

# Diplomacy in Taiwan



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By

Booker C.K. Liaw

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# CHAPTER ONE

## INTRODUCTION

### **1.0 Introduction**

Since the Communist revolution in Mainland China, the relationship between China and Taiwan has been strained and frequently hostile. Hostilities heightened during the Cold War when each side became divided politically and aligned itself with different cold-warrior groups. While China (PRC) had a complicated relationship with the Soviet Union for strategic reasons, Taiwan found an ally in the West with the United States. Despite military activity in the Taiwanese Straits, the governments of the PRC and the ROC have managed and maintained a stable, yet fragile, relationship. Less attention has been given to other unofficial ties that have helped to stabilize the relationship. This book fills this gap. This book explores the role of business people from Taiwan to help to sustain this precarious relationship.

### **1.1 Our Major Findings**

Beginning in the late 1980s, businesses in Taiwan increased investments in Southeast Asia and China. The government of Taiwan promulgates these investments, a policy known as the “Southward Policy”. The government helped investments in those regions. However, the government of Taiwan, careful about investments in Mainland China, has created a policy known as “no haste, be patient” to contain the business community.

Business people in Taiwan have pioneered economic diplomacy for Taiwan; however, the government of Taiwan treated these people as enemies because they invested in China. This book determines the roles that business people in Taiwan have actually played in the development of economic diplomacy for Taiwan. These people in Taiwan largely overlooked the policies of Taiwan for profits. How, then, have they contributed to the economic diplomacy of Taiwan?

Sometimes we see that business people in Taiwan have relaxed these tensions. However, during the crisis (1995–1996), they did nothing to prevent the crisis; it was only when the US intervened that the crisis subsided. This book looks at the impact of the international system on the economic diplomacy of Taiwan. There is a strong need to look deeper at these policies, because these policies are typically created by state leaders. Given that the president and cabinet create policy, what has been their impact on the economic diplomacy of Taiwan? We will explore how far these institutions will go in order to work well together. Are they always seen as working hand-in-hand, or do contradictions exist? If there are contradictions, then the best solution to resolve disagreements and conflicts needs to be identified.

This book contributes to the field of international relations by explicating a three-level analysis of the external relations of Taiwan. Secondary aims include analyses of Taiwanese diplomacy from an economic point of view, which complement more conventional approaches, but are often insufficient, because of a tendency to concentrate on only political or military points of view. Using a bottom-up approach, the activities of business people in Taiwan explain and clarify their influence beyond Taiwan. Their activities have significant economic impacts and are also a special target as the source for analysis. Business people in Taiwan are a unique source, a “shoving and shaping” force that functions along with forces at a structural level. Such an analysis is not sufficient to provide exclusive perspectives of state and political elites. This bottom-up influence cannot be ignored; combining the system, the state, and the individual will provide a more comprehensive analysis of Taiwan's economic diplomacy.

This book makes the following claims:

- The business community in Taiwan has invested in China despite governmental cautions, while pressuring the government to permit cross-straits trade beginning in August 1987.
- Government policy suffers from multi-track decision-making, characterized by contradiction and business people in Taiwan who were without contracts. They have benefited from government intervention by investing in Southeast Asia. They have also followed their own agendas and initiatives by not increasing investments, as the government requested.

The triple role of business people in Taiwan and the government is as

follows:

- Surrogates deal with other nations and can be substituted as inter-governmental links.
- Middlemen have proven to be useful when governments seek informal links with other governments.
- There are hindrances: the business community has sometimes acted in opposition to government policies (e.g., when choosing to “go west” instead of “go south”).

However, business people have policies of self-interest that coincide with government requests to “root enterprise in Taiwan”, because they have transferred manufacturing operations abroad and retained important research and development.

## 1.2 Methodology

Each of the three levels introduces bias of some kind into explanations. At the system level, the unit (state/agent) level has overstressed a distinction among involved states and undervalued its impact on the state. At the state level, level 1 assumed that states are more similar and overstressed the state's impact on the behavior of units. Further, these first two levels of analysis are complementary and important points of view that require a complete analysis of the behavior of the entire system. Its establishment as a neutral theory is simply not possible. Any attempt at a systemic account of the entire system of international relations by Waltz is unable to rid itself of state-level causes. In this book we propose three reasons as to why a state must be seen as a major contributor to the behavior of the entire system (Hollis & Smith, 1992).

First, it is difficult to easily conceive international power as a natural force. Power is a resource that can be used by agents, as well as being a structural feature. Next, a systemic account of the entire system requires strong functional and structural forces. However, there is no way to infer a sufficiently dependent relationship among agents, because the structure is only apparent in the behavior of the agents; functional explanations require purposive behaviors by the agents. Finally, change in and among agents plausibly explains the changes that occur in the system.

Waltz (1986) indicates and recognizes that the “shaping and shoving” of structures can be effectively resisted despite their “shape” and “shove” structure. We need to look deeper at the state level. Domestic politics are different with a central government and assume that states have an impact

on the shape of international relations because of the absence of an international government.

There are reasons to doubt whether national interests were well enough defined to be used by agents as their goals for international relations. The debate about this layer should not proceed further without considering the individuals who make decisions.

