

# Taiwan and Southeast Asia since Ma Ying-jeou's Presidency

Samuel C Y KU\*

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**TAIWAN'S RELATIONS WITH** Southeast Asia have undergone four stages of development, the first stage before 1987, the second from 1988 to 1997, the third from 1998 to 2007, and the fourth from May 2008 when Ma Ying-jeou assumed the presidency of the ROC. Taiwan's relations with Southeast Asia are mainly dependent upon four variables: (1) global political economy, (2) regional political economy, (3) China's political economy, and (4) development of cross-Strait relations. These four

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\* Samuel C Y KU is Professor at the Institute of China and Asia-Pacific Studies, National Sun Yat-sen University, Kaohsiung, Taiwan.

variables, however, will continue to influence the island's relations with Southeast Asia, although Ma Ying-jeou has placed priority on the development of cross-Strait relations in his foreign policy.

## **The First Stage: Prior to 1987**

International political economy prior to 1987 was affected by the political confrontation and economic competition between the two super powers, the US and the former Soviet Union. Taiwan was then associated with the US Camp, which limited Taiwan's political linkages to countries in the US-led Camp with little economic interactions with countries in the other Camp led by the former Soviet Union. Regionally speaking, the political order did not favour Taiwan either. Taiwan did not have interactions with Vietnam, Laos, Cambodia and Myanmar, not to mention Taiwan's absence in most regional

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organisations. Economically, most countries in Southeast Asia implemented strict financial and monetary policies, which discouraged foreigners including Taiwanese from investing in these countries. Taiwan's trade with Southeast Asia was also low, with a total of US\$5.01 billion in 1987, or only 5.6% of the island's entire trade in that year.

China was also a variable contributing to Taiwan's difficult relations with Southeast Asia prior to 1987. Due to the mainland's one-China policy, Taiwan lost its two final diplomatic partners in the region after the fall of South Vietnam in 1974. China, on the contrary, has exchanged diplomatic recognition with most

countries in the region by 1987, except Singapore and Indonesia. On cross-Strait relations, Taiwan and China were in a deadlock during this period. Taiwan maintained the "three no" policy in countering China's unification policy.

## **The Second Stage: 1988-1997**

The global political economy began to change when the then two super powers held the third summit and signed the Intermediate-Range Nuclear Forces Treaty (INF) in 1987. The international political order then changed from one of confrontation to one of cooperation while the economic order was moving towards market-directed economy, rather than state-controlled economy. The American dollar, due to America's huge trade deficits, had begun to depreciate in the mid-1980s, which also contributed to the change in the global economic order. Taiwan dollars, among other Asian currencies, then began to appreciate, which benefited the island's imports and encouraged Taiwanese businessmen to invest overseas. Southeast Asia then became a priority for Taiwan's investors.

Regionally speaking, Southeast Asian countries also began to adjust their policies,

giving economic development priority over political confrontation and provided opportunities for Taiwanese businessmen to enter the market of Southeast Asia. As political and economic barriers have been removed since the late 1980s in the region, the economically strong Taiwan was able to upgrade its relations with Southeast Asian countries through economic means.

As for China, the Asian giant began to show its goodwill to its neighbours in the south, particularly after the brutal Tiananmen Square incident in June 1989. China's investment in Southeast Asia was not significant as compared to that of Taiwan in the 1990s. Regarding cross-Strait relations, both Taiwan and China have expressed willingness for more interactions since the late 1980s. Taiwan lifted martial law in July 1987 and initiated a series of political reforms on the island. Taiwan citizens for the first time were allowed to visit mainland China for humanitarian reasons in December 1987, starting the first wave of interactions among civilians across the Taiwan Strait. In February 1991, Taiwan set up the Straits Exchange Foundation (SEF) while the Mainland established the Association for Relations Across the Taiwan Strait (ARATS) in December 1991. SEF and ARATS are authorised to represent their governments across the Taiwan Strait and initiate talks on bilateral affairs.

