Economic Relations between Taiwan and Europe*

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The Development of Taiwan's European Trade and Outward Investment in a Global Perspective

Analysis of Taiwan's economic experience since the 1950s highlights the critical importance of the external orientation of Taiwan's development strategy. In particular, foreign trade has played a pre-eminent role in generating economic growth and associated structural changes. From the late 1950s until the 1980s, in common with the other East Asian "dragon" economies (South Korea, Hong Kong and Singapore), Taiwan exhibited some of the classic hallmarks of trade dependence. Few would deny that the performance of its foreign trade sector – especially the linkages that were forged between the expansion and diversification of trade links overseas,[1] and domestic industrial transformation and modernization – have been a key ingredient in the emergence of a "Taiwan development model."[2]

By the end of the 1950s domestic market constraints for manufactured goods grew more serious and planners began to formulate policies designed to make inroads into export markets.[3] During the next two decades (1960–81), total merchandise trade increased, on average, by 24.2 per cent p.a. – and by the end of the 1980s, it had risen almost threefold again.[4] Such buoyant and sustained trade expansion was

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1. No less important was the role of *qualitative* improvements in exports. In Taiwan's case, the enhancement of its export profile through the expansion, in and after the 1970s, of foreign sales of electronic products was a major watershed in its post-1949 economic development.

2. This statement begs the much-debated question of whether there does indeed exist a "Taiwan development model" – let alone, one that is replicable. This is a major theme of Robert Ash and Megan Greene (eds.), *Taiwan Enters the Twenty-First Century* (forthcoming).

3. Implicit in this statement is the externally-orientated imperative that faces a small economy such as Taiwan's. As Howe observes, "[e]conomic performance in the long term is the result of interaction between an economy's internal characteristics and its external environment … The relative importance of internal and external factors is likely to depend on the size of any particular economy." (Christopher Howe, "Taiwan in the 20th century: model or victim? Development problems in a small Asian economy," in Richard Louis Edmonds and Steven M. Goldstein (eds.), *Taiwan in the Twentieth Century: A Retrospective View* (Cambridge: Cambridge University Press, 2001), p.37).

4. Council for Economic Planning and Development [CEPD], Republic of China, *Taiwan Statistical Data Book* [*TSDB*], 2000 (Taipei: CEPD, 2000), p.14. Concealed in the estimates are average annual rates of export and import expansion of 26.4% and 22.5% (1960–81) (23% and 19.5% for 1960–89). Between 1960 and 1989, the average value of Taiwan's merchandise trade per head of total population rose from US$43 to US$5,927 (*TSDB*, 2000, p.205).

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Table 1: **Country structure of Taiwan's exports and imports (1960–1981)**

	Share of exports (%)			*Share of imports (%)*		
	1960	*1970*	*1981*	*1960*	*1970*	*1981*
Japan	37.7	14.6	11.0	35.3	42.8	28.0
USA	11.5	38.1	36.1	38.1	23.9	22.5
Hong Kong	12.6	9.2	8.4	1.6	1.8	1.5
TOTAL	61.8	61.9	55.5	75.0	68.5	52.0

Source:
TSDB, 2000, p. 210.

reflected not only in the physical growth of national income,[5] but also in structural transformation of the Taiwanese economy. In 1960, agriculture had still accounted for a greater share of GDP (28.5 per cent) than industry (26.9 per cent);[6] by 1981, its share had shrunk to a mere 7.3 per cent, while manufacturing had become the dominant sector of the economy, contributing 35.6 per cent of GDP.[7] The symbiotic relationship between these structural changes and the changing pattern of foreign trade is suggested in the finding that between 1960 and 1981, the share of agricultural goods (raw and processed) in total exports fell from 67.7 to 7.2 per cent, while that of industrial goods rose from 32 to 92.8 per cent.[8]

All countries' political ideologies and foreign relations are perhaps mirrored in their choice of economic development strategies – especially foreign trade and foreign investment policies. But thanks to its peculiar diplomatic status as a *de iure* "non-state" in the eyes of most foreign governments,[9] global politics have played a disproportionately large role in shaping Taiwan's international economic relations. Until the late 1980s, Cold War politics were more important than purely economic factors in determining the geographical orientation of Taiwan's trade. More recently, the reformist thrust of Beijing's development strategy

5. Measured in US$ million at current prices, average annual growth of GNP was 17.2% (1960–81), and 16.7% (1960–89) (*TSDB*, 2000, p.13). The closeness of the corresponding figures for per capita GDP growth (14.5% and 14.4%) reflects the impact of slowing population growth.

6. The figure cited in the text includes construction. Average annual growth of manufacturing industry alone during the same period was 19.1% (*ibid.*).

7. The corresponding figure for the entire industrial sector (manufacturing and construction) was 45.5% (*ibid.*). Note that manufacturing industry's peak share of GDP was reached in 1986 (39.4%), after which the service sector rose quickly to pre-eminence within the economy (*ibid.*).

8. *TSDB*, 2000, p.208.

9. Until the 1970s, the government in Taiwan was widely recognized as the formal, legal representative of China in the international community. Following the loss of its seat in the United Nations (1971) and in the wake of Japanese (1972) and US (1978) recognition of the legal authority of Beijing to represent a single China, international diplomatic support for Taiwan rapidly dwindled. By the end of the 1970s, not many more than 30 countries continued to recognize the Republic of China – a situation that has barely changed to the present day.

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Table 2: **Regional structure of Taiwan's exports and imports (1960–1981)**

	Share of exports (%)			*Share of imports (%)*		
	1960	*1970*	*1981*	*1960*	*1970*	*1981*
Asia	68.1	37.8	28.8	40.6	53.4	37.6
North America	12.3	41.5	38.6	38.8	25.0	23.7
Europe	**6.0**	**10.1**	**12.8**	**11.2**	**9.7**	**9.4**
South America	–	0.5	2.0	–	2.5	1.8
Africa	2.3	2.9	4.9	0.6	0.7	3.4
Oceania	0.2	1.6	3.6	1.2	3.4	3.1
Other	11.1	5.6	9.3	7.5	5.4	20.9

Source:
TSDB, 2000, pp. 219–221.

(especially its adoption of an "open door" policy) and the emergence of the People's Republic of China as a major regional and even global economic actor have been new factors that have shaped and constrained Taiwan's economic manoeuvrability.

The symbiosis between political and economic developments is captured in Table 1, which shows that, until the early 1980s, the geographical origins and destination of Taiwan's merchandise trade was heavily biased towards three countries – Japan, the United States and Hong Kong. Overall, Taiwan's export-dependence on Japan, the USA and Hong Kong (taken together)[10] changed little during these three decades, although there was a steady decline in their import share. At the beginning of the 1980s, Taiwan's trade orientation towards these regions remained strong, with more than half of its merchandise trade still being conducted with these three partners. But more significant for the purposes of this article is the finding that in periods when trade with Japan, Hong Kong and/or the United States contracted, the weakening of such relations was at the expense of an expanding role for *non-European* countries. Nevertheless, the estimates in Table 2 indicate that, although Europe's importance had, by 1982, increased (especially as an export destination), trade between Taiwan and Europe remained a secondary economic relationship, at least in quantitative terms.[11] Indeed, the most striking feature of the regional orientation of Taiwan's merchandise trade at this time is the dominant position still held by Asia and North America.

In relative terms, the European share of Taiwan's exports doubled between 1960 and 1981, although its importance as an origin of imports

10. As Table 1 indicates, the relative importance of the three trading partners did change during the period shown.

11. The European share of Taiwan's total merchandise trade rose from 9.4% (1960) to 9.9% (1970) to 11.1% (1981).

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declined slightly.[12] The major European partners during this period were France, Germany, the Netherlands and the UK.