A crucial factor is the correlation of world forces on the system. The credibility of state-level analyses comes from an ability to analyze international relations more deeply than if they were beholden to the system level. Conversely, foreign relations are understood both as an outgrowth of domestic politics and a broader international environment. The over-emphasis of domestic politics is a fallacy, because this analysis involves evaluations of the international environment. By relying on the levels of systems and the state, there is a tendency towards an over-rationalized account that does not account for the constraints imposed on decision-makers regarding a lack of information, limitations on time, and other internal and external pressures. Next, the level of the individual can be examined in terms of personality, worldview, and bias of leaders and also related impacts on business people. We employ this approach to better analyze the economic diplomacy of Taiwan in a comprehensive and sufficient manner.

At the international system level, changes in international environments will be analyzed, because they are the setting of economic diplomacy for Taiwan. Taiwan is included at the state level. The third level is composed of business people and political leaders.

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# CHAPTER TWO

## LITERATURE REVIEW

### 2.0 Introduction

This chapter is divided into three sections. Section one examines the various approaches. In this book, we use an approach based on neorealism proposed by Hollis and Smith (1992), which is known as *levels of analysis*. Realism/neorealism is especially commonplace in international relations, particularly in analyzing East Asia. We use a theoretical framework in this book, using Walt's systemic definitions, because neorealism can integrate different levels of analysis. However, Hollis and Smith's approach poses challenges. In this book, the roles of business people in Taiwan are emphasized because they serve as pioneers, intermediaries and surrogates in the economic diplomacy of Taiwan. In addition, they are promoters of regionalization and globalization in East Asia. This section looks at realism/neorealism, liberalism/neoliberalism, Fukuyama, constructivism, the business community, and state developmental approaches.

However, realism/neorealism is unable to address all of the roles that business people in Taiwan fulfill. Liberalism/neoliberalism is unable to account for systems. Fukuyama failed to predict the collapse of Communism. Susan Strange proposed the business approach, which has limitations as applied to the roles of business people in Taiwan. The developmental state approaches ignored the structural conflicts within the government of Taiwan and have been phased out. A contradiction between the cabinet and the presidency creates the structural conflict.<sup>1</sup> This section discusses some of the conclusions of this book.

Section two looks at the previous literature including more traditional and "realist" accounts of the foreign policy of Taiwan and interprets cross-straits relations, such as Gao Lang's history and evolution of diplomacy in Taiwan; or Suisheng Zhao's views of the importance of nationalism as an indication of Chinese foreign policy and the importance of nationalism. Next, we fill the gaps at the realist perspective with non-official diplomacy. The following part highlights the previous studies of the economic

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<sup>1</sup> See Chapter 6 for a further discussion on "double-track" decision-making.

diplomacy of Taiwan and focuses on the non-security factors in the external relations of Taiwan. It includes sub-sections on the roles of foreign aid, business investments, and/or trade, including analyses of Hsin-hsing Wu, Gerald Chan, and Teh-chang Lin. Finally, the third section of this chapter will examine issues in the literature.

## **2.1 Theory Review**

Hollis and Smith (1992) used Waltz's systemic theory throughout their book; however, this book will also use Hollis and Smith's levels of analysis, because realism/neorealism is the leading theory in international relations. Waltz's systemic explanations often serve as a theoretical framework used by researchers because Waltz's theory is a mechanism that can link different levels of analysis. This book extends the theory to completely different types of research.

### **2.1.1 Realism/Neorealism**

Realism is considered as the "power-politics" school of thought, and political realism is central to academic thought on both international relations and the policy-makers themselves. Realism dominates the theoretical aspects of this field. After 1940, this theory was developed to explain the lessons learned from appeasement during the Cold War period, when the theory was tested with various behavioral approaches. Realism returned as neorealism in the 1980s (Evans & Newnham, 1998). Neorealism developed from structural realism and described international relations in terms of a refined structural theory.

Neorealism has defined power in a unique way. For realists, the nature of man is based on a desire for power. Morgenthau's (1972) objective laws hold that "the desire to attain a maximum of power is universal" among all nations, because these laws are rooted in human nature. Realists see power as both a means and an end. Neorealism does not see power as an end but as characterized as at risk by either too much or too little power, power being simply a means to an end (Waltz, 1991).

Neorealism is concerned with the two following situations. The first situation seeks to correct its powerlessness to deal with economic issues effectively. Morgenthau has been criticized for trivializing economic factors, and scholars have responded by introducing notions of "hegemony" and "regime". Neorealism uses "hegemonic stability" as a mechanism of interpretation of economics. Realism thus deals with economic issues through international relations. The second situation has to do with the

development of a thoroughgoing international structure. Further, Morgenthau asserted that other realists have defined and based their political systems on unit capability, i.e., realists can be considered as reductionists. Waltz asserted that state behaviors can be explained only at the international level. We have excluded all intentions or capabilities of states or national leaders (Hollis & Smith, 1992, pp. 36–37).

Waltz defined a system as a set of interacting nation-states with distinct behavioral patterns and identities. Its organization is defined by its structure, which includes an ordering principle, differentiation of the functions of different divisions, and the distribution of capabilities. The ordering principle is defined as anarchy, i.e., the absence of a governmental layer above the state. There is no differentiation of capability, because states perform similar functions. A state's balance-of-power behavior is determined by the distribution of its capabilities. Kenneth N. Waltz's (1979) *Theory of International Politics* seeks to re-establish the central tenets of realism.