Regional and international environments have laid a favourable foundation for Taiwan's improving relations with Southeast Asia, particularly on Taiwan's investments in the region. Taiwan's investment in Southeast Asia was not significant prior to 1987; the island's investment in Southeast Asia peaked in 1994 (with a total of US\$5.1 billion), partially because of Taiwan's "Southward Policy" (*Nan Xiang Zheng Ce*) officially announced in February 1994. Taiwan maintained a similar amount of investments in Southeast Asia in the following years in 1995 (US\$3.9 billion), 1996 (US\$4.4 billion) and 1997 (US\$4.8 billion). Taiwan's trade with Southeast Asia has also shown a rapid increase during the same period, from US\$8.7 billion in 1988 (6.4% of Taiwan's entire trade in the year) to US\$29.7 billion in 1997 (12.5% of the island's total trade in the year).

Due to Taiwan's strong economic relations with Southeast Asia, Taiwan has upgraded its relations with most countries in Southeast Asia. The most significant one is the exchange of visits among high-level officials between Taiwan and most Southeast Asian countries, including the visits of former ROC President Lee Teng-hui to Singapore in May 1990 and to the Philippines, Indonesia and Thailand in February 1994. Similarly, Taiwan also received the visits of a number of leaders from Southeast Asia during the 1990s, including former Singapore Prime Minister Goh Chok Tong and Senior Minister Lee Kuan Yew, then Malaysia Prime Minister Mohamad Mahathir, and then Vice President of the Philippines Fidel Ramos.

More significant was the upgrading of Taiwan's Offices in Southeast Asia. Taiwan was allowed to rename its Offices in Southeast Asia during the 1990s, from a previously vague name to a politically meaningful one under the title of "Taipei". For example, Taiwan's Office in Indonesia was changed from Chinese Chamber of Commerce to Jakarta to Taipei Economic and Trade Representative Office in Indonesia in October 1989. Similarly, most Southeast Asian countries have also renamed their Offices in

Taiwan during this period of time; the Philippines, for example, renamed its Office from the Asia Exchange Centre (set up in March 1976) to the Manila Economic and Cultural Office in December 1989 for its two branch offices in Taichung and Kaohsiung, respectively. In terms of treatment, Taiwan officials who were dispatched to Southeast Asian countries were not fairly treated before the mid-1980s; however, since the late 1980s, they have been enjoying similar diplomatic privileges accorded to diplomats from countries having formal diplomatic relations with Southeast Asian countries.

On the part of Taiwan, it has also opened its door to citizens of several Southeast Asian countries. Vietnamese, Thais, Filipinos and Indonesians have begun to work in Taiwan since the early 1990s. There are now more than 300,000 Southeast Asian citizens working in Taiwan. Southeast Asia also became a priority overseas vacation for Taiwanese; Taiwan, by 1997, was the second largest source of international arrivals to Southeast Asia, next only to Japan.

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### **The Third Stage: 1998-2007**

While the aforementioned four variables contributed to Taiwan's upgraded relations with Southeast Asia during the 1990s, they continued to influence Taiwan's relations with its neighbours to the south in the following decade. Globally speaking, due to the 11 September 2001 suicide attacks by Al-Qaeda, the US initiated the anti-terrorism policy worldwide. The intensified security checks on international travellers hindered cross-national investments not only in Asia but also in other parts of the world. The global economic recession also began to prevail at the beginning of the new century from 2001 to 2002 and adversely impacting economies around the world. Outward investments declined as a result.

