example, recognized the PRC in October 1972, yet this did not curtail ROC/West German interaction. West Germany is Taiwan's leading European trading partner. Trade between the two countries tripled between 1972 and 1975, with a trade total of \$690 million in 1975, and Germany enjoying a favorable balance of \$55.4 million. Scholarships were exchanged between the two countries in 1973, and 300 nurses recruited from Taiwan are serving in German hospitals.³³

An interesting Asian case is Indonesia which has recognized the PRC for more than two decades. Following the decimation of the Parti Komunis Indonesia in 1965-66, links between Jakarta and Taipei began to evolve. Trade climbed from a total of \$100,000

32. *China Post*, November 25, 1974.

33. *China Yearbook, 1974* (Taipei: China Publishing Co., 1974), p. 356; and *China Yearbook, 1975* (Taipei: China Publishing Co., 1975), p. 356.

in 1963 to \$345.2 million in 1975.³⁴ The largest trade increase (78.6%) occurred between 1972-73. Most ROC contracts in Indonesia are handled through the Chinese Chamber of Commerce. Figures on private ROC business investment in Indonesia are difficult to secure, but are substantial. Many of these investments are joint efforts with Indonesian military/business elites. This latter transnational movement of funds and ventures is a factor which has led some elements in the present Indonesian leaderships to oppose reopening ties with Peking, though formally Jakarta still recognizes the PRC.

Japan recognized the PRC in September 1972. Within two months, Taipei and Tokyo staffed organizations in the opposite capitals which were responsible for practically the identical work previously handled through the embassies. Taiwan opened the Association of East Asian Relations in Tokyo and Japan established the Interchange Association in Taipei. Key personnel in both organizations were either retired diplomats or diplomats on leave. Both the total volume of trade and Japanese investment have increased since 1972.

A 130 member Diet mission visited Taipei in October/November, 1974 to honor President Chiang Kai-shek on his birthday.³⁵ A major point of discussions held then was a resumption of air links after they had been severed in April 1974. The ROC had terminated the air pact between the two countries eighteen months after Tokyo recognized the PRC, when the Japanese Foreign Minister Ohira had publicly declared that China Airlines was not "considered a carrier representing a state."³⁶ Following extended negotiations, CAL air links with Japan were formally reestablished in an agreement signed on July 9, 1975. JAL has established a 100% owned subsidiary, Japan Asia Airways, which will be the Japanese airline on the Tokyo/Taipei route. The action which ultimately led to the resumption of flights was Foreign Minister Miyazawa's statement

34. Board of Foreign Trade, Ministry of Economic Affairs, *Foreign Trade Development in the Republic of China, 1974*, pp. 21-22; and *China Post*, January 13, 1976. Taiwan had a \$9.6 million favorable trade balance with Indonesia in 1975.

35. The bulk of the mission was from the pro-ROC Dietmen's Association for Sino-Japanese Relations, which has over 100 members from the ruling Liberal Democratic Party.

36. *New York Times*, April 21, 1974.

that the Nationalist flag is regarded as a national flag by those countries recognizing the ROC.³⁷

The Japanese case is the most notable example of linkages being sustained despite a political rupture which a few years ago would have led to opposite results. Similar arrangements have been made with the Philippines and Thailand. Taiwan's energetic foreign relations, which include the active participation of government departments such as the Ministries of Foreign Affairs, Economic Affairs, and Education, as well as many private groups, has been remarkably successful to date. Taiwan is not internationally isolated despite diplomatic setbacks which only a few years ago might have led to an inevitable and progressive political deterioration.

Taipei/Peking Relations

With some degree of regularity, Peking announces its determination to "liberate Taiwan." One of the more recent announcements was delivered at the first session of the Fourth National People's Congress by Chou En-lai in January 1975 when he spoke of "the noble aim of liberating Taiwan and unifying the motherland."³⁸

Pressure on Taiwan to negotiate with the PRC follows an ebb and flow process. Early 1973 saw some pressure on Taipei to work out a *modus vivendi* with Peking. General Fu Tso-yi, former Nationalist commander of Peking, urged the Kuomintang to "come together and talk."

If you are not prepared to enter into formal talks right away, then send some people to the mainland openly or secretly, to have a look and visit relatives and friends. You can rest assured that the PRC government will keep the matter secret, keep its word and guarantee your safety and freedom to come and go.³⁹

The ROC rejected the invitation out of hand, but its officials must always be alert to political and cultural appeals from the mainland. Offers of autonomy and the right to retain Taiwan's

37. *South China Morning Post*, July 12, 1975. Peking is most unhappy about the resumption of flights. An important consideration in Tokyo was the fact that JAL is suffering financially. For the first time in its twelve-year existence, JAL experienced a deficit in 1974 (\$143 million), the year Taipei terminated the profitable CAL/JAL flights. *Ibid.*, July 13, 1975.

38. *Peking Review*, XVIII:4 (January 24, 1975), p. 25.