Neorealism can explain how structures can affect performance and outcomes regardless of the consequences attributed to power and status (Waltz, 1986). Waltz (1979) argues that the international system functions as a type of market composed of economic actors and outcomes produced. The units are influenced by the international system's conditions, behavior and interactions. Robert Cox and Richard K. Ashley complain that neorealism is a "problem-solving theory" and thus no longer has the interpretive strength of classical realism (Nye, 1988). However, the international system has no central government, and there is no governmental layer beyond the nation-state, which allows anarchy in individual states to influence the shape of international relations. Waltz's holist explanations have not prevented other theorists from becoming involved in the discussion. Reductionists can be convincing, and even Waltz (1986) admits that his holist approach is insufficient. Therefore, we need to look deeper at the state level in any examination of the economic diplomacy of Taiwan.

Further, the realist/neorealist perspective of economic diplomacy is insufficient to explain the political economy of Taiwan, China, and Southeast Asia. In realist/neorealist thought on international political economy states are the only actors in the world economy. In international societies, where anarchy prevails, actors seek gains in power and increases in wealth. This structure determines the winners and losers. Foreign trade and investment policies are often used to increase national interests. Strategic calculations of foreign policy goals are necessary when using economic diplomacy. From this view, the economic interaction of Taiwan,



China, and Southeast Asia would serve specific political goals. So, if a state effectively controls the pace and development of economic interactions, then trade and investment will be reduced or expanded according to needs of the state (Leng, 1998).

It is noteworthy, however, that assumptions of realism/neorealism are inadequate to account for the interactions of Taiwan, China, and Southeast Asia. States need to change their roles in this regard, because internationally oriented firms occupy strategic positions. Many business people in Taiwan have sidestepped the government and made new investments in China and Vietnam based on economic profits. They must negotiate with other governments rather than the government of Taiwan. The regulative policies of Taiwan were not successful in restraining either trade or investment (Leng, 1998).

### **2.1.2 Liberalism/Neo-liberalism**

The major strands of classical liberalism are as follows: (1) “commercial liberalism” expresses the peaceful dimensions of trade (theories often link free trade with peace); (2) “democratic liberalism” asserts the pacific effects of republican governments (theories linking democracy and peace at the unit level of analysis); (3) “regulatory liberalism” expresses the significance of rules and institutions in affecting relations between countries; and (4) “sociological liberalism” (theories asserting the transformative effect of trans-national contacts and coalitions on national attitudes and definitions of interests as well as international integration). Neoliberalism directly challenges realism/neorealism in conventional international theory (Nye, 1988).

Joseph Nye indicated that systems have the following two dimensions: 1) structure, and 2) process. In neorealism, “structure” is the distribution of capability among the units. Conversely, “process” is the mechanism by which units relate to each other. Liberalism traditionally stressed the following two features of the “systemic process”: 1) “non-power incentives”; and 2) “variations in the capacity to communicate and cooperate”. Liberalists emphasized how “trade and economic incentives” change the behaviors of state actors. Likewise, liberalists frequently emphasize “the effects of increased transnational (and trans-governmental) contacts on attitudes and abilities to communicate”. “Institutions and norms” play important roles in liberalism (Nye, 1988).

Although Nye attempted to establish a neoliberal systemic theory that is integrated with neorealism, it appears as if this attempt has not been convincing. Nye asserted that neorealism is suitable as a structural theory

at the system level, whereas neoliberalism is productive at the “process level”. When this theory was applied to East Asia in the 1990s, it did not work well. A systemic process allowed states to communicate and reach mutually beneficial agreements (Nye, 1988), Taiwan, China, and Vietnam cut off all official communication channels in the 1990s, and no significant agreements were reached. Before business people in Taiwan went to Vietnam, no agreements were made. Also, liberalism largely focused only on the effects of domestic politics. Therefore, this book does not employ neoliberalism at the system level. To fill this gap, the author uses levels of analysis based on neorealism at the system level to better analyze economic diplomacy by Taiwan in the 1990s.

### **Fukuyama**

The prominent economic issues arising since the Cold War ended have gained ground and attracted academic discussion. One scholar wrote, “Almost overnight, the phrase “end of history” was used as a synonym for the “post-Cold War era”; and Francis Fukuyama, hitherto almost unknown amongst students of international relations, became an instant intellectual celebrity” (Griffiths, 1999).<sup>2</sup> By the “end of history”, Fukuyama did not mean that politics or wars would no longer occur; rather his argument was normative. At the end of the 20th century, the fusion of liberal democracy and capitalism proved to be more robust than that of other political/economic systems. The reason for this is that the combination satisfies specific and fundamental human drives. Humans have two basic desires: 1) for material goods and wealth; and 2) recognition of worth as a human being by others. Capitalism is seen as the best economic system because it maximizes the production of goods and services as well as the exploitation of technology to create wealth. That being said, economic growth can take you only so far. Liberal democracies alone are able to meet most fundamental human needs for recognition, political freedom, and equality (Griffiths, 1999).

