

Economic Interdependence and Security
in the Asia Pacific

Rong-I Wu

President, Taiwan Institute of Economic Research

rongiwu@tier.org.tw

Chyuan-Jenq Shiau

Professor, Department of Political Science

National Taiwan University

cjshiau@ntu.edu.tw

Chi-Chen Chiang

Assistant Professor, Department of Political Science

Soochow University, Taiwan

cchiang@scu.edu.tw

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DOES TRADE DELIVER WHAT IT PROMISES?

ASSESSING THE CRITIQUE OF GLOBALIZATION

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ABSTRACT

The relationship between economic interdependence and security has engendered considerable debate in history. Some view the relationship in positive terms; some perceive it in negative terms. Instead of siding with either of them, this paper finds that the relationship between economic interdependence and security in the Asia Pacific is much more complicated than what positive and negative views perceive. Particularly after the Cold War, Asia-Pacific economy has become extraordinarily interdependent both externally and internally in trade, capital flows, people flows, and RTAs/FTAs. Nevertheless, power relations in the region are increasingly unstable and traditional security troubles in the Taiwan Strait, Korean peninsula, and South China Sea have not been altered much by economic interdependence. Rather, economic interdependence has spread, extended, or generated such security threats as economic volatility, terrorist activities, and highly contagious diseases to widen the scope of security concerns for the Asia Pacific. The relationship between economic interdependence and security thus should be neither unilinear nor monocausal, but dynamic and networking. Under the circumstances, this paper argues that international cooperation and coordination are essential to manage the contemporary tie between economic interdependence and security as well as to cope with relevant insecurity. Also, to initiate, sustain, and reinforce such international cooperation and coordination, the principle of nonexclusiveness and the improvement of capacity building must be further emphasized.

I. Introduction

In history, economic factors have been applied to explain many security issues, such as the outbreaks of World War I and II, Japan's military expansions in the 1930s and 1940s, and US interventions in the post-War third-world countries. Among others, how economic interdependence affecting security has been viewed differently from different theoretical perspectives. In particular, with the end of the Cold War and the development of economic liberalization, regionalization, and globalization, many scholars, analysts, and policy makers believe that the increase of economic interdependence would not only raise productivity, efficiency, and economic welfare, but also enhance or improve national and international security. However, is this really happening in the post-Cold War era?

In the case of Asia Pacific, as economic liberalization and globalization advance, the extent of economic interdependence in the region is almost unprecedented today. Nonetheless, many traditional security issues in the region, including the China-Taiwan rivalry, North-South Korean conflict, South China Sea dispute, Chinese military buildup, and arms race problem, remain uncertain. More importantly, the increase of economic interdependence instead seems to extend the impacts of such new security threats as international terrorism, infectious diseases, and weapons of mass destruction (WMD), and thus even makes national and international security increasingly sensitive and vulnerable in the Asia Pacific. In this context, whether the increase of economic interdependence really enhances or improves overall security in the Asia Pacific becomes a very compelling question we have to explore and understand.

Therefore, the primary objective of the paper is to examine and explore the relationship between security and economic interdependence in the Asia Pacific

after the Cold War. In so doing, the paper first reviews major theoretical perspectives on security and economic interdependence. The paper then examines the development of economic interdependence as well as explores power relations and remaining security troubles in the Asia Pacific after the Cold War. As the world is changing, the paper also tries to identify major new security threats challenging the relationship between economic interdependence and security in the region. Based on the findings with respect to the tie between economic interdependence and security in the Asia Pacific, the paper concludes with some prospects.

II. Economic Interdependence and Security: Different Theoretical Views

Has the increase of economic interdependence really enhanced or improved the overall security in the Asia Pacific? The puzzle apparently has to do with the relationship between economic interdependence and security. According to Irwin (1996), the claim of trade influencing political relations has existed for almost two thousand years. Based on the past studies, in general there have been following different theoretical views to describe or prescribe the relationship between economic interdependence and security.

Positive or Optimistic Views

In essence, positive or optimistic views argue that the increase of international economic interdependence would reduce the probability of international conflicts or wars, which thus contributes to security preservation and improvement. Similar arguments thus far have mainly come from liberal thinkers

or been influenced by liberal ideas.¹ Among others, the nineteenth-century Manchester school² liberals began to publicly and systematically claim that “in the world of shared economic growth and prosperity, war has become increasingly obsolete” (Moon 1998; Mueller 1989). Through a long-term development, till today there have been several major claims in this positive or optimistic camp regarding the relationship between economic interdependence and security.

First, increasing contact between states via trade contributes to the development of mutual respect and harmonious relations, as well as fosters a sense of international community (Viner 1985). Increasing levels of international trade thus create more potential for positive interactions between states, which not only serves as a catalyst for international cooperation, but also a deterrent to future conflicts (Hirschman 1977; Pavehouse 2004). Second, from the perspective of economic opportunity cost, many arguments stress that since trade generates economic benefits for both parties, the anticipation that war will disrupt trade and lead to a loss of gains from trade helps to deter states from easily waging wars or conflicts against trading partners (Oneal and Russett 1999; Polachek 1980; Barbieri and Schneider 1999). They also believe that the mechanism of economic opportunity cost could increase the pressure from domestic interest groups, motivated by gains from trade, to force governments to maintain peaceful trading environment (Rogowski 1989). In other words, the more economically interdependent the states become, the more they will have an

¹ This is because liberals typically assume that: (1) human beings are “good” in nature; (2) conflict and war are not inevitable; (3) human beings are likely to make progress, particularly for better life; (4) state is not a unitary actor; (5) a free market and absolute gains are admirable (Jackson and Sørensen 1999, 108-110; Viotti and Kauppi 1999, 199-200; Kegley 1995, 4).

