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## STANDING AT THE DOOR: WHY TAIPEI MERITS FULL MEMBERSHIP IN THE WORLD ECONOMIC COMMUNITY

### INTRODUCTION

Its \$74 billion in foreign currency reserves are the world's largest; its 1990 international trade totaled \$121.9 billion, making it the world's fifteenth largest trading nation; and it does business with more than 140 countries.

With such economic muscle, it would seem that the role of the Republic of China on Taiwan (ROC) in the international economic community would be well recognized and respected. But today, most of the world's major economic organizations do not even acknowledge the ROC. Indeed, the key International Economic Organizations (IEOs)—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 allowing the ROC to participate, they ignore economic realities and bow to political pressures from Beijing to make a choice between itself and Taipei.<sup>1</sup>

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<sup>1</sup> 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 lost its seat when the mainland People's Republic of China was admitted to the United Nations in 1971. The ROC never has been a member of the OECD.

**U.S. Shift.** But on July 19 the Bush Administration took an important step toward ending the unfair and unrealistic treatment of the ROC. In a letter to Montana Democratic Senator Max Baucus that sought to win votes for unconditional renewal of mainland China's most-favored-nation trade status, George Bush agreed to support Taipei's bid to join the GATT. By so doing, the United States for the first time signals its intention to help Taipei play a role in global institutions that reflects the island's growing economic muscle.

The shift in the U.S. approach comes as other Western countries also are improving their commercial relations with Taipei. On July 29, for instance, British Undersecretary of Trade and Industry John Meadway expressed support for the ROC's GATT bid. Meadway was leading an economic delegation to Taipei for the first official trade talks between Britain and the ROC since London severed diplomatic ties with Taipei 41 years ago. That same day, ROC Economics Minister Vincent Siew returned from the ROC's first ministerial-level visit to Australia since Canberra formally recognized Beijing in 1972.

Politics partially fuels the change in attitudes toward Taipei: it is fashionable to be regarded as being "tough" on Beijing in almost any Western capital these days. One way of doing this is to be conciliatory toward Taipei. Even so, the international community remains reluctant to offend mainland China. Taipei, in fact, may be more sensitive about its relations with the mainland than anyone else. It took pains to apply to the GATT as a "customs territory," not a sovereign state, and because the ROC's trade with China grows daily, Taipei seeks to avoid riling Beijing. This year's business across the Taiwan Strait between Taiwan and the mainland could exceed \$7 billion.

**Significant Economic Role.** The most important factor in the new calculus is the reality of the ROC's role in the world economy. It is significant when judged by virtually every economic measure—degree of industrialization, trade flow, amount of capital exports, and international currency reserves. Moreover, the progress that the ROC's free market economy has made over the past three decades, and its recent moves toward democracy, are strides mainland China should emulate. Quips the *Economist* magazine: "If there were a market in countries... Taiwan would be launching a takeover bid for China."<sup>2</sup>

The international economic community long ago should have recognized this. Granted, each IEO has a separate mandate and a separate set of goals. But they nonetheless all ostensibly share the common purpose of contributing to the effective operation of the world economy, reducing trade frictions, and promoting economic growth. If the GATT or the Organization for Economic Cooperation and Development exclude a nation whose products are the target of much of the world's trade barriers, GATT and the OECD are inherently less able to mediate successfully an economic dispute.

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2 See "The Other, Better Chinas," in the *Economist*, February 13, 1988, p. 13.

**Benefits of Inclusion.** Granting the ROC membership in IEOs would benefit all parties because it would make the organizations more representative. It would encourage the exchange of ideas and broaden the range of contacts. And because the process of applying for membership requires disclosing extensive information on trade and economic performance, bringing the ROC into the IEOs will pressure Taipei to be less protectionist.<sup>3</sup>

The ROC's inclusion in IEOs, moreover, would grant Taipei its proper place among the world's economic powers. Although the ROC belongs to such regional economic organizations as the Asian Development Bank, the Pacific Economic Cooperation Conference, and the Pacific Basin Economic Council, and maintains diplomatic relations with 29 nations, it remains largely an outsider in the international arena. The ROC belongs to no major international political or economic organization. Western countries, for instance, bar visits by ROC leaders, and most foreign government ministers dare not go to Taipei, for fear of offending Beijing.