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<sup>2</sup> Meanwhile, in an attempt to justify his “Asian values,” Lee Kuan Yew from Singapore continued to emphasize that the Asian people were satisfied with the authoritarian government. With China refusing political reform and continuing to abuse human rights, its leaders voiced the need to support human rights to ensure the survival of 1.2 billion people in China. Fukuyama (1992, p. 243) states that many Asian societies have paid “lip service to Western principles of liberal democracy, accepting the form while modifying the content to accommodate Asian traditions.”

Therefore, Taiwan's democratization and its liberalized economy conducted since the late 1980s have made it more acceptable and praiseworthy among Western countries. Even before Fukuyama's theory came out, Western countries had been prone to take the democratic improvement and protection of human rights into account when they assessed bilateral relations, although democratization has never been the only criterion in decisions as to whether to establish bilateral ties with Taiwan or allow it to upgrade representative offices in Western countries.

Unfortunately, unlike other theories, Fukuyama's liberal democracy has not been realized throughout the world. China and Vietnam have sustained their own political systems while at the same time pursuing capitalism. However, this has enabled Taiwan and the business people in Taiwan to wield more economic power in the international arena as these states have opened for business with Taiwan. Business people in Taiwan can still invest in China and Vietnam and deal with local officialdom, thus promoting regionalization and globalization in East Asia.

### **2.1.3 Constructivism**

Alexander Wendt's constructivist myth, that "anarchy is what states make of it", is reassuring. That is, states view the international system from several perspectives. This is because states meet one another by not one society, but three societies of international "anarchy". The first is a "Hobbesian anarchy", where states regard other states as "enemies" and where conflicts happen all the time, as in the pre-1648 age. The second is a "Lockean anarchy", where states interpret other states as competitors, but obey the rules of "live and let live" and respect each other's right to coexist, as in the Westphalian system of sovereignty after 1648. The third is a "Kantian anarchy", where states cooperate with one other and where the "self-help" of a "Hobbesian anarchy" yields to an "other-help" notion based on a "collective-identity", and where war is put out of place in support of sincere cooperation, a situation that supposedly characterizes the world after 1945 (Hobson, 2000).

The myth claims to build a bridge between neorealists and neoliberals. Neorealists view "anarchy [as] the cause of war", implying that anarchy means that international politics tend to be conflictual. Neoliberals believe "in an international society", implying that, reconciled by international society, anarchy could be cooperative. Wendt asserts that anarchy is necessarily neither conflictual nor cooperative. Therefore, there is no permanent nature of international anarchy. If states behave with conflict towards one another, then it appears that the "nature" of international

anarchy is conflictual. If states behave cooperatively towards one another, then it seems that the “nature” of international anarchy is cooperative. It is what states do that we must focus on to understand conflict and cooperation in international politics. Therefore, we should not focus on the made-up “nature” of international anarchy. States determine the “nature” of international anarchy (Weber, 2001).

Constructivism argues that what states do depends on their identities and interests, and identities and interests change. It also maintains that identities and interests in international politics are not constant. Therefore, they have no predetermined nature. This is true for the identity of the sovereign nation-state, and also for the identity of international anarchy. The important thing is to look at how identities and interests are constructed. We need to look at how they are made through specific international interactions. Therefore, constructivism’s myth that “anarchy” is what states make of it appears to “build a bridge” between neorealist “truths” and neoliberal “truths” (Weber, 2001).

Wendt classifies some IR theories, including neorealism, as “materialist”. This classification is important because he relies on it to argue that constructivist IR is characterized by not being “materialist” (Dessler, 2000). “What makes a theory materialist” is that it explains phenomena by power rather than by ideas. Neorealism counts as a “materialist theory” because it identifies regularities that link the international distribution of power to state behavior (Wendt, 1999). Wendt’s argument is that the international system should be regarded as a normative sphere (or international society). States are governed by a sense of “obligation” but do not compete with one another. Wendt criticizes the notions of “interest” as being a “rationalist” or a “materialist”. “Materialist theory” presupposes that interests are created before social interaction. Therefore, once formed, interests never change. However, Wendt argues that state interests are shaped by their identities (Copeland, 2000).

Identities are socially constructed by international cultures. International cultures can exist at any given time. Because international cultures differ over time, state identities and interests are thus different. Therefore, this has essential consequences for interstate behavior and “structural change” in world politics. This approach is a fruitful alternative to the neorealism definitions of the “international” that pass through historical sociology (Hobson, 2000).

Wendt (1992) asserts that Waltz’s theory is based on a *de facto* individualism (whether intended as such or not) because Waltz takes the properties of his units of analysis as predetermined rather than dealing with how these are produced by interaction. Although Wendt is fruitful in

addressing the international system, I agree that Wendt admits that we can disagree about the agent-structure problem while agreeing on the levels of analysis. That is, the two problems are, in fact, two different problems. We can regard “levels of analysis” as questions about what drives the behavior of predetermined states. Then we regard the “agent-structure” as questions about what constitutes the properties of those states in the first place (Wendt, 1992).