² Manchester school refers to “the movement in England from 1820 to 1850 which was inspired by the propaganda of the Anti-Corn Law League” (Bannock et al. 1992, 268). The school basically “believed in free trade and political and economic freedom with the minimum of government restraint” (Ibid.).

interest in maintaining peaceful political relations in order to sustain economic interactions and avoid economic loss (Mochizuki 1998). Another key claim in this camp further argues that economic interdependence facilitates and promotes international norms of cooperation, which over time can be for peace by transforming states' attitudes, preferences, and interests so that international cooperation and accommodation become more likely in the security area (Mochizuki 1998; Ikenberry 1996; Nye 1988).

In short, perspectives (mostly based on liberal ideas) in this camp tend to see the security implications of economic interdependence in positive or optimistic terms. They place emphasis primarily on how transnational economic interactions (especially trade) can mutually benefit and constrain states. At the same time, they hold that increasing economic interdependence not only builds confidence and harmony, but also provides opportunities and norms for international cooperation. Therefore, positive or optimistic views indeed regard international economic competition or interdependence as a positive-sum game, instead of a zero-sum one.

Skeptical or Pessimistic Views

Positive or optimistic views based on liberalism, however, are not without challenges in elaborating the relationship between economic interdependence and security. For instance, realist³ and Marxist⁴ perspectives are used to be

³ In contrast to liberal assumptions, most realists basically assume that: (1) people are by nature sinful and wicked; (2) states are the principal actors that consist of international system characterized by anarchy; (3) international politics are essentially and necessarily conflictual, in which states rely on their own capabilities (mainly political and military) to struggle for power and seek for security and survival; (4) states are both unitary and rational actors; (5) relative gains are key to state's power; (6) politics is more important than economics so that economic activities need to accommodate national (political) objectives (Jackson and Sørensen 1999, 68-69; Dougherty and Pfaltzgraff 1997, 58-59; Viotti and Kauppi 1999, 55-57; Gilpin 1987, 31-34).

⁴ Most variants of Marxist tradition share the following central propositions: (1) economic determinism at both domestic and international levels—e.g., economic production determines the institutional and

skeptical of above-mentioned positive views. They even hold pessimistic or negative views on the relationship between economic interdependence and security.

Realist perspectives challenge positive views on the relationship between economic interdependence and security by mainly emphasizing the anarchic nature of world politics and state's tendency to maximize national power, reduce dependence on other states, and lessen vulnerabilities. Some realists even argue that state's increasing dependence and vulnerability caused by rising economic interdependence might "aggravate" interstate relations and ultimately lead to military hostilities or wars (Mochizuki 1998, 6). After all, for realism, "power distribution" in the international system is the key to peace or wars; economic interdependence may benefit all states in terms of absolute economic gains, but the increase of relative gains is the ultimate assurance for national security (Pavehouse 2004, 249).

More specifically, realists tend to believe that the disparity in relative gains from economic interdependence would finally change interstate military balance and power configuration, which in turn might give rise to security instability (or security dilemma) and antagonism. This is because, for realists, military power is fungible and economic capability is by and large a subset of military power (Moon 1998). States in the anarchic world will convert industrial and technological resources into military might so as to strengthen their security (Mochizuki 1998, 6). Arm races are accordingly hard to avoid and the probability for conflicts or wars may increase. Moreover, beyond the notion of power distribution, some realist

ideological structures of society—whoever controls the economic system also controls the political system; (2) all history is a history of class struggle between a ruling group and an opposing group, e.g., the bourgeoisie vs. proletariat; (3) states are not autonomous and instead driven by ruling-class interests (Dougherty and Pfaltzgraff 1997, 217; Jackson and Sørensen 1999, 185).

views from the angle of economic interest still maintain that economic interdependence can directly exacerbate relations among states. Because the world is anarchical in nature, economic interdependence instead makes state more anxious about the cost of depending on other states, particularly more sensitive and vulnerable to other states' unilateral actions or approaches (Waltz 1979, 106). States may thus seek to expand the economic gains from interdependence at the expense of others by adopting such strategies as raising political pressure, conducting military measure, or applying malevolent mercantilism (Gilpin 1987, 404-405). Yet, such strategies for sure will hardly promote international cooperation and security.

In a word, for realist arguments, transnational economic interactions may not be a deterrent to conflict, but rather a source of tension or instability. The increase of economic interdependence promoting security and peace may be just a liberal myth (Waltz 1970, 205).

Compared with realist views, Marxist views on the relationship between economic interdependence and security are even more pessimistic. For Marxists, as Moon (1998, 9) argue, "economic interdependence is nothing but a disguised and deceptive expression of the capitalist international or regional division of labour. The expression of the capitalist division of labour undermines security and peace in two different ways. One is the inevitability of hegemonic wars among imperial or neo-imperial powers in search for their market niches, and the other is the deepening of class conflicts and their eventual externalization, both of which threaten national, regional, and international security."