39. *Straits Times*, March 2, 1973.

socio-economic system can sometimes elicit a sympathetic interest. A statement delivered in 1973 to government officials by a Ministry of Defense official is one example of the effort by ROC officials to educate middle-level government people:

. . . there are other leftists who have gone even a step further in following the words of Chou En-lai, by spouting off conditions for "unification" such as "Taiwan can be made a special autonomous region, be exempt from taxes a few years, and its industry and business allowed to operate, with a guarantee that present living conditions can be maintained." This is the tune harped on by those off-key Chicom mouthpieces. Look at the autonomous regions on the mainland. Aren't they good examples? And what about that guarantee to continue business and industry. Look at what happened to "national capitalists" who remained on the mainland after the Chinese Communist takeover.⁴⁰

Since 1973 there has been an ebb in pressures to enter into negotiations. ROC officials were obviously relieved in late 1974 by earlier statements the late Chou En-lai had made at least twice to visiting Japanese delegations when he commented that the "Taiwan question" probably would not be settled by his generation of leaders.⁴¹ Logically this is realistic because the historical enmities between present Nationalist and Communist leaders preclude meaningful preliminary negotiations. Moreover, there is no reason for the ROC to want any form of affiliation with the mainland in the foreseeable future.

The late Chou En-lai and those who support his policies believe that a period of long waiting is preferable to a two-China compromise. American officials reported little direct pressure on the U.S. over this question through late 1974. The PRC appears to be more concerned with some form of stability in Asia, a continued American presence, and a more activist effort to counter Soviet activities in Asia. Activation of the Taiwan issue could be dysfunctional in terms of these goals. At the same time, the PRC

40. Ministry of Defense statement, March 1973, mimeographed.

41. Senator Hiram L. Fong (R-Hawaii), who visited both the PRC and the ROC, reported a similar statement by Vice Foreign Minister Chiao Kuan-hua who said that "maybe a hundred years" would pass before a relationship between the PRC and the ROC occurred. *Congressional Record*, 120:164 (November 24, 1974), p. 519956.

fears Soviet-ROC contacts and currently emphasizes the peaceful unification of Taiwan and the mainland.⁴²

CONCLUSION

Through early 1974, PRC pressures on the U.S. to recognize Peking were restrained. Our present de facto and not always clear two-China policy could be subject to dramatic shifts following the 1976 presidential election. Some form of "normalization" with Peking will continue, but it would be unfortunate if the U.S. severed diplomatic ties with the ROC. Taiwan's foreign policy has been innovative and effective. Extensive relations between Taiwan and the United States have been beneficial to both countries. To break diplomatic ties with Taipei now would undermine the ROC's foreign policy and reveal an unrealistic American aloofness to a stabilizing presence in the Pacific Basin.

Taiwan is a nation heavily dependent on international transactions. It has been skillful and adept at surviving diplomatic setbacks dating back to 1970. Despite its multitudinous international ties and interests, there is an inward looking psychological orientation emerging. This in part results from the precarious international economic situation and a desire not to be excessively dependent on fluctuations in the international economy. ROC officials hope to reduce the annual increase in foreign trade from the 20% average between 1968-74 to 12% in the coming years. Also present in Taiwan is a sense of nation-building and a growing interest in domestic matters which are distinguishable from international/domestic problems. Official statements using the term "bastion" imply that overriding concerns are not what they might have been 30 years ago or what they will be 50 years from now. Speaking before the Kuomintang Central Committee in November 1974, Premier Chiang Ching kuo summarized the guidelines formulated at various meetings of the party Congress and Central Committee. The first point listed was: "Consolidating the bastion of national revival in Taiwan, Penghu, Kinmen and making models of these places."⁴³

42. Harold Hinton interprets passage of four Soviet naval vessels through the Taiwan Straits on May 12, 1973, two days before David Bruce arrived in Peking as Chief of the U.S. Liaison Office, as a suggestion "that the developing relationship between the United States and the People's Republic of China might be countered by one between the Soviet Union and the Republic of China." Harold C. Hinton, *Three and a Half Powers: The New Balance in Asia* (Bloomington: Indiana University Press, 1975), p. 110. No reference to this naval passage appeared in the *New York Times* of the period.

43. *China Post*, November 25, 1974.

Taiwan's diplomacy and domestic developments during the 1970s have been more successful than many might have thought possible.⁴⁴ It has withstood the Nixon, Ford, and Kissinger visits to the PRC. Taiwan's international relations have helped to provide the government and the political system with the confidence and the capacity to confront and solve problems, to adjust consciously political strategy to attain objectives, and to survive. The success of its international relations is principally the result of imaginative policies pursued by ROC officials over the past several years. These efforts would be inhibited by an American diplomatic shift involving the formal recognition of Peking, which would not serve to sustain and protect American interests in the Pacific Basin.

44. On March 9, 1977, the Ministry of Foreign Affairs of Ecuador announced that the ROC would set up a commercial office in Quito. The office will also handle consular affairs. *News from China*, p. 77-215 (March, 1977).