The 1980s were a watershed for Taiwan, as they were for other countries in East and South-East Asia. By the beginning of that decade, considerable progress had already been made towards improving the quality and generating a greater variety of industrial products. The most critical feature of this process was the emergence of Taiwan as a major producer of electronics. Meanwhile, continuing industrialization and technological upgrading facilitated the accelerated growth of high-quality, sophisticated exports.[13] Underlying these developments was the deliberate pursuit of a strategy of liberalization and an attempt to embed Taiwan's trading relationships into appropriate international institutions.[14] Such was the impact of these initiatives that by 1984, the total value of Taiwan's merchandise trade had reached US$52.4 billion, making it the fifteenth-largest trading nation, and the tenth-largest exporting country in the world.[15]

Most momentously, the 1980s saw mainland China's adoption of an open door policy, to which the Taiwanese government eventually responded by cautiously sanctioning trade and investment ties across the Taiwan Strait. Interpreting widely conflicting indicators of the quantitative level and development of such two-way trade is notoriously difficult, but whatever the true numbers are, it is not in doubt that since the late 1980s, Taiwan and the mainland have become increasingly important trading partners. The extent to which this new dimension has changed the geographical orientation of Taiwan's trade during the last two decades is suggested by the estimates in Table 3.

12. In absolute terms, the value of exports to Europe rose from US$9.84 million to US$2.89 billion (and of inputs from US$33.26 million to US$904.84 million). The implied nominal rate of growth of total merchandise trade is 22.2% p.a. But as a share of Taiwan's global total, trade vis-à-vis European countries rose by a mere 4 percentage points (from 7.1% to 11.1% (*ibid*.).

13. E.g., Ministry of Finance data show that by 1982, 18.3% of Taiwan's exports were officially characterized as being of high technology intensity – a figure that subsequently rose to 26.7% (1990) and 42.1% (1999) By 1999, only 16.9% of exports were of low technology intensity, compared with 49.1% in 1982 (*TSDB*, 2000, p. 208).

14. Taiwan joined APEC in 1991 and achieved observer status in GATT the following year. Since then, the Taiwanese government has worked hard to secure full membership of the World Trade Organization. See Christopher Howe, "The Taiwan economy: the transition to maturity and the political economy of its changing international status," in David Shambaugh (ed.), *Contemporary Taiwan* (Oxford: Clarendon Press, 1998), p.138.

15. The global value of Taiwan's merchandise trade grew by 7% p.a. during 1989–99 (but by 9% p.a., if 1998–99 are omitted – two years during which Taiwan suffered the effects of the Asian financial crisis). In nominal absolute terms, the value of such trade increased from US$118.6 billion to US$232.3 billion (from US$5,927 to US$10,581 in per capita terms) (*TSDB*, 2000, pp.204–205).

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Table 3: **The geographical destination of Taiwan's merchandise trade (1981–1999)**

	Share of exports (%)			*Share of imports (%)*		
	1981	*1990*	*1999*	*1981*	*1990*	*1999*
Asia	28.8	38.2	48.6	37.6	43.6	54.7
North America	38.6	34.7	26.9	23.7	24.6	18.8
Europe	**12.8**	**18.2**	**16.7**	**9.4**	**17.5**	**15.9**
South America	2.0	0.6	1.0	1.8	2.1	1.2
Africa	4.9	1.9	1.1	3.4	2.2	2.0
Oceania	3.6	2.3	1.8	3.1	2.8	3.1
Other	9.3	4.1	3.8	20.9	6.6	4.3

Source:
TSDB, 2000, pp. 219–221

The most striking finding is surely the increasing Asian share of both Taiwan's exports and imports. There is nothing surprising in these developments, which reflect the emergence, in the wake of cross-Straits economic rapprochement, of the PRC as one of Taiwan's most important trading partners, although also contained in the Asian estimates are stronger trade ties that meanwhile emerged between Taiwan and other Asian countries, such as South Korea and some ASEAN member states.[16]

By 1981 – well before the forging of the first trade links with mainland China – Taiwan's merchandise trade with Asia had overtaken that with the United States although as a destination for Taiwan's exports, North America still easily outshone Asian countries.[17] That the emergence of the mainland as a major trading partner – especially as a destination for shipments of Taiwanese goods – should have been reflected in a declining North American (i.e. US)[18] share (Table 3) is to have been expected.[19] But this latter decline was not mirrored in Taiwan's trade relations *with Europe*, which, in relative terms, expanded more rapidly than in earlier years. Indeed, the estimates in Table 3 suggest that the rise in the European share of Taiwan's exports and, especially, imports was one of the most striking developments of the period, even allowing for a fall in

16. Singapore, Malaysia, Thailand, Indonesia and the Philippines collectively accounted for 11.5% of Taiwan's total merchandise trade in 1999.

17. In 1981, 33.1 per cent of Taiwan's trade was conducted with Asian countries, compared with 29.5 per cent with the US. By contrast, shipments to the US and Asia constituted 39% and 29% respectively (*TSDB*, 2000, pp.219–220).

18. Canada's role as a trading partner was of minor importance and in the 1990s, the US accounted for between 93% and 95% of Taiwan-North American trade.

19. A major problem for Taiwan was its growing trade surplus vis-à-vis the US, which peaked at US$16 billion in 1987 (cf. a mere US$1.2 billion in 1976), eliciting American criticism and threats of retaliation. With Taiwan removed by the US from preferential tariff treatment and in the wake of simultaneous efforts to purchase more American goods, the bilateral deficit was subsequently reduced (reaching its lowest point – US$45.6 billion – in 1995).

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the *relative* importance of Europe in the 1990s.[20,21] Concealed in this general statement is the dominant role played by member states of the European Union (EU) in Europe's trade relations with Taiwan. For many years, the level of EU-Taiwan trade came a poor third behind trade with Japan and the United States. Only in the 1980s did Taiwan's search for a more diversified pattern of trade relations lead to acceleration in its trade with EU member states – a development in which Taiwan's increased requirements for European capital-intensive goods also assisted.[22]

This section has so far focused on the global pattern of Taiwan's merchandise trade. Trade has, however, been only one part of Taiwan's evolving foreign relations and it has been complemented by the emergence of Taiwan as a significant overseas investor. Reference has already been made to the 1980s as a watershed in the development of Taiwan's foreign trade. No less important, in terms of its economic implications, was the transformation of Taiwan from the status of a net capital importer to that of a net exporter.[23] The impact of this change was dramatic, facilitating a process whereby "outward investment … [came to play] … a major role in the restructuring of Taiwan's economy while it fostered extensive links with the rest of the Asia-Pacific region through outward investment, intraregional trade, and technological exchanges."[24] Suffice to say here that Europe has been a major beneficiary of such capital flows, in some years matching or even overtaking the United States as an investment destination. Table 4 provides a summary overview of the changing regional pattern of Taiwanese overseas investment.[25]

20. Note that in 2000, Europe's shares of Taiwan's total exports and total imports were 16% and 13.6% (estimates from the Department of Statistics, Ministry of Finance, Taipei).

21. The fluctuating pattern of Taiwan's trade with Japan after 1980 is an important counterpoint to that with mainland China. During 1980–86, Japan accounted for an increasing share of Taiwan's imports (34.1% in 1986), but subsequently the trend was downward (cf. 25.8% in 1998); between 1980 and 1988, Japan's share of Taiwanese exports rose from 11% to 14.5%, but thereafter fell. In 1998, under the added impact of the Asian financial crisis, its share reached a record low of 8.4%.

22. See Li-Kung Ferng, "Economic and trade perspectives for the EU and Taiwan under the WTO" (April 2001) (unpublished), p.12. Li points out that, measured in Euros, Taiwan's share of extra-EU exports rose from 0.3% to 2.6% between 1975 and 1999; the corresponding figures for extra-EU import trade were 0.5% and 1.6%.

23. In 1980, Taiwan's gross national savings (NT$480.6 billion) were insufficient to finance gross domestic capital formation (NT$503.9 billion). By 1990, savings (NT$1,293.9 billion) easily outstripped gross domestic investment (NT$994.1 billion) – and the gap has since continued to widen. See *TSDB*, 2000, pp.13–14.

24. Chi Schive, *Taiwan's Role in East Asia* (Washington, D.C.: The Center for Strategic and International Studies, 1995), p.18.

25. Note, however, that these estimates reflect *proposed* investment projects *approved* by the government of Taiwan (see T.J. Chen *et al.*, "Taiwan's outward direct investment: has domestic investment been hollowed out?" in Robert Ash and Anne Booth (eds.), *The Economies of Asia, 1950–1998: Critical Perspectives on the World Economy*, Vol.III (London and New York: Routledge, 2000), especially pp.480–81).