Regionally speaking, the 1997 Asian financial crisis hit most economies badly in

Southeast Asia, depreciating most currencies in the region. This discouraged Southeast Asia's exports and reduced foreign investments in the region. Taiwanese investments in Southeast Asia dipped to only US\$1.2 billion in 1998, maintaining at a similar level in the following decade, registering US\$1.6 billion in 2000, US\$1.8 billion in 2004 and US\$1.8 billion in 2006; in 2007, there was a slight increase to US\$3.8 billion. Taiwan's trade volume with Southeast Asia declined to US\$24.5 billion in 1998, even lower than that in 1997 (US\$29.7 billion). Since 2000, however, Taiwan's trade volume with Southeast Asia has continually expanded from US\$38.7 billion in 2000 to US\$44.4 billion in 2004, to US\$54.5 billion in 2006, and to US\$60.1 billion in 2007. (Table 1)

**TABLE 1 TAIWAN'S INVESTMENTS AND TRADE WITH SOUTHEAST ASIA**

Years	Taiwan's Investments in Southeast Asia (US\$ billion)	Taiwan's Trade in Southeast Asia (US\$ billion)
1959-1989	5.1	7.07 (1988)
1990	4.1	10.66
1992	3.2	14.73
1994	5.1	20.42
1996	4.4	26.71
1997	4.8	29.71
1998	1.2	24.52
2000	1.6	38.71
2002	1.0	33.12
2004	1.8	44.40
2006	1.8	54.59
2007	3.8	60.08
2008	10.1	64.60

*Sources: (1) For Taiwan's investments in Southeast Asia, see Investment Commission, Ministry of Economic Affairs, Taiwan, <[http://twbusiness.nat.gov.tw/xls/inv\\_3.xls](http://twbusiness.nat.gov.tw/xls/inv_3.xls)>, accessed 7 July 2009. (2) For Taiwan's trade with Southeast Asia, see Ministry of Economic Affairs, Taiwan, <<http://cus93.trade.gov.tw/bftweb/FSC3/FSC3050R.ASP?>>, accessed 7 July 2009. Note: Southeast Asia here refers to the ten-member countries of ASEAN.*

Meanwhile, China's political economy has strengthened since the 1997 Asian financial crisis. In addition to the stability of China's *Renminbi* (RMB) since the mid-1990s, the mainland's political influence and favourable economic environments, such as low production costs and numerous potential development opportunities, have also attracted foreign direct investment. Taiwanese investors began to divert their investments from Southeast Asia to China. Based on Taiwan's official statistics, Taiwan's approved investment in China expanded to US\$4.3 billion (59.9% of Taiwan's total outward investment) in 1997, the highest in the 1990s. Taiwan's investment in China has continued to grow not only in amount but also in Taiwan's total outward investment share since 2002, the year in which Taiwan's investment in China reached US\$6.7 billion (66.6% of the island's total outward investment). Taiwan, as of 2007, was the fifth largest investor in China, next to Hong Kong, Japan, USA and Virgin Islands.

Cross-Strait relations have become unstable since the mid-1990s, however. During the first ever presidential campaign in Taiwan from August 1995 to March 1996, China initiated military manoeuvres across the Taiwan Strait while President Lee Teng-hui announced Taiwan's relations with China as a state-to-state relationship in July 1999.

When Chen Shui-bian was sworn in as the 10th-term President of the ROC on 20 May 2000, cross-Strait relations were further aggravated by the ruling party's "scorched earth diplomacy" and ideology of pursuing Taiwan's eventual independence. Therefore, during Chen's presidency, China reacted strongly against Taiwan's foreign moves, especially on the island's possible participation in international organisations, and the visits of Taiwan's high-level officials to countries which recognise the People's Republic of China. The decade from 1998 to 2007 witnessed Taiwan's declining relations with Southeast Asia.

While the Chinese authorities froze dialogues with the Chen government, they also extended their goodwill to the opposing Pan-Blue Camp in Taiwan, led by Lien Chan, then Chairman of the Kuomintang (KMT). Lien paid a historical and successful visit to China in late April 2005 and met his Chinese Communist counterpart Hu Jintao in Beijing followed by the other two leaders of the Pan-Blue parties, i.e. James Soong of the People's First Party in mid-May 2005 and Mu-ming Yu of the New Party in early July 2005. The friendly visits of the Pan-Blue leaders to China have laid the foundation for Ma Ying-jeou's policy towards China when he became the sixth President of the ROC on 20 May 2008.

