

Taiwan-ASEAN Economic Relations in the Context of East Asian Regional Integration

*Zhao Hong**
National University of Singapore

Abstract

The past years have witnessed a rapid growth of intra-regional trade and intra-regional investment, and a growing number of government-led FTAs in this region. Taiwan has also signed ECFA (Economic Cooperation Framework Agreement) with mainland China. However, as East Asian economic integration intensifies and China's role becomes more central, Taiwan increasingly feels that there is a double danger for it to be overly dependent on the mainland. Taiwan therefore has the intention to more diversify its economic relations and reduce its economic reliance on the mainland. Taiwan will play a more active and positive role in regional integration beyond ECFA. To further develop its cooperation with Southeast Asia is part of this strategy.

Keywords: *Economic integration, Taiwan, ASEAN, FTA, cross-Strait relations*

JEL classification: *F13, F15, F21, F53*

1. Introduction

The financial crisis of 2008-2009 badly hit the global economy, but East Asian economies maintained high growth rates. As China and some other emerging economies keep growing, East Asian regional economic integration has been accelerating these years. China has become a great engine for regional economic growth and integration in East Asia. Trade statistics show a declining dependence of East Asia's exports on the European and U.S. markets, and an increasing dependence on China and other Asian developing countries. Many East Asian economies have leveraged on China's rapid economic growth and deepened their regional economic integration. This trend will further develop as the Chinese government is making endeavours

to adjust its development model from an export-led one to a domestic consumption-led model.

In June 2010, Taiwan signed ECFA (Economic Cooperation Framework Agreement) with mainland China. There is no doubt that ECFA will create new momentum for cross-Strait economic cooperation and deepen the bilateral economic interdependence. However, as East Asian economic integration intensifies and China's role becomes more central, Taiwan increasingly feels that there is a double danger for it to be overly dependent on the mainland. Taiwan's opposition party DPP (Democratic Progressive Party) keeps criticizing the Ma Ying-jeou administration's policy as being over-dependent on mainland China.¹ DPP Chairman Tsai Ing-wen insists that "Taiwan should not only develop bilateral exchanges between the two sides. Taiwan should utilize multilateral framework to face the rise of China together with other Asian countries."² Taiwan therefore has increasing pressure and intention to diversify its economic relations and play a more active and positive role in regional integration beyond ECFA. To further develop its cooperation with Southeast Asia is part of this strategy.

2. Growing Economic Integration in East Asia

The East Asian economies are very open to trade as their shares of exports in GDP recorded the largest increase from late 1990s to 2008. The past years have witnessed a growing economic integration in this region. This development trend has been reflected in the rapidly growing intra-regional trade, intra-regional investment and the mushrooming of FTAs.

2.1. Intra-regional Trade

Trade statistics show that East Asia is becoming increasingly integrated through merchandise trade. Table 1 shows a declining dependence of East Asia's exports on the European and U.S. markets, and an increasing dependence on China and other developing Asian countries, as mentioned in the introduction. Also observed is the East Asian economies' leveraging on China's rapid economic growth in recent years, as Chinese government's current adjustment of its development model from export- to consumption-led. In other words, China is transforming itself from a "world factory" into a "world market".

Cross-Strait trade has become a driving force for the intra-regional trade development in this region. The bilateral trade value increased from US\$40 billion in 2002 to US\$105 billion in 2008. Due to the 2008-2009 financial crisis, the bilateral trade decreased from US\$105 billion in 2008 to US\$86.5 billion in 2009.³ As for the whole East Asia, the share of intra-regional trade (import

Table 1 Direction of East Asia's Exports (%)

<i>From</i>	U.S.		Europe		Developing Asia		China	
	2000	2007	2000	2007	2000	2007	2000	2007
China	20.4	16.4	16.1	14.6	32.9	33.1		
Hong Kong	23.0	13.8	15.5	12.8	10.2	10.7	34.1	48.4
Korea	20.9	11.2	13.7	12.6	23.8	21.4	10.2	21.2
Singapore	16.7	9.1	13.5	10.1	44.1	51.2	3.8	9.5
ASEAN	18.2	12.2	14.4	11.1	37.4	41.2	3.7	8.9
India	21.1	13.4	24.1	16.5	19.2	21.2	1.8	8.6

Source: "Regional Trade Policy Cooperation and Architecture in East Asia", ADB Working Paper Series, No. 191, February 2010.