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Table 4: **Taiwan's outward investment by region (1952–1999)**

	(In US$ '000)				
	Asia	*Americas*	*Europe*	*Others*	*Total*
1952–79	43,057	13,576	142	2,515	59,290
1980	3,170	35,130	1,000	2,805	42,105
1985	4,206	35,830	891	407	41,334
1990	602,910	838,711	96,176	14,409	1,552,206
1995	467,743	787,105	59,868	42,162	1,356,878
1999	836,378	2,267,710	60,982	103,943	3,269,013

Source:
Schive, *Taiwan's Economic Role in East Asia*, p. 71; *TSDB*, 2000, p. 262.
Notes:
Figures for Asia exclude Taiwan's investment in mainland China.

The figures in the final column attest to the rapid expansion of Taiwan's outward investment since the mid-1980s, with an average rate of growth of 36.6 per cent p.a.[26] But underlying this quite consistent upward trend of Taiwan's foreign investment growth during the 1980s and 1990s is a more varied picture for individual regions, where annual fluctuations in such flows were sometimes marked. Taiwan's investment in European countries is considered in greater detail below.

Taiwan's Economic Relations with Europe – Shaping Factors

In the previous section, I drew attention to the critical importance of regional and global politics as a factor shaping the direction of Taiwan's trade and investment. It will be useful to preface analysis of the changing nature of its post-war economic relations with Europe by briefly delineating the changing European environment, which Taiwan has had to address and accommodate.

Considered from whatever perspective – cultural, linguistic, demographic, economic or political – the European continent is far from being a homogeneous entity. From the end of the Second World War until quite recently, a dichotomous identity – Western and Eastern Europe – reflected a political and military duality, mirrored in most European countries' membership of either the North Atlantic Treaty Organization (NATO) or the Warsaw Pact.[27] The existence of these organizations was

26. Between 1985 and 1990, the corresponding figure was 106.5%. Note that the estimate of total outflows for 1995 is anomalous inasmuch as it does not reflect the prevailing trend of outward investment expansion, which was strongly upward throughout the period.

27. The North Atlantic Treaty, signed in 1949, was designed as a military alliance between the USA and its European wartime allies. NATO originally comprised 11 members, although to these were added, during the Cold War period, Greece and Turkey (1952), West Germany (1955) and Spain (1982). The Warsaw Pact (formally, Warsaw Treaty of Friendship, Co-operation and Mutual Assistance) was established as a military alliance in 1955, and comprised the former USSR and its European satellites (Albania, which, however, withdrew

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reflected in most European countries' strong political orientation towards either the United States or the Soviet Union. These political ties begat parallel *economic* orientations. Whether to a greater or lesser extent, the economic organizational framework and policy thrust of West European countries were heavily influenced by the capitalist ideology of the USA.[28] By contrast, their East European counterparts were locked into economic dependence upon the USSR, both in terms of the economic systems (based on the Soviet central planning model) which most of them were forced to adopt, and the policy goals to whose fulfillment those systems were directed.[29]

Against this background, the end of the Cold War marked a real watershed in Europe's post-war political and economic development. The disintegration of the former Soviet Union and the disbandment of the Warsaw Pact symbolized a major change in the political configuration of Europe.[30] The accompanying *de facto* collapse of CMEA[31] presented its own economic challenges and opportunities. In particular, East European countries that had previously been tied to the USSR were now free not only to initiate efficiency-enhancing, market-orientated reforms and privatization, but also to develop their own foreign trade in accordance with the principle of comparative advantage. The result was to generate new economic relationships, the final outcome of which will not emerge for many years.

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footnote continued

in 1962), Bulgaria, Czechoslovakia, East Germany (withdrew in 1990), Hungary, Poland and Romania. Austria, Finland, Sweden and Switzerland have never joined NATO. Albania (1962) and East Germany (1990) withdrew from the Warsaw Pact, while Yugoslavia was never a member of it.

28. The formal frameworks through these orientations manifested themselves were various. Their origins lie in the US-sponsored European Recovery Programme (April 1948-December 1951), designed to rehabilitate the economies of 16 West European nations (Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom and West Germany) and thereby create stable conditions in which democratic institutions could survive. In order to co-ordinate European participation, these countries, led by France and the UK, later established the Committee of European Economic Co-operation – a body itself superseded by the Organization for European Economic Co-operation (OEEC). In 1957, the European Economic Community (EEC – later translated into the European Community (EC) and the European Union (EU)) was established, since when it has been the major institutional framework in which European economic integration has proceeded.

29. As early as January 1949, the Council for Mutual Economic Assistance (CMEA, but more often referred to as COMECON) was established in order to facilitate and co-ordinate economic development in East European countries belonging to the Soviet bloc. Initially, COMECON's most important activities were limited to the registration of bilateral trade and credit agreements among member countries, although after 1953 the focus shifted towards promoting industrial specialization in an attempt to avoid previous duplication in industrial production in East European countries. Following the establishment of the EEC, COMECON pursued more systematic efforts towards economic integration, albeit with little success.

30. This has manifested itself most dramatically in the extension of NATO membership to former Warsaw Pact members (e.g. Poland, Hungary and the Czech Republic in 1999).

31. The democratic revolutions throughout Eastern Europe in 1989–90 left CMEA defunct. In 1991, it was renamed the Organization for International Economic Co-operation – a far looser organization that its predecessor.

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Given the peculiar character of Taiwan's international relations and the difficulties it has faced vis-à-vis former socialist countries, it is not surprising that its trade and investment relations within Europe should have mirrored those elsewhere in the world and been directed overwhelmingly towards *West* European countries. The new political and economic configuration that has begun to emerge within Europe in the wake of the collapse of communism in the Soviet Union and its former European satellites will, in the fullness of time, doubtless be reflected in the emergence of new patterns of trade and investment between Taiwan and European countries. But this is likely to be a long-term process and for the foreseeable future, the existing orientation of Taiwan's economic relations within Europe is likely to change only very slowly.

The most powerful unifying element in Western Europe since the 1950s has undoubtedly been the European Economic Community (especially after its translation into the European Union). It seems certain that the EU will continue to play the same role in the future, albeit one that will increasingly embrace countries that had previously been part of the Soviet sphere of influence.[32] The importance of the EU in Europe's trade and investment with Taiwan is reflected in the rest of this article, which is, above all, concerned with Taiwan's trade with EU member states, whether considered collectively or individually.[33] By contrast, much less space is devoted to Taiwan's non-EU trading and investment partners (including those in former socialist Eastern Europe and Russia). The justification for this bias is, quite simply, that within Europe, the EU and its member states have consistently dominated trade and investment relations involving Taiwan. In 1993, for example, exports to the 15 EU member states[34] accounted for 93.5 per cent of Taiwan's total exports to Europe; the role of these same countries as a source of Taiwanese imports was less pronounced, but such shipments still accounted for 81.8 per cent of the total.[35] The corresponding figures for 2000 were virtually identical (93.5 per cent and 81.4 per cent.[36] The physical expansion of the EU through the admission of new members is one reason why its dominance in Taiwan-Europe trade should not appear surprising. Translated into economic terms, Taiwan's trade relations with the EU have

32. 6 European countries (Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia) are currently involved in "fast track" negotiations to join the EU; the accession process is also under way for another 5 "second-phase" countries (Bulgaria, Latvia, Lithuania, Romania and Slovakia).

33. Individual EU member states seek to promote bilateral trade with Taiwan, as they do with other countries.

34. "EU-15" comprises Austria*, Belgium*, Denmark, Finland*, France*, Germany*, Greece, Ireland*, Italy*, Luxembourg*, Netherlands*, Portugal*, Spain*, Sweden and UK. The asterisked countries refer to those member states – so-called "EU-11" – which agreed to subsume their national currencies into the euro at the end of 1998.

35. These figures are taken from the website of the Department of Statistics, Ministry of Finance, Taipei.

36. *Ibid*.