Even the "dependency theory" and "world system theory," two major variants of Marxist tradition after the World War II, hold pessimistic views on the relationship between economic interdependence and security as well. Such

thinkers in Marxist tradition as Fernando Cardoso, Samir Amin, and Immanuel Wallerstein basically assume an asymmetric economic interdependence between developed (the core) and developing (the periphery) countries. The asymmetric economic interdependence over time would produce structures of dominance and dependency in both national and international economy, which in turn could trigger efforts to break the dependent ties (Peace 2003, 76). Under the circumstances, two types of conflict—internal conflict within the periphery and the conflict between the core and periphery—could endanger national and international security by sharpening domestic and external tensions.

In light of these skeptical or pessimistic views, capitalist market forces won't automatically guarantee peace and security. The relationship between economic interdependence and security is not as positive as liberals imagine. The increase of economic interdependence may even raise the probability of conflict, threaten security, and add uncertainty.

Theoretical Imperfection

With numerous studies, today there have been different or opposite conclusions and claims with respect to the tie between economic interdependence and security. But with careful examination, there are at least following theoretical inadequacy and logical imperfection in these relevant discourses and studies.

First, traditional views or theories usually assume a unilinear or monocausal relationship between economic interdependence and security. Under the presumption, many studies or discourses thus knowingly or unknowingly neglect other key variables or factors (such as domestic variables, decision-making process, diplomatic alignments, third-party considerations, or hegemonic

influence) in exploring the relationship between economic interdependence and security. Second, traditional studies focus primarily on such traditional security issues as wars, geopolitics, and military confrontations. However, in fact, the impact of economic interdependence has extended to cover nontraditional security problems like international economic crises, terrorism, illegal immigration, rapid infectious diseases, and natural disasters. Also, past studies, particularly for those empirical ones, usually examine the tie between economic interdependence and security in “dyadic” or “bilateral” settings, and ignore the networking impact of multilateral or regional interdependence on security. More importantly, as the world is changing, the content of economic interdependence indeed has gone beyond trade to include investment, finance, flows of people, transportation and communication, and so on. As such, traditional studies regarding trade as main element of economic interdependence cannot see the whole picture of the tie between economic interdependence and security.

In other words, the relationship between economic interdependence and security should be dynamic, rather than a static and unilinear one. In particular, with the changing environment of political economy, the content of economic interdependence and the concept of security are changing. Taking this into consideration would thus improve our understanding of the relationship between economic interdependence and security.

III. Increasing Economic Interdependence in the Asia Pacific

Compared with the period of the Cold War, the world economy has been experiencing the growing mobility of goods, service, capital, technology, information, or even labor since the end of the Cold War. This in turn has made the world economy more interdependent by changing the way of trade, the

direction of investment, flows of capital, international division of labor, the mode of production, and the format of economic integration. The Asia-Pacific economy is no exception and become more interdependent both externally and internally in the following dimensions.

Trade

With respect to trade, under the circumstances of liberalization and globalization, the Asia Pacific is more open to and dependent on trade than before. At least, the pattern of trade in the Asia Pacific has been shifting with the following characteristics since the end of the Cold War. First of all, as Table 1 indicates, trade-GDP ratios have been increasing for most Asia-Pacific economies since the late 1980s. In particular, for most developing economies in the region, trade has become very significant to their GDP, the average trade-GDP ratio increasing from less than 50% before 1990 to 82% in 2003. According to the APEC, the sole and primary institution for economic cooperation in the Asia Pacific, today the APEC with 21 economies accounts for approximately 60% of world GDP and 47% of world trade. Besides, the consequence of the increasingly interdependent trading networks is not just about greater percentage of GDP, but rather about the increasing and deepening links between national and international economies as well as between high- and low-income countries within or without the Asia Pacific.

More importantly, as a region, the importance of intra-regional trade for the Asia Pacific has also increased remarkably in the post-Cold War era. For instance, as Table 2 illustrates, the amount of merchandise exports within APEC has doubled from US\$901 billion in 1990 to more than 2000 billion in 2001, whose increase is even higher and faster than that of the EU. Its percentage of total

APEC exports has increased to more than 70% as well (see Table 2). Also, by selecting 14 economies, Table 3, which summaries “trade dependence index”⁵ on them, confirms the increased importance of intra-regional trade in the Asia Pacific. With few exceptions, each economy’s trade dependence with other economies has dramatically increased through the 1990s.