Table 2 Intra-regional Trade in East Asia (%)

	East Asia	NAFTA	EU15
Export			
1987	29.3	45.1	66.6
2007	44.5	48.4	59.5
Import			
1987	41.5	31.8	66.3
2007	62.7	34.1	58.0
Intra-regional trade (export + import)			
1987	34.4	37.3	66.5
2007	52.1	40.4	58.7

Notes: 1. East Asia here includes ASEAN9 (excluding Myanmar), mainland China, Hong Kong, Korea, Taiwan and Japan.

2. This merchandise trade does not include oil and natural gas products (SITC3).

3. EU15 countries before EU enlargement in 2004 included Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden and United Kingdom.

Source: "Intra-regional Trade in East Asia: the Decoupling Fallacy, Crisis, and Policy Challenges", ADB Working Paper Series, No. 177, December 2009.

and export) in total non-oil trade reached 52 per cent by the year 2007, a share which is higher than that of the NAFTA and is approaching that of the EU15 (Table 2).

2.2. Intra-regional FDI

Intra-regional trade and growing commercial links in East Asia have substantially boosted intra-regional FDI, and the relative weight of the region's FDI sources has shifted. As Table 3 shows, while the U.S. played a leading role in the 1960s and 1970s, followed by Japan in the 1980s, their shares each declined to 8 per cent in 2008, while China's share increased from 0.1 per cent in 1981 to 13.3 per cent in 2008. Intra-regional investment now accounts for over 40 per cent of the total FDI stock of the region.

As new sources and recipients of intra-regional FDI have emerged, more countries and industries have been involved in the upgrading process. In

Table 3 Major Sources of FDI to South, East and Southeast Asia (million of US\$, %)

Economies	1981		1991		2001		2008	
	Value	Share	Value	Share	Value	Share	Value	Share
Total	27659	100.0	141547	100.0	1123527	100.0	2305637	100.0
EU	5060	18.3	23131	16.3	143110	12.7	329537	14.3
US	6422	23.2	22046	15.6	112912	10.0	181287	7.9
Japan	5405	19.5	32099	22.7	100021	8.9	185445	8.0
China	29	0.1	575	0.4	125259	11.1	307469	13.3
Hong Kong	3298	11.9	23870	16.9	199974	17.8	328379	14.2
Korea	208	0.8	2539	1.8	18840	1.7	48419	2.1
Singapore	1146	4.1	4448	3.1	44971	4.0	74045	3.2
Taiwan	284	1.0	6729	4.8	43195	3.8	60967	2.6
Others	4567	16.5	20823	14.7	305941	27.2	734285	31.8

Note: The regional totals are based on data covering only 11 countries in 1981, 19 countries in 1991, 16 countries in 2001 and 19 countries in 2008, which account for most of the inward FDI in South, East and Southeast Asia.

Source: UNCTAD, *World Investment Report 2010*, p. 42.

the past years, following in the footsteps of Japanese TNCs (transnational companies), companies from NIEs had relocated their production operations within the region to take advantage of lower costs, thereby enhancing their competitiveness and promoting industrial restructuring. In recent years, while the contribution of Japan as a major driver of intra-regional investment has been declining and the strength of the NIEs as a whole has been relatively weakened by the recent crisis, China has become a main source of global FDI outflows and its role in the region has been expanded. Its total outward FDI in 2009 reached US\$56.5 billion.⁴