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become increasingly attractive, as the EU market has expanded and its influence in the global economy has grown.[37]

Trends in Taiwan's Trade with Europe

The aggregate quantitative indicators presented in the first section of this article indicate that, even allowing for the growing involvement of European countries in its merchandise trade and outward investment,[38] Taiwan's foreign economic relations since the 1960s have been dominated by the United States and Asia (above all, East Asia). As has also been suggested, this orientation reflects the influence of both political and economic factors. Michael Yahuda once described mainland China's relations with Europe as a "secondary relationship,"[39] and on the evidence presented earlier, one might be tempted to use the same term to characterize the Taiwan-Europe economic axis. For much of the period under consideration here, this seems a reasonable designation of the relationship. There are, however, two qualifications. The first is that in the most recent past, Europe – above all, the EU – has come to rival the USA as an export market, as well as having become an important destination for Taiwanese investment (especially private foreign investment). The second is that the quantitative dimension of foreign trade and investment does not reveal the entire story. In particular, closer economic ties between Taiwan and European countries (especially EU member states) have facilitated technological co-operation and the acquisition by Taiwan of key new technologies and market information.[40]

Until the late 1980s, when cross-Straits economic relations first began

37. The following indicators are suggestive of the economic weight of the EU relative to that of other major countries in the world as of 1999:

	Shares of the following countries [region] in world total			
	EU	*China*	*Japan*	*USA*
Population	6.4	20.9	2.1	4.6
GNP	28.0	3.4	14.0	28.6
GNP at PPP	20.2	10.6	7.8	21.5
Exports*	40.0	3.1	6.4	13.8

* Data for 1998.

Sources:

The World Bank, *World Development Report*, 2000–2001 (New York: Oxford University Press, 2001), pp.274–75 and pp.302–303.

38. The investment data shown in Table 4 conceal the fact that in 1992 and 1993, private foreign investment in Europe exceeded the corresponding figure for the United States (see *TSDB*, 1999, p.262 and also below).

39. See Michael B. Yahuda, "China and Europe: the significance of a secondary relationship," in Thomas W. Robinson and David Shambaugh (eds.), *Chinese Foreign Policy: Theory and Practice* (Oxford: Clarendon Press, 1994), pp.266–282.

40. Thus, in addition to seeking new markets, "since the early 1980s, it has been the stated policy of the Taiwan government to engage the United States and Europe in a broad-based programme of technological co-operation with Taiwan firms" (Denis Fred Simon, "Charting Taiwan's technological future: the impact of globalization and regionalization," in Shambaugh (ed.), *Contemporary Taiwan*, p. 168).

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Table 5: **Trends in Taiwan's trade with Europe (1952–2000)**

	(All figures in US$ 000)		
	Exports	*Imports*	*Balance*
1952	6,125	12,275	− 6,150
1960	9,838	33,257	− 23,419
1970	149,323	148,052	1,271
1980	3,121,193	1,860,743	1,260,450
1990	12,233,431	9,585,837	2,647,594
1995	15,725,252	18,701,127	− 2,975,875
1996	16,944,831	20,143,254	− 3,198,423
1997	18,415,323	21,600,755	− 3,185,432
1998	19,637,458	20,585,039	− 947,581
1999	20,320,000	17,580,000	2,740,000
2000	23,710,000	19,010,000	4,700,000

Source:
TSDB, 2000, p.219; Department of Statistics, Ministry of Finance, Taipei.

to gather momentum, Taiwan's foreign trade had been overwhelmingly directed towards capitalist countries. Only after 1987, when economic rapprochement between Taiwan and mainland China began, did this pattern begin to change. As we have seen, the same pattern is reflected in Taiwan's trade with European countries. In the immediate aftermath of the end of the Cold War new investment opportunities became available in the former Soviet Union and former East European socialist countries. Taiwan's response to such opportunities was, however, quite modest.[41] The further expansion of such ties, especially if Eastern Europe enjoys rapid and sustained economic growth, may lead to an accelerated expansion of bilateral trade ties between Taiwan and countries in the region. But for the time being, Taiwan's trade (especially its export trade) with Europe remains dominated by West European Member States of the EU – and will continue to do so for the foreseeable future.[42]

The establishment of formal, institutional contacts between Taiwan and the EU date from 1981, since when the two sides have held regular economic and trade consultations.[43] In addition, since 1996 there have been regular meetings,[44] in which the two sides have exchanged views on

41. Cf. Schive, *Taiwan's Economic Role in East Asia*, p.20.
42. In support of this statement, see the estimates cited above.
43. Through these meetings, the two sides have reached agreements on a variety of trade-related and other issues. They include agreements on the reciprocal exemption from shipment taxes (1990), on allowing reciprocal passage of exports through Customs (1991), and on permitting direct access for Taiwanese aircraft to Austria, France, Germany, the Netherlands and the UK. I am indebted to Dr. Shin-Tsyr Jing (Associate Research Fellow, Chung-Hua Institution for Economic Research) for this and other information in this paragraph.
44. *Zhong-Ou liangongye hezuo huiyi* (China-Europe Forum for Industrial Co-operation).

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trade and investment-related industrial problems, and on ways of facilitating an expansion of bilateral industrial co-operation. From time to time, the government in Taipei has also hosted seminars on the European Monetary Union (EMU), to provide up-to-date information for Taiwanese businessmen on current developments in the EU and to make them more aware of the changing monetary framework in which the EU operates. In Taipei, the Board of Foreign Trade under the Ministry of Economic Affairs is responsible for drawing up an implementation plan to guide and promote trade with European countries. Except for Greece, Portugal and Luxembourg, the EU member states have now all established Economic and Trade Offices in Taiwan. Taiwan itself plans to open a representative Trade and Economic Relations Office for the EU in Brussels, while the European Union has agreed, in principle, to establish its own office, once budgetary resources have been made available.[45]

Table 5 provides time-series data relating to merchandise trade between Taiwan and Europe for selected years from 1952 until 2000 in order to highlight the pattern of growth over the long term. From these estimates average rates of export and import growth can be calculated, as shown in Table 6.

Table 6: **The growth of Taiwan's merchandise trade with Europe, 1952–2000**

	Average rate of growth (% p.a.)	
	Exports	*Imports*
1952–2000	18.8	16.5
1952–1980	24.9	19.6
1980–1990	14.6	17.8
1990–2000	6.8	7.1
1980–2000	10.7	12.3

The high rates of growth before 1980 are slightly misleading, being derived from such a tiny initial base. The more significant feature of Table 6 is the maintenance of double-digit trade growth in the 1980s and the continuing rapid expansion of exports and imports during the 1990s – a trend that accurately reflects Taiwan's accelerated outreach towards Europe during these two decades. By way of comparison, it is instructive that between 1980 and 2000, average annual growth of exports to, and imports from the United States was, respectively, 8.5 per cent and 9.4 per cent – both figures significantly lower than the corresponding estimates for Taiwanese merchandise shipments to and from Europe. Taiwan's export growth to Europe in the same period was almost identical to that

45. I am grateful to Ms. Ana Gonzalo Costellanos (China Desk, European Commission, Directorate-General 1) for this information.

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to Japan, although its imports from Japan expanded more slowly (10.4 per cent p.a.) than those originating in Europe.[46]

Such indicators attest to the continued buoyancy of trade between Taiwan and Europe after 1980. But it is also clear that the 1990s saw quite a sharp deceleration in the rate of trade expansion, compared with the previous decade. A more detailed examination of the figures in Table 5 shows that this slowdown solely reflected developments affecting Taiwanese *imports* of European goods after 1995. Between 1990–95 and 1995–99, annual growth of Taiwan's exports to European countries accelerated,[47] while import growth moved from a buoyant positive rate to a stagnant rate.[48] As it happens, the time span marking the reversal of positive import growth coincides precisely with the years of the Asian financial crisis,[49] suggesting an obvious causal link. No doubt, the surge in exports to Europe during this period[50] was, in part, a reflection of the Taiwanese government's initiative to combat the effects of the Asian crisis through the launch of a global export promotion scheme. But the single most important factor underlying the changing pattern of bilateral merchandise trade between Taiwan and Europe is likely to have been fluctuations in the exchange rate – and, in particular, of the ECU (as it then was). For example, bearing in mind that EU member states accounted for almost 90 per cent of all Taiwan's trade with Europe, it is instructive that 1998 witnessed a sharp appreciation of the European currency, making EU exports less globally competitive. From this perspective, the fall in EU exports to Taiwan in 1999 (down by 18.2 per cent) is understandable, as is the recovery of such sales the following year (up by 7.4 per cent) in the wake of a major devaluation of the Euro.