### COUNTRIES WITH DIPLOMATIC RELATIONS WITH THE REPUBLIC OF CHINA

Belize	Republic of Haiti
Central African Republic	Republic of Honduras
Commonwealth of the Bahamas	Republic of Korea
Commonwealth of the Dominica	Republic of Liberia
Dominican Republic	Republic of Malawi
Grenada	Republic of Nauru
The Holy See (Vatican City)	Republic of Panama
Kingdom of Swaziland	Republic of Paraguay
Kingdom of Tonga	Republic of South Africa
Lesthoto	Saint Christopher and Nevis
Nicaragua	Saint Lucia
Republic of Costa Rica	Saint Vincent and the Grenadines
Republic of El Salvador	Solomon Islands
Republic of Guatemala	Tuvalu
Republic of Guinea-Bissau	

3 See Stephan D. Krasner (ed.), *International Regimes* (Ithaca, NY: Cornell University Press, 1983).

ROC membership in IEOs would provide Taipei its rightful place in international economic affairs. Bush's assurance "to work actively with other contracting parties to resolve in a favorable manner the issues relating to Taiwan's GATT accession" is the necessary first step toward achieving this. Beyond this, Washington should:

◆ ◆ **Commence immediately the complex federal inter-agency process that will deal with the ROC's GATT bid.** Such bids generally are handled by the fifteen-agency Trade Policy Staff Committee chaired by the Assistant U.S. Trade Representative for Trade Policy Coordination.<sup>4</sup>

◆ ◆ **Inform U.S. allies, particularly Japan and the European Community, of American support for the ROC's GATT bid.**

◆ ◆ **Begin lobbying senior officials at the GATT, the World Bank and other international organizations to help smooth the way for Taipei's accession.**

◆ ◆ **Work to gain the ROC's membership in the Organization for Economic Cooperation and Development.** If this organization truly is predicated on fostering free trade, then it must include a trading power like Taipei among its ranks.

◆ ◆ **Support, in principle, Beijing's efforts to rejoin GATT.** Bush's July 19 pledge to Congress not only supported Taipei's GATT bid but vowed to "take steps on trade reform so that China's GATT application can advance and its trade practices can be brought under GATT disciplines" as well.<sup>5</sup> Since 1986, mainland China vigorously has lobbied to re-enter GATT, which it quit after the communists took power in Beijing in 1949. Consideration of its application has been stalled since the June 1989 Tiananmen Square killings.

## THE IMPORTANCE OF ROC MEMBERSHIP

The dozen years of political isolation since the Carter Administration in 1979 tore up America's 1954 Mutual Defense Treaty with the ROC have forced the ROC to establish unorthodox relations with the U.S., Western Europe, and other Asian countries. Taipei has been extremely successful in forging these informal links. Today, over thirty nations that have no diplomatic relations with the ROC maintain quasi-official trade offices in downtown Taipei. Another nineteen trade offices represent U.S. states. Notes Charles Cross, the first director of the American Institute in Taiwan, the unofficial U.S. mission in the ROC: Taiwan "is quietly but rapidly becoming a world leader in developing unofficial relationships between countries."<sup>6</sup>

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4 Represented on the TPSC are staffers from: the Departments of Agriculture, Commerce, Defense, Energy, Interior, Justice, Labor, State, Transportation, and Treasury; the Agency for International Development; the Council of Economic Advisors; the National Security Council; the Office of Management and Budget; and the U.S. Trade Representative.

5 See George Bush's letter to Senator Max Baucus, July 19, 1991, in *Inside U.S. Trade*, July 20, 1991.

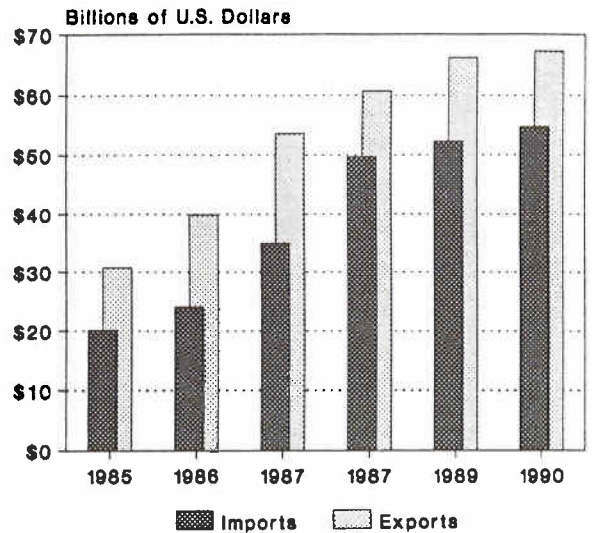
It is, of course, the ROC's healthy and growing trade relationship with most of the world that allows Taipei to do this. Some 20 million people on an island the size of New Hampshire have traded almost \$250 billion of goods with the world in just the past two years. Few other similarly sized economies are as capable of exerting its influence on the world market.