China is playing a multifaceted role in the current process of industrial restructuring and upgrading in Asia. Within the country, a new round of industrial upgrading is taking place. Some low-end, export-oriented manufacturing activities have been shifting from coastal China to a number of neighbouring countries, while efficiency-seeking FDI in the coastal provinces of China has been upgrading to high-end products, and market-seeking FDI has been increasingly targeting the inland regions. This process has significant implications for the development trajectories of both China and other countries in the region. On the one hand, it continues to be attractive to market-seeking FDI (including the FDI from Taiwan). On the other hand, it has become an important source of capital and technology for the neighbouring and low-income countries in this region. For example, from 2000 to 2009, ASEAN's FDI to China increased from US\$2.9 billion to US\$4.8 billion, while China's FDI to ASEAN increased from less than US\$1 million to US\$2.8 billion.⁵ China has been carrying out a new round of industrial upgrading. Some labour-intensive manufacturing activities have been shifting from coastal China to a number of Southeast Asian countries. Such relocation of some manufacturing activities from China has provided opportunities for latecomers (such as Vietnam, Cambodia, Laos and Myanmar) to become part of the TNCs' regional production networks. Thus a broader and more complicated pattern of industrial upgrading has been emerging in Southeast and East Asia.

2.3. Proliferation of FTAs

Another indication of the deepening economic integration in East Asia is the proliferation of FTAs in this region. Before 1992, East Asia had no FTAs.⁶ The events in the 1997/98 financial crisis promptly highlighted the weaknesses of regional institutions, especially the APEC forum and the ASEAN. The financial crisis also played a crucial role in fostering a stronger regional identity in East Asia. This constituted an ASEAN attempt at widening the scope of cooperation in East Asia by linking the ten ASEAN countries to the larger Northeast Asian economies. Thus the past years have witnessed a

Table 4 FTA status in East Asia by Country, as of January 2010

Country	Implemented	Signed	Under negotiation	Proposed	Total
Singapore	18	1	7	4	30
Korea	6	2	7	13	28
India	11	0	10	5	26
Thailand	10	0	7	6	23
China	8	1	6	7	22
Malaysia	8	1	6	5	20
Japan	11	0	4	4	19
Indonesia	7	1	2	5	15
Philippines	7	0	1	3	11
Vietnam	7	0	2	2	11
Taiwan	4	0	2	1	7
Hong Kong	1	0	1	0	2
Total	98	6	55	55	214

growing number of government-led and competitive integration initiatives in East Asia and beyond (Table 4).

ASEAN accelerated its intraregional trade cooperation initiative by advancing the deadline for the implementation of the ASEAN FTA from 2008 to 2002. In August 2009, China and ASEAN ratified the China-ASEAN Investment Agreement. This, together with the already-signed China-ASEAN agreements of trade in goods and services, completed the negotiation process of CAFTA (China-ASEAN FTA). Implemented in January 2010, CAFTA is comprehensive as it covers trade in goods and services as well as investment. CAFTA opens up new avenues and is expected to boost China-ASEAN trade alongside expanding intra-industry trade and increase investment flow between the two sides.

ASEAN is currently engaged in ASEAN+1 agreement with China, Japan, Korea, India, and Australia-New Zealand, making ASEAN a *de facto* FTA hub (Table 5). Since January this year, ASEAN and China have moved closer to a single free trade market, within which over 90 per cent of the goods traded are granted tariff-free treatment. Japan and South Korea are now in intensive talks with mainland China over FTA, potentially resulting in an even bigger 13-country free trade market.

Table 5 Timeframes for ASEAN and ASEAN Plus Agreements

Group/FTA	Signed	Implementation	Completion date of tariff commitments	
			ASEAN 6	ASEAN 4
ASEAN-AFTA (0-5% tariff target)	1992	January 1993	2003	2006-2010
ASEAN-AFTA (0% tariff target)			2010	2015
ASEAN + China	2004	July 2005	2010	2015
ASEAN + Japan	2008	January 2009 [†]	2012	2017
ASEAN + Korea	2006	Jun 2007 [‡]	2010	
ASEAN + India	2008	March 2010		
ASEAN + Australia/ New Zealand	2009	Pending ratification		

Notes: [†] Implemented by Brunei, Japan, Laos, Malaysia, Singapore, Myanmar and Vietnam.