A striking feature of Table 5 is the changing balance of trade between Taiwan and Europe. More detailed annual estimates reveal that Taiwan's consistent trade deficit vis-à-vis European countries in the 1950s and 1960s was subsequently transformed into a surplus. This rose steadily to reach a first peak (US$1.26 billion) in 1980. This figure was not subsequently exceeded until 1985, when renewed growth took Taiwan's surplus to a new record level (US$4.03 billion) in 1991. This figure was almost twice as large as its surplus with Asian countries (excluding mainland China) and sufficient to finance almost half of its deficit with the United States. Thereafter, however, Taiwan's balance of trade with Europe deteriorated and, from 1993 to 1998, ran once more into deficit – a position from which it only extricated itself in and after 1999. Indeed, in

46. The relevant data can be found in *TSDB*, 2000, p.210 and on the website of the Dept. of Statistics, Ministry of Finance (Taipei). Of course, the impact of the Asian financial crisis is a complicating factor after 1997.

47. From 5.2% p.a. to 6.6% p.a.

48. From 14.3% p.a. (1990–95) to − 1.5% p.a. (1995–99).

49. During 1997–99, Taiwan's exports to Europe rose by 6.3% p.a., while its European imports declined by − 4.4% p.a. (website of the Dept. of Statistics, Ministry of Finance (Taipei)).

50. Between 1997 and 1999, Taiwanese exports to Europe rose faster than those to both NAFTA (5.3% p.a.) and Asia − 0.83% p.a.) (*ibid.*).

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2000, Taiwan's merchandise trade surplus attained a new record level of US$6.7 billion.[51]

Reference has already been made to the dominant role of the European Union in trade relations between Taiwan and Europe. Suffice to say here that between 1993 and 2000, the only years for which I have relevant data, the EU's share of Taiwan's European imports never fell below 80 per cent; nor were exports to EU member states ever less than 93 per cent of its total exports to Europe.[52] With this in mind, Table 7 gives a more detailed picture of bilateral trade flows between Taiwan and individual member states of the EU in recent years.

Unfortunately, I have been unable to find comprehensive data for the years before 1992.[53] From one perspective, however, the estimates in Table 7 do reveal a feature of Taiwan's merchandise trade with the European Union, and, by implication, with Europe as a whole, that has remained consistent throughout recent years – namely, the dominance of a small number of individual member states within the EU. In 2000, for example, the collective share of France, Germany, Italy, the Netherlands and the UK in total shipments of Taiwanese goods to the EU was 78.7 per cent, with Germany, the Netherlands and the UK alone accounting for nearly two-thirds of the total. The same five member states generated an even higher proportion (almost 83 per cent) of Taiwanese imports of EU goods (36 per cent from Germany on its own).

Brief mention was made earlier of the changing balance of trade between Taiwan and Europe. Concealed within Table 7 is the finding that since 1993, the merchandise trade balance with EU-15 having shifted into deficit (1994–97), it subsequently returned to surplus.[54] But as earlier data suggest, the absolute levels of surplus and deficit are instructive: in no year did Taiwan's deficit exceed US$1 billion; by contrast, between 1999 and the first half of 2001, its trade surplus averaged US$5.66 billion. For the entire period illustrated in Table 7, Taiwan's cumulative balance of merchandise trade vis-à-vis EU-15 was in surplus to US$13.45 billion. A comparison of the annual figures in Tables 5 and 7 will indicate further that the emerging surplus with these countries served to offset a less favourable balance of trade with non-EU member states, viewed collectively. Even so, in the broader setting of Taiwan's trade, the recent surpluses vis-à-vis EU-15 were relatively small, compared, for example,

51. The corresponding figure for January-June 2001 is US$2.3 billion (Dept. of Statistics, Ministry of Finance (Taipei) website). Taiwan's balance of trade vis-à-vis EU Member States was even more favourable, its surplus having reached US$6.7 billion (2000) and US$2.82 billion (first half of 2001).

52. Based on Ministry of Finance estimates.

53. Time series data are available for France, Germany, the Netherlands and UK (see *TSDB*, 2000, pp.211–13). They show that since 1970, Taiwan enjoyed a surplus with the Netherlands and UK in every single year after 1970. With Germany, Taiwan also enjoyed a surplus in all except five years between 1970 and 1991. The merchandise trade balance vis-à-vis France followed a somewhat more erratic pattern.

54. The annual balance of trade vis-à-vis EU-15 was as follows (all figures in US$ billion): 1993, + 0.97; 1994, − 0.64; 1995, − 0.34; 1996; − 0.82; 1997, + 0.71; 1998, + 0.84; 1999, + 4.65; 2000, + 6.68; 2001 (Jan-June), + 2.82.

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Table 7: **Bilateral trade flows between Taiwan and five EU member states (1992–1999)**

	(All figures in US$ million)					
	France	*Germany*	*Italy*	*Netherlands*	*United Kingdom*	*Other*
1992						
Exports	1,250	3,600	1,071	2,195	2,205	n.a.
Imports	1,391	3,920	1,002	872	1,338	n.a.
Balance	− 141	− 320	69	1,323	867	n.a.
1993						
Exports	1,078	3,503	770	2,117	2,171	2,421
Imports	1,268	4,221	1,300	1,003	1,193	2,105
Balance	− 190	− 718	− 530	1,114	978	316
1994						
Exports	961	3,251	813	2,374	2,172	2,679
Imports	1,458	4,785	1,464	1,147	1,529	2,507
Balance	− 497	− 1,534	− 651	1,227	643	172
1995						
Exports	1,204	3,839	1,005	3,211	2,409	2,922
Imports	1,784	5,682	1,567	1,321	1,643	2,933
Balance	− 580	− 1,843	− 562	890	766	− 11
1996						
Exports	1,306	3,644	1,080	3,824	2,808	3,138
Imports	4,071	5,023	1,557	1,471	1,805	2,693
Balance	− 2,765	− 1,379	− 477	2,353	1,003	445
1997						
Exports	1,394	3,690	1,133	4,299	3,279	3,395
Imports	4,764	5,368	1,604	1,637	1,955	2,572
Balance	− 3,370	− 1,678	− 471	2,662	1,324	823
1998						
Exports	1,377	4,083	1,344	4,369	3,280	4,017
Imports	5,323	5,149	1,481	1,566	1,684	2,427
Balance	− 3,946	− 1,066	− 137	2,803	1,596	1,590
1999						
Exports	1,580	4,080	1,330	4,220	3,830	4,030
Imports	1,890	5,310	1,310	1,710	1,720	2,480
Balance	− 310	− 1,230	20	2,510	2,110	1,550
2000						
Exports	1,640	4,890	1,480	4,930	4,510	4,710
Imports	1,830	5,540	1,390	2,090	1,940	2,690
Balance	− 190	− 650	90	2,840	2,570	2,020
2001 Jan-June						
Exports	620	2,260	690	2,120	1,760	2,020
Imports	1,020	2,230	560	770	780	1,290
Balance	− 400	30	130	1,350	980	730

Source:
Ministry of Finance, Department of Trade, *Maoyi qushi yuce jikan* (*Quarterly Journal of Foreign Trade Trends and Forecasts*), Vol.12 (31 August 1999), pp. 18 and 20 (1992–98); Ministry of Finance website.

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with much bigger surpluses with Hong Kong (US$23.9 and US$29.2 billion) or the USA (US$11.2 and US$9.7 billion) in 1999 and 2000. Nor were they sufficient to offset more than a fairly small fraction of its deficit with Japan (US$18.7 and US$22 billion in 1999 and 2000).[55,56]

Table 7 reveals a quite consistent pattern in Taiwan's bilateral trade balances with its major EU trading partners. Between 1992 and the first half of 2001, Taiwan suffered bilateral trade deficits vis-à-vis France, Germany and, except in 1992 and 1999–2001 (H1), Italy. During 1992–94, these were more than offset by surpluses reflected in its bilateral trade balance with both the Netherlands and the UK, although between 1995 and 1998, in the wake of the emergence of an increasingly serious bilateral deficit vis-à-vis France, this ceased to be the case. Meanwhile, however, growing surpluses with other EU member states still enabled Taiwan to finance its deficit with France, Germany and Italy and thereby maintain an overall surplus in its merchandise trade balance with the EU as a whole. This was especially evident in and after 1999, when the deficit with Italy was eliminated, and those with France and Germany declined sharply. An examination of comprehensive estimates of Taiwan's merchandise trade with every single member state of EU-15 in 1998 (the only year for which I have such data) further highlights the dominant role of just five countries – France, Germany, Italy, the Netherlands and the UK – in Taiwan's trade with the EU. Since 1992, except for Italy in just two years (1993 and 1994), the value of annual exports and imports, each measured separately with each country, has exceeded US$1 billion. Within what may be termed "EU-5," Germany, the Netherlands and the UK have been pre-eminent as export destinations for Taiwanese goods (e.g. accounting for 63.5 per cent of total exports in 1998); as a source of imports, Germany has generally outpaced all its EU rivals.[57]

55. A closer comparator in 1999–2000 was South Korea, with which Taiwan suffered a bilateral merchandise trade deficit of US$4.6 billion (1999) and US$5.1 billion (2000).