### **The Fourth Stage: 2008 Onwards under Ma's Presidency**

Ma Ying-jeou became the 12th-term (or the sixth) President of the ROC on 20 May 2008. Less than three months in office, the Ma administration was hard hit by the unexpected global economic recession in mid-2008. Exports and investments plunged while unemployment surged. During President Ma's first year in office, the fluctuation of his popularity in Taiwan reflected his performance on the revival of Taiwan's economy. According to the Global Vies Survey Research Centre (GVSRC), President Ma's approval rating was 58.3% in May 2008, but it quickly dived to 27% in July 2008 and to a historical low of 23.6% in October 2008. President Ma's approval rating had been on the rise since early 2009 when Taiwan's economy showed signs of recovery; his approval rating reached 38.9% in May 2009.

Southeast Asian countries were likewise affected by the 2008 global economic tsunami with the sharp downturn in foreign investments. While Taiwan's investments in most Southeast Asian countries declined in 2008, Vietnam was the only country that had shown a big increase in Taiwanese investments in that year (US\$8.6 billion), almost US\$7 billion more than that in 2007 (US\$1.8 billion). Foxconn, the world's largest maker of outsourced electronics, and Compal, Taiwan's leading mobile phones and laptop producer, have contributed to the island's huge investments in Vietnam in 2008. Foxconn, also known as the Hon Hai Technology Group, made big investments (roughly US\$5 billion) in Vietnam in 2007 and 2008, while Compal's investment reached US\$2-2.5 billion in 2008.

Meanwhile, Southeast Asian countries have also been moving towards regional economic integration since the new century. While the Association of Southeast Asian Nations (ASEAN) has already started a free trade area, ASEAN countries are also moving forward to establish 10+1, 10+2, 10+3 and 10+6 groupings in the coming

years. Apparently, regional economic integration is a priority and will become a reality for most countries in Southeast Asia and East Asia in the foreseeable future. Taiwan is worried about its absence in the on-going regional development because this will be at the expense of the island's relations with countries in the region.

For China, it has continued to intensify its comprehensive relations with Southeast Asia since the new century, and the latter has also deepened its political and economic dependence on the former. In mid-April 2009 at the Boao Forum for Asia, Chinese Premier Wen Jiabao announced that China will collect a fund of US\$10 billion for China-ASEAN Investment and Cooperation, which is designated to support infrastructure projects in Southeast Asia. This means China is likely to become the largest foreign investor in Southeast Asia in the near future; China is now the eighth largest investor in ASEAN.

Cross-Strait relations now figure most significantly in the Ma administration. While the DPP government gave priority to Taiwan's foreign relations, the current KMT government gives cross-Strait relations priority over the island's relations with other countries around the world. The SEF accomplished the first dialogue with the ARATS on 13 June 2008, within a month of Ma's assumption of presidency. The Second Chiang-Chen Talks took place in Taipei in November 2008 when both sides signed four agreements, including direct and regular flights between Taiwan and China (starting at the end of August 2009). Chiang and Chen signed another three agreements and reached one consensus in the Third Chiang-Chen Talks in April 2009. The fourth Chiang-Chen talk is scheduled to be held in Taipei in December 2009, and the two leaders are expected to sign four more agreements on fishing cooperation, standardisation, avoiding double taxation and investment protection.

Given the three talks between Chiang and Chen and the nine agreements they reached within less than a year, it is apparent that cross-Strait relations have greatly improved to such an extent that it has gone beyond the expectation of many people across the Taiwan Strait. During the first year of Ma's presidency, news about the development of cross-Strait relations almost took the most important coverage of the mass media in Taiwan. According to the GVSRC report released in May 2009, about 53.4% of Taiwanese contend that President Ma's cross-Strait policy has been a success, maintaining similar supporting rates since Ma took presidency one year earlier in May 2008; another survey on the index of political confidence of Taiwanese towards cross-Strait relations also showed a high approval rating of 64.4% in May 2009.

