

**Taiwan: An Emerging Hub  
for the East Asian Regional Economy**

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Tremendous strides are being taken toward closer cooperation among the dynamic economies of the Asian and Pacific region. Greater economic integration among the market-oriented economies has been a steadily evolving trend over the past decade, with attendant benefits for all concerned in terms of commercial, cultural, educational, technological, and security interests. It is the role of Taiwan in this process that I wish to survey in this paper.

**Increased Trade Within the Asian/Pacific Region**

Cooperation and policy coordination make a great deal of sense in a dynamic, rapidly changing region like this one. Over forty percent of total world trade takes place in Asia and the Pacific, and growth rates for exports and GNP in this region dramatically exceed the global average. Significantly, Asians are trading more and more with each other as their national economies expand. According to a study released by the Carnegie Endowment for International Peace, forty-two percent of Asia's trade now takes place within Asia. Moreover, foreign direct investment in Asia is now primarily intra-regional. Today, Asians themselves account for seventy percent of all foreign direct investment within Asia.

In this context, the Republic of China (ROC) recognizes that its economic future is intimately linked to that of its neighbors, and to the success of the region as a whole. Consequently, it is committed to participating actively in all councils of deliberation on Pacific regional affairs including the ADB, PBEC, APEC, and PECC.

**Taiwan as a Link Between the Northeast  
and Southeast Pacific Regions**

To help fulfill the aspirations of the people of the ROC to play an important role in the international community, and to help secure

their economic future, the country is now transforming itself into an Asia-Pacific Regional Operations Center (APROC). Taiwan is uniquely positioned in every sense to become the natural hub for region-wide commerce and information exchange in Asia and the Pacific. Its basic global and regional networks are already established, and it is currently engaged in necessary policy adjustments to further promote this goal.

The government of the ROC is liberalizing trade and investment regulations to lower tariffs, remove non-tariff trade barriers, and open up the service industry. We will be easing restrictions on capital movement to liberalize foreign exchange control in stages. Furthermore, we are intent on establishing a modern legal environment for the new "information society," including full protection of intellectual property rights. Ultimately, we believe that Taiwan will play a pivotal role in regional economic integration, while also serving as a bridge between mature and developing economies.

Consider, for example, Taiwan's central geographic location in the heart of the region. Not only is it near to or astride most of the important trade and transportation lines in this region, it also serves as a natural link between Northeast and Southeast Asia in a commercial as well as geographical sense. Its trade with the six ASEAN nations climbed to US\$19 billion in 1994. For the same year, commercial channels across the Taiwan Strait were estimated at US\$17 billion. Consider also the distinctive cultural and historical connections which we of the ROC, as free enterprise practitioners, have with the rest of Asia. Chinese entrepreneurs throughout the region maintain substantial commercial and social influence in their local communities.

### **Taiwan as a Pivotal Regional Center**

Taiwan's own successful entrepreneurial and democratizing experiences have established a positive, stable example for others to aspire to. All its citizens are prospering through an equitable distribution of wealth in a vibrant economy. We believe our neighbors view Taiwan's exemplary system as a "gateway" to their own further development. By virtue of all these factors, as well as others, the government and people of the ROC hope to persuade both local and foreign companies to look to Taiwan as their operational base for regional operations. Let us examine the basic components of the

envisioned Taiwan economic center:

### *Manufacturing*

Taiwan proposes to become a regional center for high value-added manufacturing including research and development, training and maintenance and technical support. Multinational firms frequently see Taiwan as an important location in this region because of its abundant supply of highly-skilled technical and managerial professionals; its sound and competitive industry infrastructure; its low investment risk; its stable economic growth and strong financial availability; and favorable government policies to support high-tech industries.

In fact, the ROC government would like to transform Taiwan into a "science and technology island." It will encourage research and development by establishing up to 30 new intelligent industrial parks in the next decade and facilitating their interaction with the traditional industrial zones. Taiwan's potential is increasingly apparent. Some of you may know that Taiwan already is the fourth-largest semiconductor manufacturer in the world, after the U.S., Japan, and Germany. Moreover, production of electronics and electrical machinery have grown nearly 200% over the past decade. Taiwan's computer industry's productivity increased ten-fold during the same time frame.