[‡] Thailand has yet to sign and implement the goods agreement.

The growing number of FTAs in Asia and the Pacific is in part a response to the uncertainty on the progress of multilateral trade liberalization under the auspices of the WTO. There is also a precautionary motive behind them as countries seek to avoid being placed at competitive disadvantage by other regional trading arrangements. Another more fundamental factor behind FTAs is the fact that economies that are geographically close to each other and have established a degree of trade and investment relationships now wish to deepen their economic integration. Properly designed FTAs will further strengthen regional economic integration and boost intraregional FDI flows.

3. Taiwan's External Economic Relations with East Asia

As an export-oriented economy, Taiwan is dependent on external trade to sustain its economic development over the past decades. Taiwan's foreign trade has grown rapidly since the early 1970s. Its foreign trade value came to US\$100 billion in 1988, and reached US\$400 billion in 2006. With a record trade value of US\$496 billion in 2008, Taiwan stood as the 18th leading exporter in the world. Due to the global economic downturn triggered by the 2008 financial tsunami, Taiwan's exports declined to US\$378.4 billion in 2009 (Table 6).

Taiwan's trade share in its GDP in 2009 was 99.7 per cent. Over the past decade, Taiwan's major export destinations have shifted to East Asia. Taiwan's growing dependence on regional markets reflects the expansion of manufacturing production chains with its neighbouring economies, where scores of electronics factories assemble Taiwan-made components for onward export to the U.S. and other foreign markets.

Regional market integration in Asia and ASEAN in particular presents great opportunities for Taiwan. Some of these dynamic regional economies have become increasingly important trade partners to Taiwan. For example, from 1985 to 2009, export shares of the U.S. in Taiwan's total exports decreased from 48.1 per cent to 11.6 per cent, while that of ASEAN 6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) increased from 6 per cent to 14.8 per cent, and that of mainland China rose to 26.6 per cent. In 2009, Taiwan's export dependence on China, ASEAN 6, U.S. and Japan was 26.6 per cent, 14.8 per cent, 11.6 per cent and 7.1 per cent respectively.⁷

Table 6 Development of Taiwan's Exports and Imports (US\$ billion)

	Total	Exports	Imports	Balance
1970	3.0	1.48	1.52	-0.043
1975	11.3	5.31	5.95	-0.64
1980	39.5	19.8	19.7	0.078
1985	50.8	30.7	20.1	10.6
1990	121.9	67.2	54.7	12.5
1995	217.4	113.3	104.0	9.3
2000	292.7	152.0	140.7	11.2
2001	234.3	126.3	108.0	18.3
2002	248.6	135.3	113.2	22.1
2003	278.6	150.6	128.0	22.6
2004	351.1	182.4	168.8	13.6
2005	381.0	198.4	182.6	15.8
2006	426.7	224.0	202.7	21.3
2007	465.9	246.7	219.3	27.4
2008	496.1	255.6	240.4	15.2
2009	378.4	203.7	174.4	29.4

Source: Ministry of Finance, Taiwan. <<http://web01.mof.gov.tw/njswww/jspproxy.aspx?sys=100&funid=defjspt2>>

However, over the last decade, Taiwan has been increasingly marginalized and excluded from East Asia's regional integration process. The stagnant pace of WTO Doha Round Negotiation has proliferated bilateral FTAs worldwide as a result of the "Spaghetti Bowl Effect". By January 2010, a total of 98 FTAs had been implemented in East Asia, while Taiwan had inked FTAs with only five Central American countries (Table 3), which constitute a combined 0.187 per cent share of Taiwan's global exports.