Capital Flows

Apart from trade, a traditional indicator of measuring economic interdependence, capital flows have not only expanded but also made the Asia Pacific much more interdependent both within and without. According to Nicholson, capital movements can be distinguished as three kinds: (1) movements of capital across state boundaries for “real investment” such as foreign direct investment (FDI); (2) exports of capital goods where the commodities used to make further commodities are exported; and (3) speculative moves of capital (Nicholson 1999, 30). In terms of FDI, the FDI flows in Asia and the Pacific as Table 4 shows have soared considerably since the late 1980s. According to Table 5, the ratio of gross FDI to GDP for the region of East Asia and the Pacific has shifted from 0.74% in 1986 to 4.06% in 2002. Particularly, the FDI inflows into Asia and the Pacific reached its highest point of more than US\$146 billion in 2000 (see Table 4) and China has continued to be the number 1 FDI recipient in the region in recent years (UN 2004, 49-50). In addition to FDI flows, other private capital flows have been growing rapidly too. As a whole, the ratio of gross private capital flows to GDP for East Asia and Pacific has increased from 3.87% in 1989 to more than 10% in the 1990s (see Table 5). As the capital

⁵ Trade dependence index is defined as the amount of exports and imports of a country with a particular trading partner as a percentage of the country’s GDP.

mobility increases, however, capital flows have at the same time exposed Asia-Pacific countries to external disturbances and destabilizing effects such as massive flows of short-term capital (hot money), and speculative activities, which in turn has brought such financial crises as the 1994 Mexico peso crisis and the 1997 Asian financial crisis to the region and deepened region's economic interdependence internally and externally.

People's Flows

With the innovations of traveling and transportation technology, moving of human beings becomes another key aspect of observing economic interdependence. Increasing people's flows, including migrations of laborers, tourists, and civilians, not only indicate but also deepen economic interdependence. While the degree of people's flows in the Asia Pacific is not as large as that in Europe or North America, it has been rapidly increasing throughout the 1990s. In terms of labor flows, traditional advanced countries in the region including Australia, Canada, Japan, New Zealand, and the United States, can be said to have had more inflows of foreign workers after 1990 (see Table 6). Also, East Asian newly industrialized economies (NICs) like South Korea, Taiwan, Singapore and Hong Kong have become major host economies for foreign laborers that are mostly from Southeast Asian countries. For example, foreign labor force of total labor force in South Korea has increased from 0.10% in 1994 to 0.60% in 2001 (World Bank 2004). As well, as Table 7 indicates, the number of foreign workers in Taiwan has mounted sharply to more than 300 thousands in the past decade. On the other hand, more and more overseas workers from Southeast Asian countries have been deployed in the Asia-Pacific area since the 1990s. As Table 8 summarizes, overseas workers of Philippine

have not only increased, but also gradually shifted their destinations from the Middle East to the Asia Pacific in the 1990s.

Furthermore, the expansion of people's flows in the Asia Pacific can be examined through the growth of international tourism and passengers of air transport. In particular, for most Asia-Pacific developing countries indicated in Table 5, both average expenditures of international tourism and passengers of air transport have stayed growing since 1990. All these changes in different aspects of people's flows have in turn further increased the interdependence of the Asia Pacific in both within and without.

RTAs/FTAs

Unilateral liberalization, multilateral liberalization, and regional (or preferential) liberalization are basically three routes to trade liberalization. Despite the establishment of the World Trade Organization (WTO) in 1995, regional trade agreements (RTAs) continue to mushroom across the globe. In the period 1948-1994, the General Agreement on Tariffs and Trade (GATT) received 124 notifications of RTAs; however, since the creation of the WTO, there have been over 130 additional arrangements covering trade in goods or services notified. By the end of 2005, if RTAs reportedly planned or already under negotiation are concluded, the total number of RTAs in force might well approach 300.

The rise of free trade agreements (FTAs) in particular is taking alongside the forward movement of multilateral trade negotiations and becomes a prominent feature in the WTO era. Against the backdrop of increasing economic interdependence, since the late 1990s the FTA fashion has also turned the Asia-Pacific region from an empty box in the regional map of FTAs to a region

with more than thirty signed FTAs and emerging FTA proposals (see Table 9).

The increase of economic interdependence might not be the only or most important factor contributing to the recent proliferation of FTAs in the Asia Pacific. However, since FTAs may contribute to trade creation or diversion, investment flows increasing, future market access, binding and reciprocal commitments, and faster negotiation and liberalization, the economy of the Asia Pacific will likely become further integrated and interdependent as FTAs continue to evolve in the region.

All in all, for the Asia Pacific, international economic interdependence has been on the increase, no matter in terms of trade, capital flows, or people's flows. The increasing economic interdependence has also reinforced cross-border exchanges as well as pushed for such international cooperation as RTAs/FTAs in the region. Then, the question will be whether the increase of economic interdependence has made the Asia Pacific securer or more stable.

IV. Unstable Power Relations and Remaining Security Troubles

During the Cold War, international security and world order were by and large determined or affected by the US-Soviet confrontation, and so was the basis of security and international relations in the Asia Pacific. Yet, the break-up of the Soviet Union in 1991 not only ended the Cold War, but also changed the world order and power configuration over night. This in turn shook the basis of Asia-Pacific security and immediately created such uncertainties as whether the United States would remain a hegemon in the region and whether a regional power would emerge. This section thus is going to explore whether the basis of Asia-Pacific security is improving in the context of growing economic interdependence by examining the post-Cold War power relations, particularly

among the US, China, and Japan, as well as reviewing the traditional security troubles in the region.

