

THE CASE FOR TAIPEI'S MEMBERSHIP IN INTERNATIONAL ECONOMIC ORGANIZATIONS

INTRODUCTION

Its foreign currency reserves were \$70.7 billion this July; its Gross National Product nearly topped the \$100 billion mark last year; and it has the distinction of being one of the world's most prominent trading nations.¹

With such economic muscle, it would seem that the role of the Republic of China on Taiwan — or ROC — in the international economic community would be well recognized and respected. But today, the majority of the world's intergovernmental economic organizations do not even recognize the ROC. Indeed, the major international economic organizations — the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD), the World Bank, and the International Monetary Fund (IMF) — maintain that the ROC officially does not exist. Rather than allow the ROC to participate in these organizations, they have ignored economic realities and have bowed to political pressures from Beijing to make a choice between it and the ROC.²

Yet the international economic organizations — or IEOs — can scarcely ignore a country that, as *The Wall Street Journal* says, adds a “big blip to international trade balance

1 All currency statistics in U.S. dollars.

2 The ROC was expelled from the IMF in April 1980 and the World Bank in May 1980. It had observer status in the GATT from 1965 to 1971 but was expelled when the PRC was admitted to the United Nations in 1971. The ROC never has been a member of the OECD.

figures” and that, in a recent *Foreign Policy* article, is labeled an “economic minisuperpower.”³

Common Purpose. While each IEO has a separate mandate and a separate set of goals, they share the common purpose of contributing to an “effective management” of the world economy, reducing trade frictions, and promoting economic growth. Yet if GATT or the OECD exclude a nation whose products are the target of much of the world’s new trade barriers, GATT and the OECD will be less able to mediate an economic dispute successfully.

Granting the ROC membership in IEOs would benefit all parties because it would make the organizations more representative. It would enhance the exchange of ideas and broaden the range of contacts. And because the process of applying for membership entails rigorous disclosure requirements concerning trade and economic performance, including the ROC in the IEOs might help foster less protectionist economic policy between Taipei and the rest of the world.⁴

The ROC’s inclusion in IEOs, moreover, would broaden its formal and informal relations with most of the world’s nations. The ROC already belongs to a number of non-governmental organizations — like the International Council of Scientific Unions and the International Political Science Organization — and has diplomatic relations with 22 nations. The ROC should have a more formal role in international affairs; admission to the major IEOs would go a long way toward achieving this.

Choosing Compromises. In seeking to join the major IEOs, the ROC will have to argue effectively that its economic and political successes warrant membership and it must decide which compromises to make. In particular, Taipei must determine, or be willing to accept, a name by which the ROC will be called. This must address, or bypass, the sticky issue of Taipei’s claim to be the capital of all of China. This claim, understandably, has prompted Beijing to blackball Taipei. The PRC, for example, has refused to accept ROC’s membership in any international organization if the ROC uses the title “Republic of China,” or any other name that implies Taipei’s sovereignty over all China or the existence of two sovereign Chinas.

Taipei thus will have to show some flexibility on the name issue. Washington, meanwhile, should press the major international economic organizations to admit Taipei. The U.S. should lobby other nations in the IEOs, particularly Japan and the members of the European Community, to support Taipei’s membership.

Washington also should stress to Beijing the importance the U.S. attaches to Taipei’s inclusion in the major IEOs. The PRC has been sensitive to international public opinion in the past; it may thus bow to criticism of its intransigence on this issue. When a U.S. official visits Beijing, for example, he or she should raise the matter of Taipei’s joining the IEOs. At IEO gatherings, such as the present GATT Round in Uruguay, the U.S. should declare

3 Editorial, *The Wall Street Journal*, April 22, 1988; Thomas Omestad, “Dateline Taiwan: A Dynasty Ends,” *Foreign Policy*, Summer 1988, p. 179.

4 See: Stephan D. Krasner (ed.), *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983).

publicly that international economic organizations must include all appropriate members and that excluding a nation on political grounds undermines the IEOs' economic usefulness. The U.S. also should make clear that PRC efforts to blackball the ROC could be countered by similar U.S. action when Beijing tries to join international organizations.