### *Transportation*

Taiwan proposes to become a regional hub for sea and air transportation the lifeblood of all international business. Its beneficial central location can facilitate the transshipment and distribution of sea and air cargo, as well as passengers, around the region. To this end, we now have several initiatives under way. Several zones around the island already have been identified for meeting specific needs of different transportation operations. Kaohsiung Harbor, which currently ranks as the third-largest container transshipment port in the world, will become home to a fifth container berth and a future deep water harbor. The wharf at Keelung Harbor will be improved, and new highways connecting these ports with the outside will be constructed. Expansion of Taichung's harbor entrance, and development of a Taichung Harbor Industrial Zone, are also planned. An offshore transshipment center to allow foreign ships to transport

cargo between Taiwan and the China mainland was recently established, so the cargo does not clear through its customs. For practical purposes, this overcomes the difficulties arising from the ban on direct transportation across the Taiwan Straits.

Air cargo transport facilities at CKS and Kaohsiung International Airports will be expanded for larger capacity. Moreover, CKS Airport potentially will become an Asian-Pacific air cargo transfer and warehousing center.

### *Financial Services*

Taiwan also proposes to become a regional center for financial services. Liberalization and internationalization measures in the financial services sector began in the early 1980s and have created an environment suitable to development of a regional banking center in Taiwan. Restrictions have been eased in several areas. Offshore Banking Units have been allowed since June 1984, and earned interest is tax exempt. So far, approximately 40 banks have set up and operated these Units, with combined assets of some US\$30 billion. Over time, we will emphasize deepening and broadening our foreign exchange market, our offshore banking unit and our foreign currency market to attract foreign financial institutions, thereby enhancing Taiwan's position as a regional funding center.

### *Communications & Media*

I want to turn now to those operations with which I personally have had the most direct professional contact: media and communications services. I do believe that Taiwan is destined to become a regional service center for telecommunications and media activities. In fact, a truly revolutionary "information explosion" in the media already has occurred. For example, some 280 newspapers have registered with the Government Information Office since the ban on registrations was lifted eight years ago; and the number of radio stations is approaching 200, an all time high. Moreover, more than 70 percent of households in Taiwan already can select television programs of their choice from among nearly 70 channels broadcast daily through cable TV systems. Of the 70 channels, approximately 45 are coming down from the satellite. Taken together, this is a communications revolution of tremendous proportions.

The ROC government already has developed a secure

telecommunications infrastructure for delivering basic services. For example, the Directorate General of Telecommunications has fully digitalized its entire international gateway exchange capacity. We intend to open up the domestic telecommunications market step by step, further improving the quality of services and eventually developing a national information network with a high level of efficiency. We will develop a switch traffic hub and a customer service center to better meet the needs of telecommunication throughout East Asia.

Efforts to develop Taiwan as a regional media center currently focus on two specific areas: print media and commercial film and video production. In the near term, Taiwan wants to develop as the region's principal location for production and distribution of Chinese-language TV programs and films, and as an important source of programming for the entire region's satellite and cable broadcasting industries.

According to studies by experts, the market value of Chinese-language television, cable television, and movie productions in Taiwan, Hong Kong, and mainland China amounted to \$2.8 billion in 1993. Taiwan had the highest share at 47 percent (\$1.3 billion), followed by Hong Kong at 28 percent (\$800 million), and mainland China at 25 percent (\$700 million). Now, by the year 2000, if we assume that the Taiwan and Hong Kong media markets continue to grow at an annual rate of 5 percent, cable television household penetration will probably exceed 60-80 percent (60% in the case of H.K. & 80% Taiwan). Moreover, if we assume that mainland China's purchasing power will grow by 7 percent annually, while its movie and TV markets will grow by 0.35 percent of that rate, then the total production value of Chinese language movie and television markets in Taiwan, Hong Kong, and Mainland China could be as high as \$14 billion – fully five times that of the 1993 production value. It is easy enough to see that if Taiwan does its best to maintain its present market share of 47 percent, the rewards will be high indeed. Even if such a high share becomes difficult, a smaller share will still prove very valuable.

This will be an important step toward developing the Taiwan area as a sophisticated Asia-Pacific Media Center and it will be an integral factor in promoting a pluralistic, open, and globalized media industry. Improvements in both services and facilities are planned,

including a new high-tech mediark using the latest in audio-visual and computer technology. In the process, we are hoping to lure media industries to invest in Taiwan.