56. Notice that the estimates of Taiwan's balance with EU-15 conceal contrasting fortunes in its balance of trade vis-à-vis EU-11. E.g., in 1999, it suffered a deficit of US$880 million with EU-11, whereas its balance with the other four member states was a *surplus* of US$1.67 billion.

57. The relevant data are available in Shin-Tsyr Jing, *Yinying guoji jingmao huanjing bianqian woguo chanye zhengce diaoshi zhi zixun yu yanjiu – EMU dui woguo maoyi, chanye yu jinrong de keneng yingxiang yu yinying zhi dao* (*A Study of the Likely Impact of the European Monetary Union (EMU) on Trade, Industry and Finance in Taiwan and Possible Counter Measures*) (Taipei: Chung-Hua Institution for Economic Research, 1999), p.36. They are reproduced below:

Bilateral merchandise trade between Taiwan and EU-15 (1998)

	Value (US$ million)		*As % of Taiwan's global trade*		*As % of Taiwan's total EU trade*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
EU-15	18,474.6	17,684.2	16.70	16.88	100.00	100.00
Austria	271.2	278.1	0.25	0.27	1.47	1.57

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In analysing the commodity composition of Taiwan's trade with Europe, bear in mind that Taiwan's global exports have long since been dominated by non-agricultural commodities. From a slightly more disaggregate perspective, since the mid-1980s there has been reversal of the relative importance of heavy and non-heavy industrial exports in favour of the former.[58] As for imports, the dominance of agricultural and industrial raw materials has weakened a little, giving way to an increase in the share of capital goods in Taiwan's total imports.[59]

A comprehensive and detailed breakdown of Taiwan's exports and imports to and from its five main EU trading partners is available, but for reasons of space this is not reproduced here.[60] Instead, Tables 8 and 9 seek merely to encapsulate the major findings by highlighting trends in the composition, by broad categories, of Taiwan's trade with two of its three most important export markets within the EU (Germany and the UK[61]) and its single most important source of imports (Germany).

footnote continued

Bilateral merchandise trade between Taiwan and EU-15 (1998) ***(Continued)***

	Value (US$ million)		*As % of Taiwan's global trade*		*As % of Taiwan's total EU trade*	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Belgium	879.4	567.8	0.79	0.54	4.76	3.21
Luxembourg	53.1	13.4	0.05	0.01	0.29	0.08
Finland	227.2	208.1	0.21	0.20	1.23	1.18
France	1,377.6	5,328.5	1.25	5.09	7.46	30.13
Germany	4,086.8	5,149.0	3.69	4.92	22.12	29.12
Ireland	133.3	29.5	0.65	0.15	0.72	0.17
Italy	1,344.6	1,481.8	1.22	1.41	7.28	8.38
Netherlands	4,369.3	1,591.3	3.95	1.52	23.65	9.00
Spain	742.8	284.4	0.67	0.27	4.02	1.61
Denmark	414.9	161.8	0.38	0.15	2.25	0.91
Portugal	133.3	29.5	0.12	0.03	0.72	0.17
Greece	170.4	21.1	0.15	0.02	0.92	0.12
Sweden	407.7	705.8	0.37	0.67	2.21	3.99
UK	3,280.2	1,710.2	2.96	1.63	17.76	9.67

58. In 1986, exports from heavy industries accounted for 34.1% of Taiwan's total exports, compared with 59.4% from the non-heavy sector (the balance comprised raw and processed agricultural goods); in 1999, the corresponding figures were 67.4% and 34.1% (data from Taipei, Ministry of Finance).

59. Shares of total imports changed as follows between 1986 and 1999: agricultural and industrial raw materials rose from 15% to 26.4%; capital goods fell from 75.6% to 64.2%; consumer goods remained unchanged at 9.4%.

60. The five countries are France, Germany, Italy, the Netherlands and the UK (sometimes referred to as "EU-5"). For details, see *Maoyi qushi yuce jikan* (*Quarterly Journal of Foreign Trade Trends and Forecasts*), Vol. 12 (31 August 1999), pp. 108, 114, 120, 128 and 136.

61. The source from which the data are taken does not give the corresponding figures for the Netherlands.

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Table 8: **Commodity composition of Taiwan's exports to Germany and the UK (1989–1999)**

(All figures in US$ million)

	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
TOTAL EXPORTS											
Germany	2,564.4	3,183.2	3,868.7	3,599.1	3,504.0	3,251.3	3,839.2	3,644.1	3,690.6	4,084.5	4,076.6
UK	2,101.8	1,979.4	2,071.8	2,205.1	2,171.1	2,172.5	2,408.7	2,807.4	3,278.2	3,279.8	3,830.3
Textile products											
Germany	303.9	305.0	398.3	314.0	248.8	220.6	182.1	166.2	186.2	186.8	171.8
UK	186.6	175.1	206.3	193.7	160.7	180.3	180.7	209.3	285.6	260.3	231.4
Leather, fur & associated goods											
Germany	79.9	68.3	72.2	48.3	35.3	20.5	15.0	12.6	13.5	10.5	10.8
UK	Not applicable										
Basic metals & associated goods											
Germany	185.1	188.9	247.2	275.6	250.5	269.8	375.5	344.3	352.4	339.4	332.9
UK	127.2	128.2	145.2	166.2	173.8	198.0	231.3	254.4	287.2	341.0	318.6
Transportation equipment											
Germany	Not applicable										
UK	143.5	171.3	135.0	134.3	99.2	103.7	124.2	129.7	168.5	182.8	247.5
Rubber & plastic products											
Germany	133.8	155.3	171.9	150.2	162.7	156.6	167.1	156.2	142.6	137.4	129.3
UK	107.0	113.1	110.3	121.4	115.6	119.3	152.1	135.4	142.3	142.3	146.0

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Table 8: ***Continued***

	(All figures in US$ million)										
	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Footwear											
Germany	169.5	156.2	164.8	76.6	51.9	26.8	10.4	6.9	4.6	5.0	5.2
UK	Not applicable										
Machinery & electrical equipment											
Germany	1,096.6	1,605.3	1,947.9	1,907.7	1,871.8	1,823.0	2,300.6	2,233.7	2,296.4	2,478.7	2,760.7
UK	941.1	831.7	888.5	1,020.0	1,151.1	1,166.8	1,328.9	1,663.8	1,957.8	1,944.9	2,397.6
Wood, bamboo & rattan products											
Germany	Not applicable										
UK	44.8	41.8	43.1	38.0	33.7	24.0	19.5	17.8	18.1	12.8	14.7
Non-motorized cycles & other cycles											
Germany	28.6	81.8	124.3	81.6	160.2	103.1	97.1	77.4	65.2	60.2	67.1
UK	Not applicable										
Other											
Germany	567.0	622.5	742.0	745.2	722.8	630.8	691.2	646.8	629.6	866.4	608.9
UK	551.6	518.1	543.4	531.5	437.0	380.3	372.0	396.9	418.7	395.8	474.5

Source:
TSDB, 1999, p. 234; 2000, p. 232.

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Table 9: **Commodity composition of Taiwan's imports from Germany (1989–1999)**

	(All figures in US$ million)										
	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
TOTAL IMPORTS	2,594.0	2,667.6	3,013.2	3,919.3	4,220.3	4,784.3	5,683.3	5,023.4	5,369.2	5,149.0	5,321.6
Machinery & electrical equipment	830.6	1,016.7	1,193.1	1,544.7	1,773.5	1,810.0	2,361.3	2,057.3	2,369.2	2,525.1	2,840.2
Transportation equipment	677.3	464.5	404.8	860.2	869.7	1,123.4	1,065.1	853.3	728.8	561.3	524.4
Chemicals	483.7	532.4	666.5	588.7	596.7	687.3	787.1	789.3	802.7	714.4	737.3
Other	602.5	654.0	748.9	925.8	980.5	1,164.0	1,469.8	1,323.5	1,468.5	1,348.3	1,210.8

Source:
TSDB, 1999, p. 242; 2000, p. 240.