The period following the end of the Cold War has witnessed the resurgence of nationalist and separatist demands in the international political economy. Recurring tensions in the Taiwan Straits in the past ten years are a good example. In November/December 2003, Taiwan’s President Chen Shui-bian stirred up tensions with the Mainland by calling for a referendum that might take Taiwan a step closer to formal independence. This led to an annoyed reaction from China and censure from the US. A question crops up regarding why the government of Taiwan appears to be pursuing a policy that will eventually lead to direct confrontation with China. Meanwhile, the government of Taiwan may drive its ally, the US, into a position that may make it necessary to reconsider its assurance to defend Taiwan. To understand Taipei’s behavior, we need to examine the dynamics of the globalization process and its impact on the development of a Taiwanese national identity. According to the constructivist approach, the globalization process has influenced Taiwanese identity-building. The constructivist asserts that identities and interests of international states are shaped through interactions and processes (such as the globalization process). This enables us to link globalization and identity. Uwe Wunderlich (2004) has conceptualized globalization and its influence on national identities, thus providing a theoretical framework to apply to domestic developments in Taiwan in the post-Cold War era. However, Wunderlich has not mentioned how firms play a role in the interactions and processes in the economic diplomacy of Taiwan in East Asia. He only emphasizes the issue of Taiwanese national identity, not at all the roles of firms.

### **2.1.4 Business**

Research on economic statecraft indicates that coercive tactics, such as sanctions, do not work well after new actors such as non-governmental organizations (NGOs) and multinational corporations (MNCs) have emerged (Rodman, 1994; also see Hufbauer, Schott, and Kimberly Elliot, 1990). A home country government cannot easily influence multinational corporations that acquire their capital, technology, and sales through the

international market. As overseas connections become more important to these businesses, it is host country laws rather than home country policies that influence the everyday operations of MNCs. Because of market internationalization, there will be much stronger competition among states for a world market share. This competition will compel states to bargain with MNCs to establish operations within the territory of the state and with national firms, and not go abroad (Strange, 1992).

Susan Strange maintains that now, leaders of states may be the last to recognize that they no longer have the authority over national societies and economies which they used to enjoy. The heads of the Soviet Union and the states of central Europe stepped down because of their disillusion. However, the disillusion is not limited to socialist systems. In almost all capitalist countries, popular disappointment with the national leaders is growing, including the US, Great Britain, Italy and France. Like Japan and South Korea, Taiwan is a state with a strong government that has successfully used the necessary means to circumscribe and control foreign trade and foreign investment, and to allocate credit and guide corporate development in the private sector. Nonetheless, in the Cold War, Taiwan benefited from US economic and military aid. Together with its extremely high domestic savings and low consumption, Taiwan was successful in making profits. In addition, Taiwan was free from the pressure of abiding by the norm of free trade and was also given access to US markets, and later to European ones. Finally, Taiwan could also somehow obtain the necessary technology at that time. However, the Cold War is over, and under the pressure of the US and other Western countries, Taiwan can no longer be exempted from introducing a more liberal, non-discriminatory trading regime (although Strange [1983] disputes this term). To sum up, the exceptionalism of the Asian countries, including Taiwan, has been significantly worn away and will continue to wear away. In almost all the Asian countries, as in other areas, there will be contention for control over the institutions and agencies of government. There will be contention among factions of political parties, and between vested interests in the public and private sectors. There will be power struggles among divisions of the state bureaucracy. It is inevitable that both the unity and authority of government will suffer (Strange, 1998). The government can no longer command but must suffer, negotiate and compromise. I admit that Susan Strange is successful in stating the above, but she fails to point out that business people in Taiwan also play essential roles in promoting the regionalization and globalization of East Asia, including Taiwan, China and Southeast Asia.

### 2.1.5 Theory on East Asia/Developmental State Theory/Neo-Statism

The term *developmental state* was coined by Johnson (1982), whose purpose was to distinguish between the state typical of the region of Asian capitalism and that common in the realms of Anglo-American capitalism (Weiss & Hobson, 1995). The importance of strong state control over economic affairs is emphasized in East Asia, including Japan, Korea and Taiwan.<sup>3</sup> Chalmers Johnson argues there were still many “socialist” essentials within the industrial strategy of these capitalist developmental states (CDS). Late 1980 economic theory could not deal with Japanese-style economies. Leading thinkers ignored the success and achievements of these systems by regarding them as exceptions, in order to fit their theories. Johnson (1988) argues that the success of the Japanese economy is neither random nor a function of culture; it is due to policy, particularly to Japanese industrial policy. In his book, Johnson rejects neoclassical economic theory and convergence theories of political and economic development. According to Johnson (1995), the Japanese economy was guided by the state in guidelines that the state wanted it to follow. Japan has a different political economy from that of the Anglo-American countries. It is Japan’s “elite state bureaucracy” that governs the country. Johnson argues that although Japan is not under the democratic guidance prevalent in the West, the Japanese state is still able to wield a grand strategy.

Johnson might have been correct about the earlier post-war era for Japan. However, this perspective is not consistent with the present situation of Taiwan. This book argues that while the government of Taiwan used to play a key role in economic policy planning, its influence has been on the wane; particularly where economic diplomacy is concerned, it plays a more auxiliary role. It is the business people in Taiwan who play a major role in the economic diplomacy of Taiwan.

Robert Wade’s book on Taiwan builds on former work by Chalmers. In terms of the accomplishment of Taiwan, South Korea and Japan, Robert Wade argues that it is neither free market principles nor government intervention that achieves the success. He asserts that a combination of markets and administration works best. Wade (1990) has made a good case for his view that while market forces have done a great deal in the economic development of Taiwan, the government of Taiwan has also played a key part.