Unstable Power Relations

When the Cold War just ended, the withdrawal of the Soviet Union and the uncertainty of the US commitment to military presence in the Asia Pacific indeed brought a “power vacuum” that other regional powers, notably China and Japan, might fill. As the most populous nation in the world, China has been widely regarded as the most likely country to fill the power vacuum with its fast-growing economic strength and its military potential after the end of the Cold War. Since its economic reform and open-up policy began in 1978, China has maintained a very high economic growth rate. Based on World Bank’s statistics, its average GDP growth rate in the past decade is about 8.9%, which is the highest in the world. Also, as China continues to open and integrate with the world economy, trade has become increasingly significant to its economy. After the Cold War, China’s trade-GDP ratio has increased more than double to 65% in 2003. More important is that today Japan and the United States have become China’s number 1 and number 2 trading partners respectively.⁶ The market shares of China’s export goods in Japan and the United States have climbed to 20% and 13% respectively.⁷ In terms of FDI, except Hong Kong, both the United States and Japan are currently the largest FDI providers for China.⁸ Under the circumstances of rapid economic growth, China’s military expenditure climbed

⁶ The estimation is based on data from *China Foreign Economic Statistical Yearbook* and *China’s Customs Statistics*. The data can also be available from *Cross-Strait Economic Statistics Monthly*, <http://www.chinabiz.org.tw/chang/L1-5.asp>

⁷ Japan Customs, Ministry of Finance, Japan; and USA Customs Statistics. The data can also be available from *Cross-Strait Economic Statistics Monthly*, <http://www.chinabiz.org.tw/chang/L1-5.asp>

⁸ The estimation is based on data from *China Statistical Yearbook*, *China Foreign Economic Statistical Yearbook*. The data can also be available from *Cross-Strait Economic Statistics Monthly*, <http://www.chinabiz.org.tw/chang/L1-5.asp>

steadily in the 1990s and reached US\$ 32.8 billion in 2003 based on the estimation by the Stockholm International Peace Research Institute (SIPRI) as Table 10 indicates. In the face of the rise of China, Asia-Pacific states, especially the United States and Japan, have started to react in various ways, which in turn has affected the security structure of the region.

As the only post-Cold War superpower in the world, although the United States initially did reduce its military presence in the Pacific Asia, the US has not changed its strategic primacy in the region. The US even advocated an Asia-Pacific security structure, with the US as the sole leader followed by its bilateral alliances (Wu 2000, 480; Lasater 1996: 14-16). Given this and China's fast-rising power, a US-China struggle for dominance appears to be inevitable. Despite China's constant claim for peaceful coexistence and multilateral security cooperation, the United States has been wary of China's every movement. In particular, China's nuclear tests in May and July 1995 and series of military exercises and missile tests across over the Taiwan Strait in 1995 and 1996 stimulated the United States to promptly send two carrier battle-groups into the area to monitor the situation. Then a strong message was sent not only to China, but also to the rest of the Asia Pacific that the US would not back down on its security commitment to the region and it is the interest of the US to keep region's stability and status quo (Mak 1998, 103).

To further strengthen American dominance over the region, just one month after the Taiwan Strait crisis, the US and Japan signed the US-Japan Joint Declaration on Security—Alliance for the 21st Century. In 1998, to counter both North Korea's nuclear threat and China's missile capabilities, the US joined with Japan to research theatre missile defense (TMD). All of these thus not only deepened China's suspicion of US motives, but also increased China's concerns

over Japan (Yang 2003, 307). This is because in China's perception, the end of the Cold War would likely bring about the rise of China and Japan relative to Russia and the multipolarization of regional affairs with growing influence of China, Japan, and ASEAN; however, from Beijing's perspective the redefinition of the US-Japan alliance is to hamper the multipolarization process, build some sort of "Washington-Tokyo condominium on regional affairs," and marginalize China (Wu 2000, 487).

Besides, the dispute over the Taiwan issue between the US and China was not resolved with the end of the Cold War. Although Washington's "one China" policy since the late 1970s did serve China's interest and contribute to cross-Strait stability, the US has enhanced political ties with Taiwan, continued to provide military assistance to Taiwan's defense, and strategically viewed Taiwan as a quasi-ally in the region since the end of the Cold War. In the face of expanding political and military relations between Washington and Taipei, Beijing has found it intolerable and constantly stated that Taiwan issue is the major obstacle in improving the Sino-US relationship. In other words, as long as the US prefers the *status quo* to be maintained, i.e. the *de facto* independence of Taiwan, the Sino-US relationship would always find a sticking point.

Certainly, based on recent cooperation and coordination in countering terrorism and dealing with issue of North Korea via the six-party talks, the Sino-US relationship has been improved significantly since the 911 incident. Even so, in the long run, the US still has to face the rise of China and its challenges to American hegemony and dominance in the Asia Pacific in various dimensions. Short-term and ad hoc interest compromise seems unable to ensure long-term stability of the Sino-US relationship.

Therefore, as Mak (1998, 88) remarks, "while the Cold War was an era of

USA-Soviet confrontation, the post-Cold War period is likely to be marked by USA-China tensions.” Yet, the statement might oversimplify the post-Cold War power relations in the Asia Pacific. As a major power in Asia, Japan has also been forced to react to the rise of China and changing Sino-US relations. In fact, Japan was the first of the Western allies to resume loans for China after the Tiananmen massacre. With the increasing mutual economic interactions, in recent years Japan has emerged as China’s greatest trading partner and China as second biggest to Japan. Coinciding with this has been a corresponding growth in Japanese FDI towards China (total agreed investment from Japan of over \$60 billion by 2004). More than that, until the 1990s China has become the main beneficiary of the Japanese Official Development Assistance (ODA). By 2000 Japan has provided free aid of more than 1.1 trillion yen (Yahuda 2004).