Benefits for Beijing. In fact, it may serve Beijing's interests if Taipei joins IEOs. ROC membership in the IEOs would fuel economic growth in the region, which would benefit the PRC. ROC membership could be a measure of the PRC's commitment to its "one country-two systems" theory, which will be put into effect in Hong Kong in 1997. And allowing Taipei to enter the IEOs would signal that Beijing can put politics aside and address economic issues as economic issues, a prerequisite for its own inclusion into such organizations.

Ironically, the ROC seems ambivalent about pushing for membership in IEOs. Membership would entail economic and political concessions that some feel are simply too costly. Washington thus may have to persuade Taipei that IEO membership is important enough to merit some compromises. U.S. urging of Taipei's leaders to seek some means to maintain the ROC's seat in the Asian Development Bank is a case in point.

THE ASIAN DEVELOPMENT BANK: A STARTING POINT FOR U.S. SUPPORT

When the annual meeting of the Asian Development Bank (ADB) convened in Manila this April, Beijing and Taipei for the first time sat as equal members at a major international conference. After a two-year absence protesting the PRC's admittance to the international bank in March 1986, the ROC, a founding member of the 22-year-old ADB, sent a large delegation to the annual conference.

The event represented a major departure from the longstanding policies advocated by the governments of the ROC and the PRC. Beijing was forced to soften its demands that Taipei be excluded from ADB membership for several reasons. First, the Bank's charter stipulates that a member can be expelled only for defaulting on a loan; second, most of the Bank's 47 members, including its two largest shareholders, Japan and the U.S., opposed Beijing's efforts to oust Taipei.

Urging Pragmatism. Before the Manila conference, Taipei steadfastly had maintained its long-standing "Three Nos" policy: no negotiation, no contact, and no compromise with Beijing. But pressure has been building since 1985, even within Taiwan's ruling Kuomintang (KMT) Party, to modify such an approach. While older KMT leaders have been holding out for ideological purity, unwilling to sacrifice the name "Republic of China," younger leaders have been urging pragmatism. In January 1986, the *Far Eastern Economic Review* reported that Frederick Chien, then Taipei's envoy in Washington (and now Chairman of the Council for Economic Planning and Development in Taipei) stressed to the late ROC President Chiang Ching-kuo the importance of returning to the ADB. The article added that the Reagan Administration had "made it clear that it [wanted] Taipei to compromise on the

name-change question. . . and sent William Clark, a former national security advisor. . . to Taiwan to make the point.”⁵

Eventually, the lobbying compelled the elders in Taipei’s ruling party to allow negotiations through ADB officials with the PRC. ROC officials first proposed “China, Taipei” and “China, Peking” be the names by which the ROC and PRC respectively would be identified at the ADB. Beijing rejected this because the ADB already had said China could enter under its official name, the People’s Republic of China. In the end, largely through the efforts of ADB President Masao Fujioka of Japan, agreement seemed to be reached that the ROC would be designated, “Taipei, China.”

ROC Protests. When the conference in Manila convened in late April, however, the ROC’s delegates protested this designation. They did so by wearing a symbol of the ROC’s flag on their jackets and covering the assigned name on their conference badges. At a conference reception, Stephen Chen, an advisor to Taipei’s delegation and director of international organizations of the ROC Foreign Ministry, told Agence France-Presse, “We are attending as representatives of the Republic of China,” adding that the name “Taipei, China” unfairly indicated that the island of Taiwan was under Beijing’s sovereignty.⁶ The PRC delegation understandably strongly protested.

But the ROC’s abrupt backtracking on the name and the PRC’s protest did not prompt either delegation to walk out. Both the PRC and ROC sat as equal members at the conference. It was the first time that this had happened. Although the two delegations sat apart and studiously avoided each other at the meeting, a precedent for cooperation had been set.

There are lessons from this ADB episode. First, support and pressure from the more influential members of the ADB, particularly Japan and the U.S., compelled ROC leaders to seek some *modus vivendi* to participate in Manila. Second, technicalities in the ADB charter made it difficult for the PRC to block ROC participation.

By understanding the guidelines and technicalities of the IEO charters, therefore, the U.S. could assist Taipei in attaining membership in these organizations.