The estimates in these two tables are fairly representative of the changing commodity composition of Taiwan's global, as well as European export and import profiles. Between 1989 and 1999, for example, the share of machinery and electrical equipment in total exports rose from 43 per cent to 68 per cent (Germany), and from 45 to 63 per cent (UK). The broader, increasing importance of the EU as a market for these products is suggested in the finding that by 1998–99, Germany and the Netherlands were the destination for about 10 per cent of Taiwan's *global* exports of such goods.[62] In 1998 alone France, Germany, Italy, the Netherlands and the UK are reported to have accounted for a quarter of all Taiwanese exports of information and communication products worldwide.[63] Taiwan is also a major *importer* of machinery and electrical equipment and here too, the EU has loomed increasingly large. By 1999, for example, the share of its total overseas purchases of such goods collectively supplied by Germany, the Netherlands, Switzerland and the UK had reached almost 10 per cent.[64]

Investment Relations Between Taiwan and Europe – a Brief Overview

Not only because of complications associated with investment flows from Taiwan to the mainland, there are major difficulties in quantifying and assessing overseas investment undertaken by Taiwanese firms since the 1980s.[65] Suffice to say here that in the last two decades, these firms have used such investment, as well as technological co-operation programmes,[66] in order to facilitate accelerated economic restructuring and technological upgrading.

To all intents and purposes, Taiwanese investment in Europe only got under way in the 1980s,[67] and as of 1987, the cumulative contractual value of European investment in Taiwan since 1952 was still a mere US$4.7 million (about 1.2 per cent of all outward investment from Taiwan during this period). Thereafter, capital outflows to Europe became more significant, although annual fluctuations remained quite pronounced. In 1999, approved investment in Europe was almost US$61 million – still, however, less than 2 per cent of Taiwan's global outward investment. Cumulative investment in Europe during 1952–99 totalled US$724.6 million – about one-third of investment in the United States in 1999 alone.

Table 10 provides a summary of the relevant data relating to government-approved Taiwanese investment in Europe since 1952.

62. In the same two years, 10.5% of Taiwan's global exports of semiconductor electronic integrated circuits and associated products were shipped to four EU member states (France, Germany, the Netherlands and UK) (*TSDB*, 2000, p. 226).

63. *Maoyi qushi yuce jikan* (*Quarterly Journal of Foreign Trade Trends and Forecasts*), Vol. 12 (31 August 1999), pp. 108, 114, 120, 128 and 136.

64. *TSDB*, 2000, p. 238.

65. For useful comments on the problem, see Howe, "The Taiwan economy," pp. 138–39; and Schive, *Taiwan's Economic Role in East Asia*, pp. 18–19.

66. See Simon, "Taiwan's technological future," p. 166 *et seq*.

67. Data published by the Investment Commission of the Ministry of Economic Affairs (MOEA) indicate that between 1952 and 1979, a handful of European investment projects worth a mere US$120,000 were agreed by the government of Taiwan.

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Table 10: **Government-approved investment by Taiwan in Europe (1952–1999)**

	(All figures in US$ 000)						
	All Europe	*UK*	*France*	*Germany*	*Netherlands*	*Switzerland*	*Other*
1952–87	4,657	3,232	–	231	194	–	1,000
1988	12,005	858	1,000	2,581	25	2	7,240
1989	2,333	25	–	868	1,440	–	–
1990	96,176	11,405	6,777	9,708	5,893	–	62,393
1991	60,289	14,572	1,020	3,815	6,679	–	34,203
1992	45,933	4,435	2,861	15,209	9,690	337	13,401
1993	255,913	237,918	–	5,271	10,383	–	2,341
1994	22,209	16,852	180	1,773	271	138	2,995
1995	59,868	8,215	882	5,169	20,410	–	25,192
1996	11,875	6,128	243	3,984	217	–	1,303
1997	58,508	13,412	127	3,821	11,113	–	30,035
1998	33,828	9,724	6,488	6,394	8,574	545	2,103
1999	59,567						
1952–98	663,594	326,776	19,578	58,824	74,889	1,321	182,206
1988–98	658,937	323,544	19,578	58,593	74,695	1,321	181,206

Sources:
Shin-Tsyr Jing, *A Study*, p.76, Table 19; also website of Investment Commission, Ministry of Economic Affairs, Taipei.

Perhaps the most striking feature of this table is the absence of any clear trend. Most noteworthy in this regard are the very sharp increases in investment recorded in 1990 and 1993. Indeed, if investment in these two years were omitted, Taiwan's cumulative investment in Europe would fall by more than half![68] A second outstanding feature of the table is the disproportionate role played by the UK as a destination for Taiwanese capital outflows to Europe. The estimates in Table 10 show that since 1952, the UK has absorbed almost half (49.2 per cent) of Taiwan's European investments, compared with corresponding figures for the Netherlands, Germany and France – these being the other main European destinations of Taiwanese investors – of 11.3, 8.9 and 3 per cent.[69]

As of December 2000, the UK was home to 145 Taiwanese investment projects.[70] One hundred of these were in the IT industry, the other sectors benefiting from Taiwanese capital being manufacturing (24 projects), financial services (nine), transport (seven) and other services (five). More than 80 per cent of all Taiwan's European investment in manufacturing is located in the UK, where the employment effect of Taiwanese investment has been estimated to be the creation of some 10,000 new jobs.[71]

Since 1952, as much as a quarter of all Taiwanese investment in Europe has been directed to the manufacture of transport equipment, all of which has been used in the UK.[72] Next in importance have been electrical equipment and electronics enterprises (16.2 per cent of all investment since 1952), the foreign trade sector (13.8 per cent), banking and insurance (also 13.8 per cent), textiles (13 per cent – almost two-thirds in the UK), service trades (12.2 per cent – more than half in the UK), and wholesale and retail trades (3.9 per cent).[73] Taken together, these seven sectors have absorbed 98.6 per cent of all Taiwanese investment in Europe. In recent years, however, as the manufacturing sector's share of Taiwan's European investment has declined (to 37.3 per cent of the total in 1998), so that of non-manufacturing activities has risen sharply. In 1998 in the UK, for example, non-manufacturing sectors absorbed 70 per cent of all investment inflows from Taiwan – more than half in retailing and foreign trade alone. A similar pattern was observable in France, Germany and the Netherlands.[74]

68. Taiwan's huge investments in Europe in 1990 and 1993 accounted, respectively, for 6.2% and 15.4% of Taiwan's global overseas investment. As a result of these anomalously high figures, Europe accounted for 3.3% of Taiwan's cumulative overseas investment for the entire period, 1952–99.

69. The UK's pre-eminent record owes most to massive Taiwanese investment (valued at US$0.24 billion) that was approved in 1993. Had it not been for this single investment initiative, the UK would have remained ahead of its nearest rivals (Germany and the Netherlands), but by a much smaller margin.

70. I am indebted to Mr. Charles C. Li (Director, Publics Services Division, Taipei Representative Office in the UK) for providing the information in this paragraph.

71. Taiwanese investors rank ninth among all foreign investors in the UK in terms of employment creation.

72. Shin-Tsyr Jing, *A Study*, p. 74.

73. *Ibid*.

74. *Ibid.*, pp. 78–79, Table 20.

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Two final points should be made here. The first is that under the impact of the Asian financial crisis, 1998 saw a significant contraction in Taiwanese investment in the region (most dramatically, in Hong Kong, Singapore and the Philippines). Far from being offset by an expansion in capital outflows to Europe, the decline was underlined by a major contraction (by 42 per cent) in investment in Europe – no doubt, in part explained by exchange rate considerations of the kind discussed earlier.