Despite this, the growing economic exchange has not led to the emergence of constituencies that have been publicly supporting or improving closer ties between China and Japan. According to a recent opinion poll in China, only 5.9% of Chinese said that Japan was “very friendly” or “friendly” while 43.3% believed the opposite. In Japan, less and less people who think China friendly, from 75.4% in 1985 to 47.5% in 2001; in contrast, the number of those who think China unfriendly extended to 48.1% in 2001 (Yang 2003, 306) . In short, Japan has been worried about the “China threat,” whereas China has increased concerns about the expansion of Japan’s military role and political influence. Nevertheless, the contradicting development has much to do with historical problems and uneasiness in new divergences between China and Japan.

For a long time, the treatment of the historical legacy of Japanese invasion of China including the Japanese textbook controversy and official visit to the Yasukuni Shrine, the Diaoyu (Senkaku) Islands dispute, and the Taiwan issue

have been primary historical problems in Sino-Japanese relations. Unfortunately, none has approached solution in the post-Cold War era and some are even getting intensified (Yahuda 2004). Even though these long-term problems are currently under control, not contributing to military conflicts, new divergences, particularly associated with each party's strategic concerns, between Japan and China have continuously emerged since the end of the Cold War. Thus far they have in general included Japanese worries about further Chinese nuclear tests and military activities in the Taiwan Strait and South China Sea; Chinese concerns about the reinvigoration of the US-Japan Security Threat and the expansion of the US-Japan TMD programs; Japan's identification of China as a potential source of external threat in its Defense White Papers; Japan's fear of China's military modernization and enhancement; and China's warning of Japanese inclination toward militarism (Roy 2004; Yahuda 2004).

Moreover, in order to cope with the soaring demand for natural resources, lately China-Japan disagreement on demarcation of the East China Sea is becoming intensified. Japan favors drawing a line falling at an equal distance from each country's shoreline, whereas China asserts the continental shelf is the demarcation line (Wolfe 2004). The dispute was further flared when Japan detected a Chinese submarine in its waters between the southern island of Okinawa and Taiwan in November of 2004. At the same time, Japan announced that it will reduce and eventually end ODA to China in the near future. China instead reacted by saying, "The Chinese people need only rely on their own strength, wisdom, determination and confidence to build their own country" (Wolfe 2004). These latest divergences and disputes can be seen to further add sticking points and uncertainties to the Sino-Japanese relations.

Overall, as Yang (2003, 306) points out, "China's post-Cold War relations

with Japan have been largely stable. Yet this stability can hardly disguise the uneasiness in that relationship.” Lacking of mutual trust, closer economic ties between China and Japan seem having no corresponding spillover into political, social, and security aspects of bilateral relations. In this context, the Sino-Japanese relations are hardly predictable and stable, but increasingly uncertain and unstable. In other words, together with the sticking Sino-US relations, the situation of big-power relations in the Asia Pacific is more unstable and complex than what some expect in the post-Cold War era.

Remaining Security Troubles

Apart from power relations, whether or not the security in the Asia Pacific would evolve in a cooperative or conflictual direction also depends on the development of traditional security troubles within the region. Against the backdrop of increasing economic interdependence, what happened to such major security problems as cross-Strait rivalry, Korean issue, and the disputes of the South China Sea after the Cold War?

For the cross-Strait rivalry, the People’s Republic of China (China) and Taiwan began to confront with each other militarily and politically after the World War II. Since then both sides of the Taiwan Strait had had little contact until the late 1980s. Especially after Taipei made the dramatic move of allowing its citizens visiting their relatives in China in 1987, cross-Strait exchanges in economy, culture, education, and so on, increased remarkably in the 1990s. Among others, the development of bilateral economic relationship is the most momentous, active, and obvious one. China soon became Taiwan’s alternative export market as well as largest investment place even though Taiwan ever promoted a “Southward”

policy.⁹ Under the circumstances, trade, investment, and people's flows across the Strait have skyrocketed as Table 11 shows.

Two-way trade increased sharply from less than US\$3 billion in 1988 to more than US\$46 billion in 2003. Today China has replaced the United States as Taiwan's largest export market that received nearly 24% of Taiwan's total exports in 2003 (MAC, 2004). In addition to trade, up to 2003 China received at least 47% of Taiwan's approved outward investment (total = US\$72.99 billion) and became the number one recipient of Taiwan's foreign investment (Ibid). In terms of contract-investing capital, Taiwanese business people have cumulatively poured nearly US\$70 billion into China (Ibid). In 2002, the number of trips made by Taiwanese people to China even reached a historical high—3,660,570. Cumulatively, more than 30 million such trips have been made across the Strait without direct flight (Ibid). Both sides of the Strait have never experienced such a high degree of economic interdependence between them in history.