Few other countries also are as dependent as the ROC is on world trade. The proportion of the ROC's total trade volume to its gross national product roughly measures this. Last year, almost 70 percent of the ROC's GNP was related to trade with other countries.<sup>7</sup> By contrast, the U.S. ratio of trade to GNP was about 15 percent and Japan's 16 percent, while the ratio is 52 percent for the Netherlands and about 40 percent for Singapore.

As strong a trader as the ROC is, it may become even more important as a consumer. Real GNP growth likely will exceed 6 percent this year and Taipei forecasts per capita GNP to jump from \$8,750 this year to \$14,000 by 1996. Notes Laura Scogna of the U.S. International Trade Administration: "This dramatic increase in the standard of living in Taiwan has created an increasingly voracious appetite for consumer goods—especially imported ones."<sup>8</sup> Foreign businessmen watch this especially closely as they eye Taipei's recently approved six-year, \$300 billion infrastructure development program.

**Import Barriers.** For years, nations seeking to export their products to Taiwan typically were stymied by a maze of obstacles—quotas, high tariffs, poor protection of patents and copyrights, and a host of non-tariff barriers. In the past five years, however, many of these barriers have fallen. Increasingly, trade sectors are open to greater, and fairer, competition. Foreign exchange controls on trade-re-

Chart 1  
Republic of China World Trade  
1985-1990



Source: Ministry of Economic Affairs, Republic of China

Heritage DataChart

6 Charles T. Cross, "Taipei's Identity Crisis," *Foreign Policy*, Summer 1983.

7 Calculations based on ROC per capita GNP of \$8,750.

8 See Laura Scogna, "Growing Economy, More Open Markets Create Unprecedented Export Opportunities for U.S. Firms," in *Business America*, July 29 and August 12, 1991, p. 6.

lated transactions have been removed. And access for service industries, like banking and insurance, has been improved.

Still, problems remain. Effective intellectual property rights protection in areas such as semi-conductor lay-out designs does not exist. Counterfeiting of trademarks remains a serious problem. ROC patent law does not protect many food-stuffs. And although Taipei has moved to slash tariffs on some imports, like industrial goods, excessively high tariff rates remain on agricultural products. Fresh fruit and processed agricultural products often face import duties of up to 50 percent. Import licensing also restricts U.S. farm goods. At present, 66 percent, or 5,918 items in the ROC's 9,004-item tariff schedule, can be imported without a license.<sup>9</sup> But the import of many agricultural products remains tightly regulated. These include: chicken, wild rice, dried garlic, peanuts and wheat flour.

Because reduction of such import barriers is the main goal of most international economic organizations, the ROC's membership in such organizations would encourage freer trade. For one thing, Taipei's formal inclusion in the international economic community would give Taipei a wider forum to defend itself and to be criticized for its policies on contentious economic issues, like import licensing and tariff barriers. For another thing, GATT's so-called dispute arbitration mechanism provides an efficient means to amicably reduce trade barriers between Taipei and the world.

## GAINING SUPPORT FOR THE ROC'S MEMBERSHIP IN THE IEOs

Some prominent leaders in the international economic community gradually have grown more vocal about the IEOs' stake in Taipei's membership. Last October, for instance, Taipei's GATT application garnered the enthusiastic support of U.S. Trade Representative Carla A. Hills. "We have a unique opportunity to bring under GATT discipline one of the last major market-price-based trading entities outside the GATT system," Hills told the House Ways and Means Committee. She added that the admission of Taiwan would "greatly benefit U.S. commercial and trade policy interests and the international trading system as a whole."<sup>10</sup>

But Hills's voice was the exception in the Bush Administration at the time. Until last month, the Administration was divided over Taipei's GATT application.<sup>11</sup> European Community countries also have been divided. Recently an ROC trade official told The Heritage Foundation: "We have been fighting an uphill battle to convince the world that the reasons for including Taiwan in international economic organizations outweigh the risk of offending China."<sup>12</sup>

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9 See U.S. Trade Representative, *National Trade Estimate, 1991*, p. 207.