The increasing concern is that Taiwan's businesses will be seriously disadvantaged, due to higher import tariffs as well as other trade and business barriers, if it continues to be excluded from any free trade areas in East Asia. This is especially true for some of Taiwan's pillar industries such as petrochemical, machinery and motor industries which accounted for 24 per cent of Taiwan's total exports in 2007. According to a recent report from Taiwan, 110,000 workers may lose their jobs due to the trade diversion brought about by the ASEAN-China FTA, since Taiwan's exports of petrochemical, machinery products and motor vehicles and spare parts to the mainland are subject to 6.49 per cent, 8.23 per cent and 14.92 per cent import tariffs respectively, much higher than those for ASEAN countries under the ASEAN+1 framework.

The situation will only get worse when other FTAs such as those between Korea and the U.S., and the EU and India come into effect between 2010 and 2012, putting Taiwan at a further disadvantage. Recent years have already witnessed a decline in competitiveness of Taiwan's exports and a fall of its world ranking and share of global trade. Although Taiwan advanced to the eighth place in the latest world competitiveness yearbook of the Switzerland-based IMD (International Institute for Management Development) from 23rd last year, it was still ranked 104th in the "market access" sub-index of World Economic Forum's (WEF) 2009-2010 world competitive report. According to *Focus Taiwan*, "the reason Taiwan was given such a low WEF ranking is that it has forged only a limited number of FTA with foreign countries."⁸ As shown in Table 7, between 2000 and 2008, Taiwan's share in global exports declined from 2.3 per cent to 1.6 per cent while its share in global imports declined from 1.9 per cent to 1.5 per cent.

4. Taiwan-ASEAN Economic Relations Face Challenges

Taiwan has been an important trade and investment partner of ASEAN. The close economic ties date back to the 1970s when Taiwan first relocated its labour-intensive manufacturing industries in Southeast Asia. Driven by increasing FDI in the region which has helped boost bilateral trade, Southeast Asia has since the late 1990s replaced North America and become Taiwan's most important destination for exports.

Table 7 Taiwan's Share in Global Exports and Imports

	Exports		Imports		Total Ranking
	Ranking	Share	Ranking	Share	
1999	14	2.2	15	1.9	15
2000	14	2.3	15	2.1	14
2001	14	2.0	16	1.7	16
2002	14	2.0	16	1.7	15
2003	15	2.0	16	1.6	15
2004	17	2.0	16	1.8	16
2005	16	1.9	16	1.7	16
2006	16	1.9	16	1.6	17
2007	16	1.8	17	1.5	17
2008	18	1.6	18	1.5	17

Source: Annual WTO International Trade Statistics.

Table 8 Taiwan's Trade with ASEAN (US\$100 million)

	Total	Export	Import	Balance
2000	387.1	184.8	203.3	-18.5
2001	314.4	153.9	160.8	-6.9
2002	331.3	164.5	166.7	-2.2
2003	356.7	181.3	175.4	5.9
2004	440.0	240.2	203.8	36.4
2005	485.3	273.6	211.7	61.9
2006	546.0	312.0	234.0	78.0
2007	600.9	363.0	237.9	125.1
2008	646.1	389.3	256.8	132.5
2009	504.2	305.6	198.3	107.3
Jan.-July 2010	401.4	240.1	161.3	78.8

Source: Bureau of Foreign Trade, Taiwan. <<http://cus93.trade.gov.tw/FSC3/FSC3040F>>

During Chen Shui-bian's administration, Taiwan-ASEAN economic relations experienced some fluctuations. Since Ma Ying-jeou took office in May 2008, Taiwan's relations with Southeast Asia have turned a new page. Despite the global financial crisis, Taiwan's total trade with ASEAN amounted to US\$50.4 billion in 2009, with exports of US\$30.6 billion and imports of US\$19.8 billion (Table 8). Taiwan mainly exports electrical machinery

and parts to ASEAN countries while importing mineral fuels and electrical machinery and parts, reflecting a significant intra-industrial trade pattern between the two sides.