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<sup>3</sup> This study later argues that there are differences between Taiwan and Japan.

Rejecting the neoclassical account, he highlights the contribution of the governed-market approach. Wade (1990) spends a whole chapter in detailing the areas where Taiwan's economic strategy matches the neoclassical account. However, he expatiates on state intervention in Taiwan from chapter 4 to chapter 6. He outlines the all-encompassing role of state-owned enterprises and the use of the financial and fiscal system to employ resources. He also describes the trade regime and the neoclassical account of export-led growth. Although exporters benefited from a free trade regime for inputs, the domestic market for final products was protected in many ways up to the 1980s. In addition, exporters were given support that went beyond a favorable exchange. Wade also emphasizes the political foundations of Taiwan's economic development. According to Wade, Taiwan is different from Japan because of the weakly developed political linkages between the state and the private sector. He states that Taiwan has an interesting model that stresses the "governance" of the market.

This book doubts Wade's emphasis on the role of government, because when several state-owned enterprises and party-owned enterprises did "go south", as had been urged by the Taiwanese government, they suffered a serious setback. Many policies of the government of Taiwan proved to be awkward. When the government intervened, business people in Taiwan often became confused. In the end, such people in Taiwan are usually more clear-sighted than the government. The bottom-up forces by the collective businesses demonstrate themselves to be fruitful, promoting regionalization and globalization in East Asia. Wade is also wrong when he chooses to characterize the political system as "corporatist". He is again wrong when he asserts the decision-making is cohesive because it is inconsistent and contradictory.

This book, while arguing for the importance of the role of business people in Taiwan, is not unaware of the fact that government and institutions still matter. The author tries to apply Wade's theory to the economic diplomacy of Taiwan in the 1990s, with efforts made to fill the gap left by Wade. Business people in Taiwan can make great contributions to cross-border politico-economic activities. In terms of this, the impact of Taiwan's business people on East Asia has been far greater than that of a mere developmental state. On the other hand, the government's role is still necessary to help them to cultivate Taiwan's foreign relations with neighbors in East Asia by concluding international agreements with the latter.

Weiss (1998) strongly challenges the view that global economic interdependence is eating away the modern state. Weiss refutes the



argument that in the face of globalization, national governments have become less relevant. She emphasizes the role of state-informed and state-embedded institutions in governing the economy. The impact of external economic pressures is to a large extent domestically determined. She argues that states that can deepen economic interdependence can also build sophisticated and flexible relations with domestic groups. Moreover, responding to globalization will probably make states become more efficient and capable, strengthening their ability to direct domestic economic policy. According to the current orthodoxy, states are merely victims of changes that cross their borders and are beyond their control. However, Weiss (1999) asserts that although modern globalization is the most significant force in the world, the state is as much a midwife or perpetrator as a victim.

Weiss and Hobson (1995) argue that neoclassical orthodoxy is wrong. They assert that states in East Asia have played a major part in building industrial prowess and export competitiveness. The NIC states of Korea and Taiwan deepened their infrastructural power. Therefore, they can shift resources from agriculture to industry; and from domestic to export production; the combination of market-orientation and active state involvement is crucial to the narrative of their success.

According to Weiss and Hobson (1995), in Taiwan, liberalization was a highly managed affair. Import controls were not removed, but constantly reshaped and redirected. Thus, Taiwan maintained a protective system. However, this system became able to promote import substitution for export production. In general, the ways in which the economies in East Asia handle their trade are *different* from those of many developing countries.

In both Taiwan and Korea, government intervention has been crucial to the operation of labor markets. Such intervention is categorized in many forms, from repression of organized labor to legal restraints on trade union activity. Governments in Korea, Singapore and Taiwan tried to prevent the organized mobilization of labor. This is not because they are afraid of a sudden wage increase; they are afraid of national security caused by a domestic uprising in the Cold War era (Weiss & Hobson, 1995). The free trade regime was politically constructed up to the 1980s. They thus assert that an export-oriented economy is not a surrogate for non-involvement on the part of government. According to Weiss and Hobson (1995), an export orientation is something that requires careful coordination. Weiss and Hobson's argument is rather parallel to Wade's. However, this book asserts that if coordination is necessary, the government needs to be coordinated rather than to coordinate business people in Taiwan.

### 2.1.6 Theoretical Conclusion

Realism/neorealism has been dominant in international relations, especially in East Asia. The central approach I choose is “levels of analysis” based on neorealism, because it best explains the interlinking function between the international system and states. In so doing, Hollis and Smith dig deeper and improve neorealism, by modifying the level of the international system to incorporate both the level of the state and the level of the individual. In the systemic explanation of neorealism, the behavior of the units is based on rationality and shaped by the structure of the system. The system theory by Waltz can thus explain why different units behave in the same way. Waltz’s systemic explanations can serve as the theoretical framework because neorealism (Waltz’s theory) offers a means to amalgamate different levels of analysis. Thus, “levels of analysis” have been the best approach so far. After I enrich “levels of analysis” by emphasizing the roles of business people in Taiwan in the economic diplomacy of Taiwan, this book thus makes significant contributions to international relations as a discipline beyond the account of Hollis and Smith.