But, disappointedly (especially for liberals and functionalists) increasing economic interdependence was not sufficient to overcome divergent political and security interests across the Strait. Politically, Beijing still stands tough on its claim of political sovereignty over Taiwan, and continues to squeeze Taiwan's room in international community by breaking Taiwan's formal relationships with other countries and boycotting Taiwan's entries into international organizations. Militarily, Beijing has not ruled out the use of forces against Taiwan. More importantly, after 1995-96 Taiwan Strait crisis, China has positioned numerous (more than 700) truck-mounted short-range ballistic missiles targeting Taiwan along its southeast coast. As the nation becomes richer, China has also been

⁹ The policy is to encourage Taiwanese businesses to expand trade and investment relationship with Southeast Asian nations to avoid overdependence on the Chinese market, which may threaten Taiwan's national security.

engaged in a rapid military buildup by expanding defense spending and acquiring a huge array of weapons, including SU-27 and SU-30 jet fighters, Kilo-class submarines and advanced destroyers (Miles 2005, 6).

Despite China's political pressure and military intimidation, economic interactions across the Strait have continued to grow. Nonetheless, with Taiwan's smooth and fast democratization, people in Taiwan have been in a process of redefining their identity. Today majority of people in Taiwan think they are Taiwanese, instead of Chinese.¹⁰ This identity redefinition has not only contributed to Taiwan's nationalism, but also incurred China's worry about the island's formal independence. As a result, Beijing recently has been issuing warning that a *de jure* independence of Taiwan (including a change of name) would mean war. Beijing is even preparing a new anti-secession law to indirectly constrain Taiwan's choices for future and legitimize its use of forces against Taiwan.

In other words, the rivalry across the Strait has not been eased substantially with the increase of economic interdependence. Rather, tension between China and Taiwan could escalate, even to a point of military conflict that might drag in the US and Japan. In that case, "the whole region could be plunged into turmoil," as Miles (2005, 3-4) concludes. Even in strictly economic terms, the asymmetry of economic interdependence across the Strait has also made Taiwan's economy over dependent on and vulnerable to China's economy. This has not only brought such threats as industrial hollowing-out and hyper-competition to Taiwan's economy, but also challenged its economic security. So, has economic interdependence made the Taiwan Strait much securer? The answer is there.

¹⁰ Based on the surveys conducted by the Election Study Center of Taiwan's National Chengchi University, in the past 12 years, the number of those identifying themselves as Taiwanese has risen from 17% to 41%, whereas those who regard themselves purely as Chinese have dropped from 26% to 6% (Miles 2005, 5).

Besides the Cross-Strait issue, security troubles in Korean peninsula and South China Sea have remained unsolved since the end of the Cold War. Despite the increase of economic interdependence in the Asia Pacific, North Korea remains by far the most economically isolated country in the region. During the Cold War, Pyongyang played off Moscow and Beijing to obtain economic benefits from both. After the collapse of the Soviet Union, North Korea began to use its nuclear card to initiate talks with the US to gain access to energy and economic aid (Mochizuki 1998). To avoid another Korean war or a violent collapse of North Korea, such countries as the United States, Japan, China, and South Korea have been trying to use economic incentives to steer North Korea toward internal reform, external moderation, and dialogues with neighboring states (Mochizuki 1998). However, from previous Four-Party Talks (two Koreas, the US, and China) to current Six-Party Talks (four parties plus Japan and Russia), North Korea is still reluctant to give up its Weapons of Mass Destruction (WMD) programme given the offer of energy aid and security guarantee. Consequently, it will be hard to see North Korea introducing comprehensive economic reform and fostering normal relations with the US, Japan, and South Korea in the near future.

Instead, a crisis may be rekindled if the US escalates economic pressure and pushes international inspections of North Korean ships and cargo movements (Morrison and Baker 2004, 6). Furthermore, as Camroux and Okfen (2004, 169) argue, “over time, economic problems in North Korea will be aggravated due to the constantly high military expenditures of the government, and so the possibility of collapse in North Korea cannot be ruled out.” If that’s the case, the worst consequence could be as catastrophic as a nuclear war.

Another historical security trouble is the South China Sea disputes, which essentially involve two main archipelagos: the Paracels and the Spratly. “Whereas

China and Taiwan claim all the archipelagos in the South China Sea, the Vietnamese claim the Paracels and the entire Spratlys. Malaysia, the Philippines and Brunei lay claim to various parts of the Spratly Islands” (Mak 1998, 110). Thus far, there have been various motivations behind these competing claims, such as traditional sovereignty, colonial heritage, coastal jurisdiction, strategic considerations, resources and economics. Thus a failure to peacefully resolve the South China Sea dispute would have broad regional consequences (Cossa and Khanna 1997, 226).

In order to carry out its “good-neighbor policy,” establish a China-ASEAN free trade area, and increase its political influence in the region, China signed the Declaration on the Conduct of Parties in the South China Sea with ASEAN countries in 2002. They basically declare “to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea” (ASEAN, 2002). To further improve its relations with ASEAN, in 2003 China also got accession to the Treaty of Amity and Cooperation in Southeast Asia. With these, the South China Sea territorial disputes seem to become less troublesome; however, they are still pending there without effective solutions.

In the long run, to solve the disputes still has to face some embedded challenges that may alter the consequence significantly. First, the Declaration on the Conduct of Parties in the South China Sea doesn’t apply to Taiwan, a key disputant in the disputes. Without including all parties concerned, the disputes would not be solved. Second, the South China Sea could be rich in oil, gas, fish and mineral resources. As economic growth and interdependence push demands

for energy and resources, disputants may eventually collide for competing for resources. Finally, in strategic terms, the South China Sea is not only territorial waters for disputants, but also a gateway for Japan and two Koreas to other regions. In other words, any decision to the disputes would have impacts on non-disputants. For the reasons, the disputes may last longer than expected.