ASEAN has been a major investment destination for Taiwanese firms since the mid-1980s. Even after mainland China rose to be the top investment destination since the mid-1990s, ASEAN continued to attract steady capital flows from Taiwan, and the favourite investment locations have been switched from Thailand and Malaysia to Vietnam which was viewed as a substitute for China in labour-intensive industries for export purposes (Table 9).

As Taiwan's FDI in ASEAN increased, more and more financial institutions have been established there. By September 2009, there were 35 banks and 97 branches in ASEAN.⁹ Since Vietnam and the Philippines have become the major host countries, most of these banks and branches were established in these two countries.

However, as the regional economic integration deepens, Taiwan is facing challenges from China, Japan, South Korea and India in the Southeast Asian markets. Taiwan's export position in some individual ASEAN countries has already been affected to some extent. For example, Taiwan's export to Thailand has been surpassed by South Korea's. In 2002, Taiwan's and South Korea's exports to Thailand were US\$2.9 billion and US\$2.5 billion respectively; by 2008, however, these figures were US\$6.5 billion and US\$6.8 billion respectively.¹⁰ Once ASEAN signs an FTA with the U.S. and EU, this trade diversion effect would spread further to other products.

Taiwan has big investment in Indonesia and Vietnam, the two fast growing markets in Southeast Asia with a combined population of 300 million. These two countries have received increasing imports of spare parts and raw materials from Taiwan. Compared to South Korea, however, the growth rates of Taiwan's exports to these two countries paled. For example, from 2002 to 2008, Taiwan's exports to Indonesia increased from US\$1,010 million to US\$2,850 million (with a 182 per cent growth), while South Korea's increased from US\$1,647 million to US\$6,926 million (with a rise of 321 per cent).¹¹ This is because, unlike Japan and South Korea, Taiwan's exports and investment to Indonesia are largely onward-oriented and for re-export to other foreign countries including EU and the U.S. The Southeast Asia-based Taiwan enterprises will need to shift their business models from export-oriented manufacturing to local demand-driven so as to take full advantage of the ASEAN-FTA.

In terms of investment, Taiwan's share in total investment inflows to ASEAN decreased from 13.3 per cent in 2001 to 2.4 per cent in 2008. During the same period, China's share in total investment increased from 0.4 per cent to 2.5 per cent while India's increased from 0.1 per cent to 0.7 per cent.¹² The trend will develop further as the China-ASEAN FTA has already

Table 9 Taiwan's Investment in ASEAN (US\$ million)

	Thailand	Malaysia	Philippines	Indonesia	Singapore	Vietnam	Cambodia	Total
1959-1989	2,097.3	1,257.1	349.4	1,384.6	22.7	4.7	0.0	5,115.7
1990	782.7	2,347.8	140.7	618.3	47.6	135.8	0.0	4,072.9
1991	583.5	1,326.2	12.0	1,057.8	12.5	224.2	0.0	3,216.2
1992	289.9	574.7	9.1	563.3	95.1	617.7	0.0	2,149.8
1993	215.4	331.2	5.4	358.9	69.5	745.4	0.0	1,725.8
1994	477.5	1,122.8	199.2	2,484.0	171.2	580.8	0.6	5,036.0
1995	1,803.9	567.8	13.6	567.4	31.7	974.4	10.2	3,968.9
1996	2,785.2	310.4	117.1	534.6	165.0	488.9	163.7	4,564.9
1007	414.3	480.4	80.6	3,419.4	144.0	305.7	44.4	4,888.8
1998	253.6	263.4	30.5	165.2	158.2	251.1	144.3	1,266.2
1999	211.1	70.3	19.2	1,486.1	324.5	225.7	55.4	2,392.2
2000	437.4	241.1	5.4	134.5	219.5	494.2	18.9	1,551.0
2001	158.7	296.6	12.0	83.9	378.3	1,379.6	57.0	2,366.0
2002	62.9	66.3	236.4	83.2	25.8	534.6	6.8	1,016.0
2003	338.8	163.7	47.1	117.5	26.4	623.8	1.3	1,318.7
2004	268.5	109.1	29.5	68.9	751.8	572.8	13.7	1,814.3
2005	417.7	113.6	25.3	133.4	97.7	713.3	12.5	1,513.5
2006	284.3	110.5	38.1	218.6	806.3	383.8	47.7	1,889.2
2007	247.8	118.8	444.9	51.4	1,194.1	1,877.2	39.9	3,974.0
2008	222.8	256.1	29.0	306.2	697.6	8,867.2	21.5	10,400.4
Jan.-Sep. 2009	47.1	188.3	1.9	98.6	49.8	1,336.0	18.9	1,740.6