10 See Clyde H. Farnsworth "Bush Administration is Split of Taiwan's Joining GATT," in *The New York Times*, November 8, 1990, p. D1.

11 *Ibid.*

12 Discussions in Taipei, January 26, 1991.

That is why George Bush's pledge to support the ROC's GATT bid is so important. The U.S. is the first major GATT member to speak out in the ROC's favor. Now Washington must go farther. Specifically, it should assist Taipei in its efforts to join international economic organizations by:

**◆ ◆ Proceeding with the necessary federal inter-agency consideration of Taipei's GATT bid.**

A key element of any GATT application is payment of a so-called entry fee. This does not take the form of money but is a promise by the applicant country to make tariff and non-tariff concessions to GATT members. These concessions are designed to tear down existing trade barriers. The Trade Policy Staff Committee (TPSC) is most directly responsible for U.S. policy on GATT accessions. Usually chaired by the Assistant USTR for Trade Policy Coordination, currently David Weiss, the TPSC and its various subcommittees define the specific U.S. economic interests and set the American "entry fee" for GATT applicants. The TPSC must be convened and begin its deliberations. Bush now must instruct the USTR office to do so. The TPSC is likely to suggest that the American entry fee for Taipei's admission to GATT be the ROC's abolition of import licensing requirements on American fruits and processed goods.

**◆ ◆ Pressing GATT members to support Taipei's GATT bid.**

The GATT's credibility is linked to its capacity to strengthen the global trading system. As such, the exclusion of the ROC, one of the world's primary traders, inherently makes GATT a less representative organization. Washington should urge Tokyo and the European Community capitals to begin, as is the U.S., to consider Taipei's GATT entry fee.

**◆ ◆ Notifying and lobbying senior international economic organization officials to begin preparing for Taipei's entrance in the organizations.**

GATT, for instance, establishes so-called working parties to examine membership bids. It is here that U.S. GATT officials should press for the prompt determination of the terms for Taipei's accession.

**◆ ◆ Supporting the ROC's membership in the Organization for Economic Cooperation and Development (OECD).**

Formed in 1960, the OECD is a consultative assembly for guiding the economic policies of developed countries. Guidelines for membership include: per capita GNP of over \$2,000, a standing amongst the world's top exporters of manufactures, "reasonably liberal" economic and political arrangements, and a willingness to give aid to poorer countries.<sup>13</sup> OECD has 20 members including the U.S., Australia, Canada, Japan, New Zealand and the countries of Western Europe.<sup>14</sup> Taipei's current participation in the OECD is limited to the largely ceremonial discussions that the organization conducts with the so-called DAEs or Dynamic

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13 OECD Information Pamphlet, September 1990.

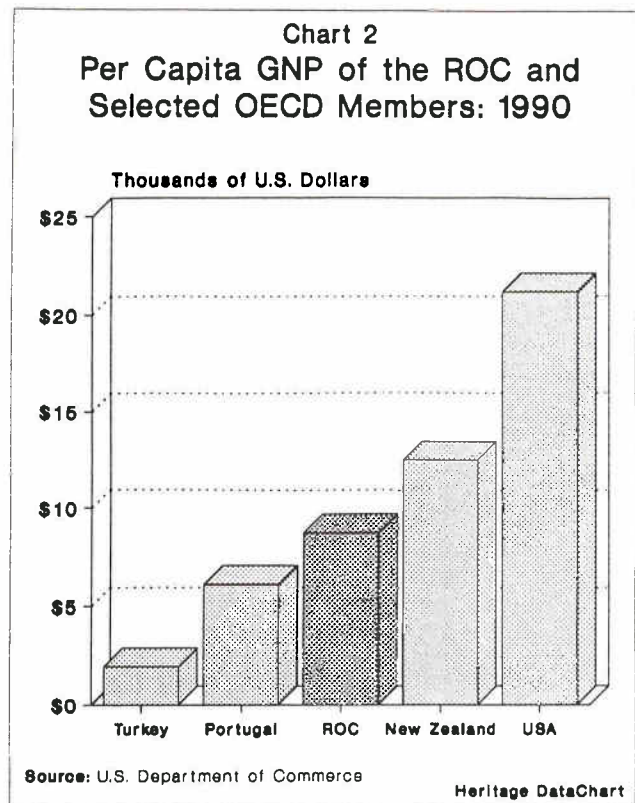
14 Western European member countries include: Austria, Belgium, Britain, Denmark, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Turkey.