### *Overseas Investment*

Why should overseas investors be attracted? To begin with, Taiwan's media climate is completely open and free; therefore operational capabilities are almost unlimited. Just as important, the accessibility to its new media and telecommunications Center by foreign investors is ample. Moreover, the prospect for generous profits is outstanding, considering the potential growth and market share projections I cited previously. What a tremendous opportunity this is for U.S. investment capital, not to mention for U.S. broadcasters and entertainers. And no less important, in my view, is the fact that the broadcasting industry – "transnational" by nature – is becoming a critical bridge for promoting international understanding and cooperation in a "borderless" age. The Taiwan Center will become a significant bridging mechanism for enhancing cultural exchanges throughout the region. These are worthy objectives with which all of us can identify.

Still other considerations favor Taiwan as an Asia-Pacific regional media center. For one thing, one quarter of the world's population constitutes a market for Chinese-language information and entertainment programming, including Mainland China and Southeast Asia which both will become a global focus of economic development in coming years. Obviously Taiwan's centralized proximity to this market is a highly practical advantage.

Moreover, the advanced degree of socio-economic development on Taiwan will prove a real asset to the cultivation and enrichment of media operations. Political reforms over the past decade have made the ROC society one of the most free, open, and democratic systems in Asia, and certainly among Chinese-speaking communities. The liberal and diversified climate there will surely stimulate communications operations, as will Taiwan's high literacy rate, rich linguistic resources, and vibrant mass media. And as one of the world's largest and wealthiest economies, Taiwan itself will remain a stable, high consumption market for information and entertainment programming – a factor certain to attract overseas producers. Most important of all, the ROC is ready to proceed. Its present stage of

media development, continuously updated by the application of additional technology, offers ready potential for integrating regional satellite and cable television systems for the benefit of future electronic broadcasting programming.

Eighteen months ago, the ROC's Government Information Office established an Advisory Committee of experts from industry, government, and academia to study, consult, and evaluate issues regarding the proposed Media Center. On the basis of those recommendations, additional specific measures will be taken to implement projects to construct and develop no less than two media parks financed in Taiwan.

### **Prospects for the Realization of the APROC Concept**

Overall, I believe the planning for the APROC concept has been comprehensive and proportionate to ROC resources and capabilities. Ultimately, its full implementation is sure to create a balanced and mutually complementary network of centralized operations encompassing finance, manufacturing, sea transportation, air transportation, telecommunications and media operations.

Incidentally, in an indirectly related development barely two weeks ago, important new steps were taken by the ROC government to further liberalize investment and guarantee fair competition in its telecommunications sector. Following consultations with U.S. representatives, Taipei is publicly committed to remove remaining barriers which were seen as inhibiting U.S. and other foreign companies from entering the telecommunications market. Among steps agreed upon are the DGT will initiate the procedure to remove a proposed 11.5 percent cap on profits for the wireless telecommunications license process; and relaxation of the existing debt/equity ratio for bidders for wireless services.

Although not formally part of the official APROC development process, this agreement does play a role in ensuring that Taiwan's telecommunications sector is offering global services at a competitive price to both commercial and private users. As a net result, this agreement will provide Taiwan with even more of the technology and capital it requires to establish a genuine regional Media Center.

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*Raymond B. Cattell, Ph.D., D.Sc.*

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## International Political Economy "After" the Business Cycle

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Business cycles – concurrent expansions and contractions of activity across many sectors of an economy – have been associated with significant changes in modern international politics and economics. International political economy makes significant assumptions about the cyclical nature of economic activity. Many of the central problems that IPE theorizes about are set in the context of a world with vibrant business cycles. But there are empirical and theoretical reasons to believe that the business cycle in advanced industrial economies is at the end of the 20th century being damped out, and that economic activity will fluctuate less violently in the future than it did in the past. The dampening of business cycles will have important consequences and implications for practical and theoretical issues in IPE – including (but not limited to) low inflation political economy, North-South relations, government policy, and the role of international institutions.

Western political economy since the industrial revolution on aggregate has been a vibrant world of rapid growth and development, at least for countries in the industrial "core". But it has also been a world of continuing and sometimes massive fluctuations in economic activity. Business cycles – concurrent expansions and contractions of activity across many or most sectors of the economy – became a taken-for-granted fact-of-life in this world.

The modern social science of international political economy (IPE) shared in basic assumptions about cyclical economic activity. The problems of conflict and cooperation between states that IPE theorizes about are generally set in a world of vibrant business cycles. Hegemonic stability theory grew out of Charles Kindleberger's arguments about the requisites for provision of a market for distress goods, a lender of last resort, and other "collective" goods *during the great depression*. Regime theory developed in the context of gradually declining American power, upon which were superimposed energy