Source: Department of Investment Services, Ministry of Economic Affairs, Taiwan. <http://hwbusiness.nat.gov.tw/old/xls/inv_3.xls>

been in practice. Taiwan needs to increase its competitiveness and deepen its economic relations with Southeast Asia.

5. Conclusion: ECFA Will Enhance Taiwan-ASEAN Economic Cooperation

On 29th June 2010, Taiwan and mainland China signed ECFA (Economic Cooperation Framework Agreement). ECFA aims to alleviate disadvantages faced by Taiwanese businesses vis-à-vis those from other economies such as ASEAN and South Korea, by reducing China's import tariffs on Taiwanese products. Although ECFA is not a full FTA, and its early harvest list covers only part of the trading commodity items between the two sides, ECFA is a cross-Strait agreement based on the basic principles of the World Trade Organization (WTO) and adapted by the negotiators to suit cross-Strait relations. Further negotiations on the liberalization of trade in goods and services, and dispute settlement investment agreement will begin later. It heralds a new era in cross-Strait relations and is likely to have an impact on the significant relations between these two and the region.

For ASEAN countries, they will inevitably encounter more intense competition from Taiwan in exporting to China as a result of this agreement. This is especially true for those ASEAN countries with products similar to Taiwan's. For example, over half of Malaysian and the Philippines' exports to China consist of electrical machinery and equipment, sound recorders and television sets. As these are also important export items for Taiwan, competition on these products will increase. Thus, in the long run, as the cross-Strait economic relations deepen, ASEAN countries will need to boost their competitiveness. Deeper intra-ASEAN economic integration is essential in sustaining the bloc's long-term competitiveness.

For Taiwan, the normalization of economic relations across the Strait allows it to engage Southeast Asia more substantially. Since the mainland now accounts for nearly 30 per cent of Taiwan's total exports, and Taiwan has signed ECFA with the mainland, there is no doubt that Taiwan will indirectly benefit from the mainland's FTAs with its trading partners in Southeast Asia and the economic integration in this region.

Taiwan's FDI flows were first focused on Thailand, Malaysia, Indonesia and the Philippines in the 1980s, and then moved on to mainland China in the 1990s, followed by a gradual relocation of certain labour-intensive manufacturing sectors, such as the textile, garment and footwear industries, to Vietnam, Laos and Cambodia. Given the fact that China has become an important outward FDI source now, and Chinese companies in some sectors like textile and automotive industries have also been relocating parts of their production operations to ASEAN countries, such as Cambodia, Indonesia and

Thailand, Taiwan's enterprises can cooperate with mainland's enterprises to enlarge their investment in Southeast Asia.

To further develop economic relations with ASEAN, Taiwan can initiate some specific cooperative projects as a leeway towards FTA and a means to participate in the regional integration process in Southeast Asia. For instance, ASEAN views the food security issue very seriously as its members are struggling to make efficient use of land and natural resources to develop their agriculture. Taiwan is well-known for its rich experience in modern agriculture and expertise in orchid growing and fish farming. The Taiwan government can utilize this industrial advantage to co-develop agriculture with other governments, and strengthen its international competitiveness in agriculture and other related industries. By leveraging on its advantages, Taiwan can speed up its integration with this dynamic region and enhance its competitiveness in the global economy.