Liberalism/Neoliberalism is rather impotent in addressing system-level issues. Most of its account still focuses on the sub-national level. Therefore, it is difficult for liberalism/neoliberalism to link the system level and state level. Fukuyama is now still merely as normative because China and Vietnam still sustain their communist systems, and they seem to prosper. Therefore, “the end of history” has not yet happened.

When it comes to constructivists, Wendt also admits that we can disagree about the agent-structure problem while agreeing on the levels of analysis. I have the same opinion as Wendt; that is, the two problems are, in fact, two separate problems. Therefore, “levels of analysis” do not have to take into account the agent-structure problem.

As far as neo-Gramscianism is concerned, the theory of Robert Cox and Stephen Gill can only construe the impact of capitalism and culture on international social forces. This is because when Taiwan faced the pressure of the USA and appreciated the New Taiwanese Dollar, business people in Taiwan were forced to establish themselves in China and Southeast Asia. However, the various contributions of business people in Taiwan in East Asia still need expatiating by “levels of analysis”. People like Susan Strange point out that leaders of states can no longer have the authority over national societies and economies that they used to have. They must share the “power” with business people who rise to negotiate in the diplomatic arena. Susan Strange’s non-state actor/business theory can explain the triangular diplomatic system, but it fails to look at the practical

details of how business people in Taiwan perform in East Asia.

Developmental state theorists are out of phase in the 1990s. All the characteristics of the state described by Wade are far from the facts because he fails to account for the structural conflict of the government of Taiwan. Double-track decision-making can only lead to inefficiency and confusion rather than “governing the market”.

All the mainstream international relations theorists, including realists, liberals, constructivists, Gramscians, non-state-actor/business and developmental state theorists, can merely partially interpret the quintessence of economic diplomacy of Taiwan in the 1990s. Therefore, the “levels of analysis” proposed by Hollis and Smith are used to illustrate the panorama. Only this neutral heuristic tool can roughly analyze the roles of business people in Taiwan and the role of the government of Taiwan in the post-Cold War era. Therefore, the “levels of analysis” adopted by this book have been the most effective approach so far. However, I expatiate on the roles of business people in Taiwan, beyond the approach proposed by Hollis and Smith. Business people in Taiwan’s contributions are thus emphasized. They serve as pioneers, intermediaries and proxies in the economic diplomacy of Taiwan. Furthermore, they are promoters of regionalization and globalization in East Asia.

## **2.2 Review of Empirical Studies on Taiwan**

### **2.2.1 Traditional and Realist Accounts of Taiwan’s Foreign Policy**

There have been many works on the diplomacy of the Republic of China (Taiwan) since Taiwan emerged as one of the newly industrialized countries (NICs). Most of them concentrate on political negotiations between states or governments (Joei, 1994). This is not wrong in terms of Webster’s Third New International Dictionary, which defines diplomacy as “the art and practice of conducting negotiations between nations for the attainment of mutually satisfactory terms”. Since the 1980s, the pragmatic diplomacy of Taiwan has drawn the attention of many scholars (Joei, 1994; see also Hsieh, 1996; Moller, 1996; Wu, 1996). The issue of Taiwan’s return to international organizations is also widely noted (Henckaerts, XXXX). The theoretical foundation for “pragmatic diplomacy” can be found in many places, the fundamental basis being as follows: (1) an international act performed by a political entity, (2) as equivalent to the exercise of a nation’s sovereign rights, (3) as having its origins in the

Taiwan Constitution, and (4) as a proper and logical means of expressing a nation's struggle for its "international right of survival" (Joci, 1994).

Lang (1993) separates Taiwanese diplomatic history into two periods. He selects six indicators to assess the diplomatic relations of Taiwan from 1950 to 1972: (1) the changes of countries with official relations and (2) treaty relations, (3) changes of embassies, (4) the exchange of visits between high-level officials, (5) the situation with the United Nations' ballot, and (6) the expansion of economic and trading relations. Gao further suggests another selection of five indicators to evaluate the diplomatic activities of Taiwan from 1972 to 1992: (1) the changes of countries with official relations, (2) the changes of units stationed abroad (3) the changes in treaty relations, (4) the exchange of visits between high-level officials, and (5) the situation of participating international organizations. He concludes that the quandary of Taiwan's pragmatic diplomacy is that the expectation of the masses exceeds its achievements. In addition, Gao also believes that until China changes its attitude, the struggle across the Taiwan Straits will not cease, and the diplomatic predicament of Taiwan cannot find an easy solution.