A GROWING TAIWAN UNDERSCORES THE IMPORTANCE OF MEMBERSHIP

The ROC has been forced to establish unorthodox relations with the U.S., Western Europe, and other Asian countries. Though more than twenty nations do not have diplomatic relations with the ROC, they nonetheless maintain quasi-official trade offices in downtown Taipei. In addition, there are trade offices representing more than twenty U.S. states. Notes Charles Cross, the first director of the American Institute in Taiwan, the unofficial U.S. mission in the ROC: Taipei “is quietly but rapidly becoming a world leader in developing unofficial relationships between countries.”⁷

5 *Far Eastern Economic Review*, January 23, 1986, p. 36.

6 *Kyodo*, April 28, 1988, in *Foreign Broadcast Information Service*, April 28, 1988, p. 65.

7 Charles T. Cross, “Taipei’s Identity Crisis,” *Foreign Policy*, Summer 1983.

It is, of course, the ROC's healthy and growing trade relationship with most of the world that allows Taipei to do this. Taipei's two-way foreign trade totaled \$53.9 billion in the first half of this year and the ROC now ranks thirteenth in the world as a trading nation.⁸ Indeed, few other similarly sized economies are as dependent on world trade or as capable of exerting influence on the world market. The proportion of ROC total trade volume to its Gross National Product provides a rough measure of the importance of trade to a nation's overall prosperity. In 1987, almost 88 percent of the ROC's GNP was related to trade with other countries.⁹ (By contrast, the U.S. ratio of trade to GNP is 15.1 percent and Japan's is 15.9 percent.)

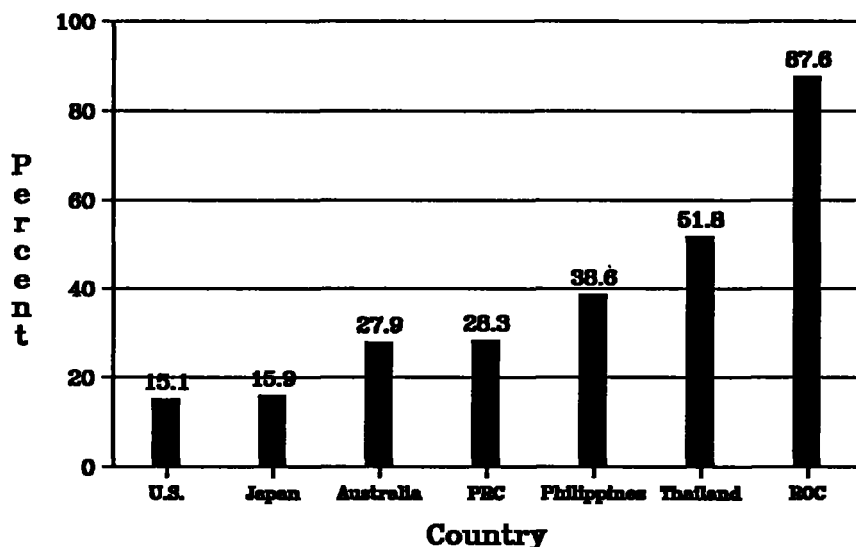
Because of the ROC's enormous dependence on exports, it would benefit from membership in the IEOs. This would:

- ◆◆ Give the ROC a wider forum to express its point of view on contentious economic issues and establish procedures to mediate these disputes.

- ◆◆ Give Taipei access to the respected economic analyses of such organizations.

- ◆◆ Involve Taipei in the international economic process as a player rather than as a pariah, giving it a voice in the search for common solutions to the prevailing economic problems of the day.

**Ratio of Trade to Gross National Product
Selected Nations, 1987**



Heritage InfoChart

IEO membership also could pay domestic dividends for the ROC, where there seems a strong link between economic growth and political liberalization. It has been the ROC's ascendance into the ranks of newly industrialized countries that seems to have helped create the conditions for relaxing martial law and developing a more participatory political environment in Taiwan.

⁸ *Shijie Ribao*, August 2, 1988, p. 11.

⁹ Board of Foreign Trade, Republic of China, *Foreign Trade Development of the Republic of China*, p. 15.

GAINING SUPPORT FOR THE ROC'S MEMBERSHIP IN THE IEOS

There is a growing awareness that the ROC's stake in a stable international economic order has risen substantially with its economic success.