Secondly, notice that the end of the Cold War made available new markets for Taiwanese investors, to which they were not slow to respond. To date, however, the levels of such investment in Eastern Europe and Russia has remained modest, even though from the low base that previously existed, its rate of expansion has been rapid.[75]

Of course, investment relations between Taiwan and Europe reflect *reciprocal* flows of capital, and European countries have been important sources of investment capital for Taiwan.[76] Indeed, in a global context, the quantitative significance of European investment in Taiwan has consistently exceeded that moving in the opposite direction. In short, in its investment dealings with European countries, Taiwan has remained a net importer of capital throughout the period considered in this article. Between 1952 and 1987, for example, such investment totaled US$890 million, or 12 per cent of total inward investment from all sources. Subsequently, the European impact became even greater, contributing 14.5 per cent of all inward investment between 1988 and 1998. During this latter period, the single most important actor was the Netherlands, which accounted for 31 per cent of all European investment in Taiwan. Next in importance was the UK (26 per cent), Germany (15 per cent), Switzerland (9.3 per cent) and France (5 per cent). The major beneficiary of such inflows has been the chemical sector.[77]

Concluding Remarks

Against the background of its own post-war experience of economic growth, modernization and structural transformation, as well as that of neighbouring countries in East and South-East Asia, Taiwan's "central geographical location in the East Asian trading region"[78] has strengthened the identification of its economic interests and destiny with those of the Asia-Pacific. At the same time, the history of Taiwan's foreign relations and its uniquely delicate international diplomatic status have made the

75. Cf. Schive, *Taiwan's Economic Role in East Asia*, p. 20.

76. Shin-Tsyr Jing, *A Study*, pp. 80–81, Table 21, gives a detailed breakdown of European investment in Taiwan during 1952–98. The figures cited here are taken or derived from the estimates cited by Dr. Jing.

77. Since 1952, some 25% of all European investment has been allocated to chemicals; other beneficiaries (in order of importance) have been electrical goods and electronics, banking and insurance, service trades, international commerce, wholesale and retail trades, and machine manufacture (*ibid.*, p. 75).

78. The phrase is Christopher Howe's ("The Taiwan economy," p. 132).

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United States a critically important political *and economic* actor vis-à-vis Taiwan. Hence, the suggestion early in this article that like relations between mainland China and Europe, the Taiwan-Europe axis may also be regarded as a "secondary relationship."[79]

But even allowing for the secondary nature of the Taiwan-Europe relationship, this article has sought to highlight the increasingly important role that European countries – above all, EU member states – have come to play as trading and investment partners in support of Taiwan's continuing economic growth and development. Recent increases in the level of merchandise trade between Taiwan and Europe, whether measured bilaterally or inter-regionally, suggest a modest degree of diversification in Taiwan's foreign trade profile. Reciprocal flows of investment have meanwhile facilitated Taiwan's economic restructuring, whilst simultaneously enhancing its international outreach.

Assessing Taiwan's future trajectory is meaningless without reference to the potential impact of developments on the Chinese mainland. In physical terms, a comparison of Taiwan and the PRC is of course a study in dramatic contrasts: the incorporation of Taiwan into the mainland would, for example, make it the second-smallest province. In economic terms, however, Taiwan is far from being a poor relation of its much larger neighbour. On the contrary, quantitative indicators point to the wide gap that continues to exist between the two countries in terms of aggregate and per capita GDP, gross savings, gross investment and virtually any welfare measure.[80] Such economic differences, as well as Taiwan's enhanced global economic and political status, are important parameters of cross-Straits comparative analysis and serve to temper exaggerated warnings of Taiwan's inherent vulnerability vis-à-vis the mainland.

The huge contrast in the physical sizes of Taiwan and the PRC readily conveys an impression that in all its economic manifestations, Taiwan cannot fail to be overwhelmed by its neighbour. This is an impression to which the post-1978 reforms of China's economy and its unprecedented opening to the outside world would appear to lend strength. As a recipient of foreign investment, it is true that Taiwan cannot remotely compare with the mainland.[81] But it is a salutary reminder of Taiwan's economic strength that, despite their size difference and notwithstanding the dramatic expansion of PRC trade since the mid-1980s, the levels of the two countries' merchandise trade with Western Europe were closer than might be supposed. In 1999, for example, the value of Taiwan's exports to EU-15 member states was US$19.06 billion, compared with US$30.22

79. Cf. n. 38.

80. The same findings would apply albeit in muted form, if the basis for comparison with Taiwan were the rich (by Chinese standards) coastal regions of the mainland.

81. In 2000, the PRC was the recipient of utilized foreign direct investment valued at US$40.3 billion (National Bureau of Statistics (NBS), *Zhongguo tongji nianjian* (*China Statistical Yearbook*), 2000 (Beijing: NBS Publishing House, 2000), p. 605. In the same year, Taiwan's inward investment flows totalled US$4.1 billion (*TSDB*, 2000, p.262; see also Shin-Tsyr Jing, *A Study*, p.80).

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billion for the PRC. In the same year, the corresponding figures for imports from the same source were US$14.42 billion and US$25.46 billion.[82] In short, its tiny size notwithstanding, Taiwan's two-way trade with EU-15 was 60 per cent of that of mainland China.

Reference has already been made to the economic significance for Taiwan of the expected further enlargement of the European Union. Another important development, the impact of which will also become increasingly strong in years to come, is the process of economic and monetary union (EMU) within the EU.[83] The increased size and more closely integrated nature of the EU – by extension, the entire European – market will inevitably change the framework of EU trade and investment relations, as well as allowing the EU to assume a more prominent role in the ongoing process of economic globalization.[84] Anticipating, let alone quantifying the impact on Taiwan of EMU is hazardous at this early stage, but at the very least the challenge will require the implementation of appropriate measures by the Taiwanese government in order to address the implications for trade, industrial and financial development.[85]

Nor should the effects of Taiwan's membership of the World Trade Organization (WTO) be ignored.[86] At the very least, in accordance with the demands of Most-Favoured Nation treatment, accession to the WTO will result in the reduction and removal of various tariff and non-tariff barriers to the mutual benefit of Taiwan and the EU, this in turn facilitating the resolution of bilateral trade disputes. Less readily apparent is the encouragement that WTO membership by Taiwan *and mainland China* may give to European firms engaged in trade and investment with mainland Chinese firms that are linked, through ownership or joint ventures with Taiwanese businessmen.[87]

From the present perspective, there is no doubt that Taiwan and the Chinese mainland both face serious economic challenges. For Taiwan,

82. PRC Data from *Zhongguo tongji nianjian*, 2000, p.594; Taiwan data from Ministry of Finance, Taipei.

83. On 2 May 1998, formal approval was given to EU-11 Member States (Denmark, Greece, Sweden and the UK had already decided not to take part in the initiative) to participate in the final stage of EMU. It was agreed that on 31 December 1998, the 11 national currencies would be converted into euros. The internal exchange rate of the euro to the 11 national currencies was to be irrevocably fixed, while market forces would determine its external value. The new currency would be managed by the 17 governing members of the European Central Bank, which would become operational on 1 January 1999.

84. See Li-Kung Ferng, who observes that "EU enlargement and the presence of the Euro zone has encouraged Taiwan to accord greater priority to economic and trade relations with the EU and European countries" ("Economic and trade perspectives," pp. 2–3).

85. An insightful analysis of the likely impact of EMU on these aspects is given by Shin-Tsyr Jing, *A Study*, pp. 95–106.

86. The implications for Taiwan's trade with EU Member States is thoroughly analysed by Li-Kung Ferng.

87. Li-Kung Ferng rightly notes that the triangular economic relationship between the EU, Taiwan and mainland China is an important dimension of any analysis of Taiwan-Europe economic relations and suggests that its further development is likely to strengthen the case for direct economic links across the Taiwan Strait, including the establishment of banking and financial activities by Taiwanese on the mainland ("Economic and trade perspectives," p.21).

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perhaps the most dramatic manifestation of the severity of such problems lies in the certainty that GDP growth in 2001 will have been negative. How this unprecedented downturn should be interpreted is open to debate. My own view is that despite the very real economic and associated difficulties that Taiwan faces domestically, as well as in its relations with China, its fundamentals – not least, its entrepreneurial strengths – remain strong. By contrast, the economic problems confronting the government in Beijing are more deeply rooted and, judging from the experience of recent years, will require the pragmatic implementation of a complex package of flexible policies over a long period if they are to be resolved. From such perspectives, there is reason to believe that Taiwan's medium-term economic prospects – let alone those of social and political stability – may be viewed with cautious optimism. Such considerations, as well as others suggested earlier in this article, also encourage a sanguine view of future prospects for Taiwan's expanding trade and investment with both EU member states and Europe as a whole.

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