Asian Economies. The ROC deserves full membership. OECD member Portugal last year had a per capita GNP of \$6,099, while OECD member Turkey's was \$1,944. Non-member ROC's per capita GNP was \$8,750.

◆ ◆ **Supporting, in principle, Beijing's efforts to join the GATT.**

But U.S. support should come only if China commits itself to the free market principles that govern international trade and continues its decade-old economic reform.

The Bush Administration should note, however, that U.S. support requires Beijing to stop its efforts to blackball Taipei in the international community. In particular, Washington should tell Beijing that its efforts to block Taipei's formal application to enter the GATT runs counter to U.S. interests.



## CONCLUSION

The Pacific Basin's monumental economic growth, and the ROC's role in fueling it, in itself is a compelling enough reason for Taipei's official entrance into the international economic community. And the ROC is more than just a regional power. It overwhelmingly is a presence in the world trade picture as well.

**Economic Reality.** In such light, the politics of exclusion that have tainted Taipei's relations with the international economic community for over a decade should be changed. Economic reality requires that international economic organizations address, or by-pass, contentious politics and adopt policies of inclusion.

George Bush's support for Taipei's application to enter the GATT shows that he understands this. The international economic community scarcely can ignore a country that adds a big blip to international trade figures and justifiably can be labeled an economic mini-superpower. Now his Administration should move vigorously on the basis of his understanding.

Andrew B. Brick  
Policy Analyst



## APPENDIX

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### GATT MEMBERS

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Antigua and Barbuda	Argentina	Australia
Austria	Bangladesh	Barbados
Belgium	Belize	Benin
Bolivia	Botswana	Brazil
Burkina Faso	Burundi	Cameroon
Canada	Central African Republic	Chad
Chile	Colombia	Congo
Costa Rica	Côte d'Ivoire	Cuba
Cyprus	Czechoslovakia	Denmark
Dominican Republic	Egypt	El Salvador
Finland	France	Gabon
Gambia	Germany	Ghana
Greece	Guyana	Haiti
Hong Kong	Hungary	Iceland
India	Indonesia	Ireland
Israel	Italy	Jamaica
Japan	Kenya	Korea, Republic of
Kuwait	Lesotho	Luxembourg
Macau	Madagascar	Malawi
Malaysia	Maldives	Malta
Mauritania	Mauritius	Mexico
Morocco	Myanmar	Netherlands
New Zealand	Nicaragua	Niger
Nigeria	Norway	Pakistan
Peru	Philippines	Poland
Portugal	Romania	Rwanda
Senegal	Sierra Leone	Singapore
South Africa	Spain	Sri Lanka
Suriname	Sweden	Switzerland
Tanzania	Thailand	Togo
Trinidad and Tobago	Tunisia	Turkey
Uganda	United Kingdom	United States
Uruguay	Venezuela	Yugoslavia
Zaire	Zambia	Zimbabwe

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**DE FACTO MEMBERS OF GATT**

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Algeria	Angola	Bahamas
Bahrain	Brunei	Cambodia
Cape Verde	Dominica	Equatorial Guinea
Fiji	Grenada	Guinea-Bissau
Kiribati	Mali	Mozambique
Papua New Guinea	Qatar	Saint Kitts and Nevis
Saint Lucia	Saint Vincent and the Grenadines	Sao Tome and Principé
Seychelles	Solomon Islands	Swaziland
Tonga	Tuvalu	United Arab Emirates
Yemen		

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**NON-MEMBERS OF GATT**

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Afghanistan	Albania	Andorra
Bhutan	Bulgaria	China, People's Republic of
<b>China, Republic of</b>	Comoros	Cook Islands
Djibouti	Dominica	Ecuador
Ethiopia	Guatemala	Guinea
Holy See (Vatican City)	Honduras	Iran
Iraq	Jordan	Korea, North
Laos	Lebanon	Liberia
Libya	Liechtenstein	Oman
Panama	San Marino	Saudi Arabia
Somalia	Sudan	Syria
U.S.S.R.	Vanuatu	Vietnam
Western Samoa		

**Source:** Office of the U.S. Trade Representative.

**Note:** According to the GATT, de facto members are countries "to whose territories the GATT has been applied and which now, as independent states, maintain a de facto application of the GATT pending final decisions as to their future commercial policy."

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