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President Ma's "modus vivendi" flexible diplomacy that seeks a diplomatic truce with China is in direct contrast with the "scorched earth diplomacy" pursued by Chen Shui-bian. The ROC's former Foreign Minister Francisco H L Ou, when asked about Taiwan's foreign relations while travelling with President Ma to Central America in early July 2009, even proclaimed that "Taiwan and China have entered a diplomatic truce; Taiwan is not in any position to block other countries' efforts to forge trade links with China." (*China Post*, 2 July 2009)

The new foreign policy under President Ma has been well received in the mainland; Ou indicated in another occasion that China has declined two of Taiwan's diplomatic partners (i.e. Paraguay and El Salvador) for negotiations on possible exchanges of diplomatic recognition with the mainland.

If a diplomatic truce is to continue across the Taiwan Strait in the following years, China is likely to reduce its diplomatic hostility with Taiwan, thus respecting Taiwan's foreign moves in Southeast Asia and giving Taiwan substantial room to strengthen its relations with countries in the region. Since Ma's presidency in May 2008, Taiwan's relations with Southeast Asia have improved significantly vis-a-vis Chen's presidency. One senior official from the Taipei Representative Office in Singapore said, in an interview on 13 July 2009, that Taiwan has "greatly improved" its relations with the city-state, and a number of bilateral cooperation projects are ongoing. This high-level official is also optimistic about Taiwan's improving relations with other Southeast Asian countries as well in the years to come.

Another significant improvement in cross-Strait relations could be seen in the recently ended APEC trade ministers' meeting in Singapore. After attending the APEC meeting, on 22 July 2009, Taiwan's Minister of Economic Affairs Yiin Chii-ming held a closed-door meeting with his counterpart Chen Deming, Chinese Minister of Commerce, at the Shangri-La Hotel in Singapore to exchange views on economic issues across the Taiwan Strait. This is the first time that cabinet ministers across the Taiwan Strait held such talks. The talk is expected to generate a spill-over effect on talks by other cabinet ministers and even higher officials on bilateral affairs in the coming years.

As cross-Strait relations continue to develop smoothly, Taiwan is expected to have opportunities to join multilateral activities in the region, for example, as an observer in ASEAN, the most important regional organisation that the island has long desired participation. In addition, should Taiwan successfully conclude the Economic

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Cooperation Framework Agreement with China in 2010, Taiwan would be eligible to reach bilateral agreements with individual Southeast Asian countries on the establishment of a free trade area. Taiwan may also have opportunities to cooperate with Southeast Asian countries on the management of non-traditional security issues that have been of grave concerns to most Southeast Asian countries, such as civil services, legal services, environmental protection, transnational crime, illegal drugs, human trafficking, money laundering, piracy in public seas, etc.

Taiwan and China could also work on resolving the sovereignty issue of a number of islands in the South China Sea, particularly in the Spratly islands. Taiwan and China often do not meet eye-to-eye in international affairs; it is only over the sovereignty issue of islands in the South China Sea that Taiwan and China are in agreement. This may become a starting point for cooperation between Taiwan and China in the region of Southeast Asia.

With the improvement in bilateral relations, Taiwan is expected to have more opportunities to expand its economic, cultural and social cooperation with Southeast Asian countries. This will benefit not only countries in the region, but also countries in East Asia. Should a diplomatic truce across the Taiwan Strait fail to develop well in the near future, Taiwan's relations with Southeast Asian countries are likely to be compromised. The relations are also contingent on whether the KMT government could bring the island to its road to economic recovery. Taiwanese voters may switch allegiances to the opposing DPP in the next presidential election should the KMT government fail to deliver on its economic promises. ㊦