This August 1, Vincent Siew, then director-general of the ROC Board of Foreign Trade (BOFT), told the Taipei *World Daily* that ROC prospects for entering the OECD and GATT were good. BOFT overseas representatives have approached the OECD about applying for membership and the response, according to Siew and others, is encouraging. Siew also noted that a special BOFT panel has been formed to prepare for a similar approach to the GATT, adding that with the ROC's sustained economic expansion, rapidly growing two-way trade, and efforts to liberalize its economy, the time was "just right" for the ROC's inclusion into world bodies such as the OECD and GATT.¹⁰

The Organization for Economic Cooperation and Development (OECD)

The OECD was established in 1960 as an enhancement of the Organization of European Economic Community (OEEC), which had been formed in 1948. OECD is organized as a consultative assembly for guiding the economic policies of developed countries. The OECD's membership is limited to the U.S., Canada, the countries of Western Europe, Australia, New Zealand, and Japan.¹¹ OECD membership should be opened to the Pacific Basin countries, including the ROC.

The OECD Convention contains no provisions that would exclude the ROC. According to Article One, the basic aims of the organization are: to contribute to the expansion of multilateral, non-discriminatory world trade; to contribute to the economic expansion of member and non-member countries; and to contribute to the growth of the world economy by maintaining financial stability and the highest sustainable economic growth, employment, and standards of living in member countries.¹² The OECD is well equipped to arbitrate differences and disparities among member countries. And as a general description of the OECD explains: "Member countries are linked by a community of interests, common problems, a commitment to the market economy, a democratic system and — because of their combined economic weight — common responsibilities to the world at large."¹³

Meeting Membership Guidelines. The guidelines for OECD membership easily could be met by the ROC: per capita GNP of over \$2,000, a standing among the top twenty exporters of manufactures in the world, "reasonably liberal" economic and political arrangements, and a willingness to give aid to poorer countries.¹⁴ The ROC last year had per capita GNP of \$4,925; it ranks as the world's thirteenth largest trader; and it is liberalizing its political system. Moreover, the ROC is launching an extensive foreign aid program. Notes an

10 *Shijie Ribao*, "Taiwan jiang zhongfan guoji jingji wutai," p. 1.

11 Western European countries include: Austria, Belgium, Denmark, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and United Kingdom.

12 OECD Information Pamphlet, September 1986.

13 *Ibid.*

14 *Ibid.*, p. 33.

Asiaweek editorial: "if Portugal (1986 per capita income: \$2320) and Turkey (\$1210) can be OECD members, then perhaps anyone can."¹⁵ Clearly, the ROC shares the same commitments that are set forth in the OECD Convention and deserves membership in the OECD.

The General Agreement on Tariffs and Trade (GATT)

GATT is the principal multilateral agreement covering world trade. Its main purpose is to expand unrestricted trade by requiring participating nations to negotiate trade rules and by mandating penalties for deviation from them. GATT was founded in 1947 as a non-political affiliation of custom areas. Prospective members may apply to join using any name they choose. This prompted *The Wall Street Journal* to declare that, "for the diplomatically feeble-hearted, GATT offers a way around the two-China dilemma."

Though the ROC joined GATT in 1949, the following year it was expelled because its retreat to Taiwan had left it no control over the mainland's economy. Now, after this 38-year absence, Taipei has begun testing the political waters about its possible reentrance to GATT. The ROC's economics, finance, and foreign affairs ministries have formed an ad hoc committee to study the matter. Taipei's interest in GATT stems directly from its desire to reduce the finance and trade barriers that have been erected between it and the rest of the world. Last December, Chen Yu-chu, a spokesman for the ROC Ministry of Foreign Affairs stated: "Because our country is the 13th largest trading country in the world, we will do our best to rejoin GATT in order to maintain our rights."¹⁶

Such rights could be protected, for example, through GATT's dispute arbitration mechanism. Additionally, as the U.S. "graduates" the ROC from its Generalized System of Preferences (GSP), now that the ROC is too prosperous to qualify for it, the ROC would benefit from the most-favored-nation status accorded members of GATT by the U.S. and other GATT members. Such status would help the ROC diversify its export markets beyond the U.S., its most import trading partner, and widen its trade contacts.