Taiwan has a special interest in maintaining and deepening its economic relations with the U.S. and Europe at the same time when it deepens its involvement in intra-Asian integration. Therefore it is natural for Taiwan to take the role of promoting open regionalism in Asia Pacific. By signing ECFA, Taiwan hopes to widen its participation in the economic integration of East Asia and beyond. The prospect of Taiwan pursuing FTA-like agreements, bilateral investment agreements, or other economic arrangements that will help keep pace with the proliferation of bilateral and plurilateral arrangements in Asia has improved since ECFA. Taiwan is in consultation with Singapore toward such ends, and prospects for discussion with the Philippines have been discussed. It therefore will play a more active and positive role in regional integration beyond ECFA.

With the improvement in cross-Strait relations, Taiwan may find more opportunities in joining multilateral activities in the region, for example, as an observer in ASEAN. As Severino (2008) commented, "Taiwan is participating in regional economic arrangements not as a state but as an economy, as it does in its membership in APEC, WTO and the Asian Development Bank. With this made clear, Taiwan and its international partners can conceivably expand the space of Taiwan's involvement in the more practical areas of cooperation among institutions, business firms and people."¹³

Apart from economic cooperation, Taiwan may also have opportunities to cooperate with ASEAN countries on regional affairs, e.g. civil services, legal services, and so on. It could also expand cooperation with ASEAN countries on the management of non-traditional security issues that have become issues of grave concern to most ASEAN countries in recent years, such as environmental protection, transnational crime, drugs and human trafficking, money laundering, and piracy in public seas.

In sum, the new development in cross-Strait economic relations and the signing of ECFA are obviously in line with the interests of ASEAN countries since it will create a more stable and peaceful international environment for economic development in East Asia. This is also conducive to cooperation between Taiwan and Southeast Asia and deepened economic integration in the region.

Notes

- * Dr Zhao Hong 赵洪 is Visiting Senior Research Fellow at the East Asian Institute (EAI), National University of Singapore. Before joining EAI, he was a Professor at the Research School of Southeast Asian Studies, Xiamen University, China. His latest publications include *The Expansion of Outward FDI: A Comparative Study of China and India* (2011), *Energy Concerns of China and ASEAN: Trigger for Conflict or Cooperation in South China Sea?* (2010) and *An Energy Comparison of The Asian Giants: China and India* (2009). His research interests are focused on issues of China-ASEAN economic integration, Sino-Indian energy cooperation and the East Asian Economic Community. <Email: eaizh@nus.edu.sg>
1. Interview with Dr Jaushieh Joseph Wu (Taiwan Brain Trust), 25th February 2011.
 2. Adopted from *zaobao.com*, 3rd March 2011.
 3. Board of Foreign Trade, Ministry of Economic Affairs, Taiwan. <<http://www.cweb.trade.gov.tw>>
 4. UNCTAD, *World Investment Report 2010*.
 5. UNCTAD, based on Chinese FDI data from China's Ministry of Commerce.
 6. There was the 1977 ASEAN Preferential Trading Arrangement and the Bangkok Agreement, but they were selective tariff liberalization and not FTAs.
 7. Ministry of Finance, Taiwan. <<http://web01.mof.gov.tw/njswww/jspproxy.aspx?sys=100&funid=defjspt2>>
 8. "ECFA Let Taiwan 'Resume Regional Hub Status'", *Focus Taiwan*, 21st June 2010. <http://focustaiwan.tw/showNews/WebNews_Detail.aspx?Type=aECO&ID=201006210008>
 9. Financial Supervision Committee, Executive Yuan, Taiwan.
 10. *ASEAN Statistics Year Book, 2009*.
 11. *ASEAN Statistics Year Book, 2009*.
 12. *ASEAN Statistics Year Book, 2009*.
 13. "Taiwan's Economic Relations with Southeast Asia", paper presented by Rodolfo C. Severino at the 1st Taiwan-East Asia Conference on FTA, organized by the Institute of International Relations, National Chengchi University, and the Bureau of Foreign Trade, Ministry of Economic Affairs, Taipei, 11th October 2008.