An-chia Wu (1994) asserts that in the post-Cold War era, while evaluating the international political environment, China's leaders are still swayed by Deng Xiaoping's remarks. In the aftermath of the dramatic changes in the former Soviet Union and in Eastern Europe, Chinese leaders changed their views towards the international environment. Thus, they also re-evaluated their policy on Taiwan, readjusting the organizations and personnel in charge of the policy, insisting on the "one country, two systems" formula, promoting cross-Straits economic exchange and trade development, blocking Taiwan's international activities, and continuing the strategy of combining the advocacy of "peaceful unification" without renouncing the use of force. In general, according to Wu, China's strategy is thus both hard and soft. The hard tactics continue to threaten the use of force, although this is unlikely. In Wu's analyses, the use of force would not only damage the international ambience of peace and development, but also ruin China's "four modernizations" (in industry, agriculture, defense, and science and technology). The soft tactics oblige China to continue to promote peaceful unification while the blockade policy continues. In contrast, Lee Teng-hui, Taiwan's former president, formally renounced the use of force to solve the issue of unification, hoping for a reciprocal declaration from China. According to Wu, China will never abandon the use of force. However, Wu believes that the resolution of this issue will drag on until both sides find the ripe time and right conditions for negotiating on the termination of hostility or the conclusion of a peace

agreement, although Wu has mentioned that China will continue to promote cross-Straits economic and trade exchanges to lessen the gap between the two sides. Since the exchanges are largely a tool to achieve unification, all the policy decisions and arrangements for the exchanges will be made accordingly. However, further analysis of economic changes has not been developed in this chapter.

Taiwan's diplomacy has always been conditioned by the military coercion and peaceful offensive of China. Nationalism is a crucial element of China's Taiwan policy. Zhao (2000) maintains that the rise of nationalism does not necessarily make China become irrational against Taiwan or threaten international society. Instead, China's policy of national reunification is flexible, and nationalism has not prevented China from adopting a peaceful offensive as the key approach towards Taiwan. Zhao asserts that in addition to sustained dialogue, if Taiwan does not declare independence, China will permit it to be a country in everything but name, symbols, and formal diplomatic practice. Chinese nationalism is assertive in defending territorial integrity and national unity. Unless China's national interests or territorial integrity is in danger, its nationalism does not become more intense nor its international behavior particularly aggressive. Thus, he concludes that David Shambaugh is right to characterize Chinese nationalism as "defensive nationalism", which is "assertive in form, but reactive in essence".

Leaders in Taiwan have been credited with making important contributions to Taiwan's foreign policy, although this discussion has not been much developed (Chao & Myers, 1997). After Taiwan's democratic transition, the KMT still remained in power. Chao and Myers find that Taiwan's leaders have developed a creative leadership style of a distinct type. The book "Democracy's New Leaders in the Republic of China on Taiwan" analyses the former president Lee Teng-hui and premier Lien Chan in terms of their leaderships. In 1993, Lee and Lien initiated the foreign policy of pragmatism (*wushi wajiao* 務實外交). Lien tried to improve economic relations and foster other exchanges with the Mainland while resolving disputes between the two Chinese societies. This was quite successful. In addition, Lien also tried to upgrade Taiwan's relations with other countries and enable it to enter other organizations, like the United Nations. Lee and Lien even accepted the possibility of double recognition. Lee's speech at Cornell University in 1995 exasperated the PRC since Lee rarely mentioned reunification with China while emphasizing Taiwan's democracy and the people's wishes for parity in the international arena. Lien's visit to Europe that same month further incensed China. Then in 1996, the new foreign minister, John Chang, expressed the view that

Taiwan does not mean to provoke Beijing with its diplomatic initiatives and that entering the United Nations is its long-term goal but not its priority. Lien tried to resume delayed negotiations between China and Taiwan. By late 1996, Beijing still had not replied to Taiwan's leaders. In terms of Taiwan's foreign relations, Chao and Myers focus only on the level of individual statesmen/politicians. There are no other levels of analysis.

### **2.2.2 Non-Official Diplomacy/Informal Diplomacy**

After Chiang Ching-kuo lifted martial law in Taiwan in 1987 and allowed Taiwan's people to visit Mainland China, the tension between Taiwan and China began to relax. Before Taiwan's president, Lee Teng-hui, visited his alma mater, Cornell University, in the summer of 1995, when China launched the 1995-1996 crisis, relations across the Taiwan Straits had improved significantly. There are several academic studies of this trend (Clough, 1993; Khanna, 1995; Shambaugh, 1995; Leng, 1996).

Mengin (1997), in an article on Taiwan's non-official diplomacy, states that the Sino-American normalization has led to Taiwan's diplomatic isolation and also turned the status of Taiwan from an international issue into one of Chinese internal affairs. Since then, only economic, cultural and scientific ties, not political links, have been allowed between Taiwan and the countries that recognized China. Countries like Japan and the US transferred their relations with Taiwan from an official to a nonofficial realm. Because of Taiwan's accumulated wealth, European countries are willing to set up non-official ties with Taiwan. This is on a basis quite like the bases that rule US-Taiwan or Japan-Taiwan relations: they aimed at keeping the facilities of diplomatic and consular relations under the guise of private arrangements. In several ways, Taiwan has been successful in extending political relations to economic ties. There has been a substantial rise in high-ranking contacts, including legislators and government authorities. The foreign civil servants who visited Taiwan might still be in office, but they came, ostensibly, in a private capacity. From January 1991 to June 1993, over 20 European cabinet members paid a visit to Taiwan. Mengin generalized that Taipei uses a bargaining strategy to obtain political advantages through the allocation of important contracts. In other words, because the bargain exists, some members of the government will come into the picture, extending the political effects of economic ties. However, Taiwan's dream of dual recognition cannot be realized. Even consular relations with Latvia were severed in 1994 under pressure from China. Mengin concludes that