Unfair Arbiter. Contentious political issues in the GATT usually are referred to the United Nations General Assembly – an organization that expelled the ROC in 1971. It thus would be an unfair arbiter of Taipei's fate. As such, the ROC should try to approach membership in the GATT in a way that avoids dealing with the U.N. To do this, it must base its case for reentrance on the premise that the GATT deals only with economic issues and should not concern itself with political disputes.

The U.S. should assist ROC efforts to join GATT. Washington, for example, can advise Beijing that the PRC's own bid to join GATT is largely contingent on Beijing's willingness to accede to Taipei's application.

For its part, the GATT should welcome the ROC to its ranks. As an organization predicated on facilitating world trade, its credibility is linked to its capacity to strengthen the global trading system. It is the only major world forum for wide-ranging discussions of international trade problems. If one of the world's primary trading players were excluded from a

¹⁵ *Asiaweek*, April 22, 1988, p. 22.

¹⁶ *The Far Eastern Economic Review*, February 4, 1988, p. 92.

“general agreement on tariffs and trade,” the concepts of “general” and “agreement” would be mocked. Excluding the ROC thus would make GATT a less representative organization.

SUPPORT FROM THE U.S.

Policy makers in the U.S. Congress, State and Treasury Departments, and Office of the Trade Representative can take several steps to assist Taipei in its efforts to join international economic organizations.

1) **Washington should inform Taipei** that it regards the ROC's inclusion into the major IEOs as important and should make clear that it expects that the ROC will compromise on the name question. Without such a compromise, few other nations will support Taipei's bid for membership. The U.S. should relay this message to Taipei through special emissaries and the Americans assigned to the Taipei-based American Institute in Taiwan and to the Coordination Council for North American Affairs, the mission unofficially representing the ROC's interests in the U.S. The U.S. also should seek to send this message through the extensive daily business contacts between the two nations.

2) **Washington should inform its allies**, particularly Japan and the European Community, of American support for the ROC's entry into the IEOs and urge them also to back the ROC. The U.S. should begin lobbying IEO senior officials to begin preparing for Taipei's entrance into the IEOs.

3) **The U.S. should advise Taipei** to seek membership in the GATT and the OECD first because these are the two major IEOs in which the PRC is not a member and in which Beijing thus has the least political leverage.

4) **The U.S. should keep the issue of Taipei's efforts** to join the various IEOs out of the U.N. General Assembly or other similarly politicized bodies that are tilted sharply against Taipei.

5) **The U.S. should argue that including the ROC** in the ranks of the IEOs makes the IEOs more representative and thus strengthens the case for free trade.

6) **The U.S. should inform the PRC of its support**, in principle, for both the ROC's and PRC's entrance into the major IEOs. The U.S. should stress to the PRC that such support is based on the fundamental tenets that govern the international economic community. The U.S. should emphasize that PRC efforts to block the ROC's membership run counter to U.S. interests and reflect poorly on the PRC's commitment to these tenets. Washington should make clear that PRC behavior will be taken into consideration as the PRC makes its bid to enter the same or other IEOs.

7) **Hearings should be held** by the Subcommittee on International Economic Policy of the Senate Foreign Relations Committee and the Subcommittee on Human Rights and International Organizations of the House Foreign Affairs Committee to determine whether legislation, petitions, or memorials might be made to support the ROC's bid to enter the IEOs.

CONCLUSION

The huge growth in the Pacific Basin — and the ROC's role in fueling it — in itself is a compelling reason for Taipei's formal and official entrance into the international economic community. The ROC, as the *Wall Street Journal* states, simply is "overwhelmingly a presence in the world trade picture."¹⁷ If the major international economic organizations exclude the ROC, they not only fail to recognize the reality of Taipei's economic success but raise questions of the IEOs' own legitimacy.

ROC membership in the General Agreement on Tariffs and Trade, the Organization for Economic Cooperation and Development, and other international economic organizations would benefit not only the ROC, but also the U.S., the world economy, and even the PRC. The matter of the name by which the ROC is to be known within the IEOs, though important, can be resolved through compromise. Other political issues, meanwhile, should be put aside and not allowed to determine membership in economic organizations.

The politics of exclusion have conditioned Taipei's relations with the international economic community for over a decade. Now economic reality requires that the IEO members address, or bypass, contentious politics and adopt policies of inclusion.

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¹⁷ Editorial, April 22, 1988.