In sum, the end of the Cold War did shake the basis of Asia-Pacific security. Yet, the increase of economic interdependence seems unable to do much about the increasingly complicated and uncertain Sino-US, Sino-Japanese, and Sino-US-Japanese relations. And even though the extent of economic interdependence in the region has been unprecedented, traditional security troubles in the Taiwan Strait, Korean peninsula, and South China Sea still remain unsolved. Economic interdependence, in some cases and to some extent, has further intensified power relations and deteriorated historical security problems.

V. New Security Threats

Traditionally, security concerns are oftentimes bound by military affairs, power relations, political ideologies, and rivalries' foreign policies. However, with the demise of the Cold War, the increase of economic interdependence, and the spread of globalization, today we are worrying about the uncertainty and volatility of the global economy, global terrorism and organized crimes, contagious deadly diseases, ecological disasters, and such chaos as ethnic, religious, or cultural conflicts. In other words, as the world becomes interdependent and globalized, the scope of security concerns is all the time more wide and diverse. And this is hardly exceptional to the Asia Pacific wherein such new security threats posed by economic volatility, terrorism, and vital infectious diseases have become increasingly salient.

In the Asia Pacific, the Asian financial crisis that erupted in 1997 could be the most vivid case demonstrating the risks and security concerns posed by economic volatility. The crisis began with the tumbling of the Thai baht in July 1997. By the end of July 1997, however, the Philippine peso, the Malaysian ringgit, and the Indonesian rupiah all came under attack of international speculators and thus plummeted (Wu 2004, 2). The financial turmoil later soon spilled over to Northeast Asia, including Korea, Hong Kong, Taiwan, Japan and China. South Korea's economy particularly was in serious trouble so that the Korean government finally asked the IMF for bail out in November 1997.¹¹ As the currency turmoil had become contagious, the New York Stock Exchange and European markets were substantially affected as well. Overall, at the end of 1997, "almost all East Asia had experienced unprecedented significant currency depreciation in a short period of time, couple with heavy fall in share prices" (Wu 2004, 7).

Thus far there have been a variety of explanations for the Asian financial crisis. They in general include huge short-term capital flows, persistent deficits on the current accounts, limited information and transparency, weak surveillance and insufficient regulation, and economic globalization (Wu 2004; Mochizuki 1998). However, as Dr. Wu points out, "the salient feature of this financial crisis is its 'contagion effect' due to the integration among the economies and the cross-border movement of capital. No country can escape the impact of the financial fluctuation once the economy is open to international markets" (Wu 2004, 7). In other words, as Horst Kohler, managing director of the IMF, argues, "Openness and economic interdependence exacerbate the spillovers of

¹¹ The bailout plan was settled with US\$57 billion, which was also the largest international aid programme in history at that time (Wu 2004, 4).

economic shocks across countries, and amplify domestic economic problems” (Stantiago 2004, 34). Therefore, with trade, capital flows, and people’s flows becoming interdependent and integrated in the Asia Pacific, economic volatility has become an important origin for security concerns or challenges in the region.

More than that, with the increase of economic openness and interdependence, non-economic factors such as terrorist activities and rapidly infectious diseases are also affecting the security of the Asia Pacific. For instance, despite the terrorist attack of Sept. 11, 2001 (i. e., the 911 incident) occurring in the United States, with economic interdependence, its impact has been regional and global. According to the World Bank (2002, 5), the direct cost of the 911 incident to the US is about US\$25-35 billion (0.38% of GDP). Yet, the 911 incident and war on terrorism had brought about worldwide damages on tourism, investment confidence, financial markets, and transportation. Based on World Bank’s estimation, the 911 incident even caused greater impact on the economic growth of developing countries than that of the US. The World Bank predicted that the 911 incident would reduce American economic growth rate by 0.1-1.0%, but cut 1.3% for developing countries (World Bank 2001, 176; World Bank 2002, 3).

More importantly, with the rising importance of international trade and investment to Asia-Pacific economic growth and prosperity, uncertainty surrounding terrorism has not only increased anxiety about security at the personal level, but also raised the risks and costs for doing business in the region. Governments are thus forced to impose counter-terrorism policies and measures on economic activities and transactions. Because any terrorist attack on American ports is estimated to result in US\$58 billion cost for American economy, and reduce 1.1% of GDP for such economies as Singapore, Hong Kong, and Malaysia (Australian Department of Foreign Affairs and Trade, 2000). However,

counter-terrorism measures have on the other hand generated extra costs for economic transactions, such as higher insurance fees, costly transportation, and complex customs reporting. According to American estimation, counter-terrorism measures implemented after the 911 would increase the cost of trading products by 1-3% (Huisken, 2003: 33).

Economic interdependence thus not necessarily preserves Asia-Pacific security; instead, it spreads security anxiety and increases regional uncertainty. Similar argument can also be illustrated by the outbreak of severe acute respiratory syndrome (SARS) in 2003. As *Asia Pacific Security Outlook 2004* describes, “Although fewer than 1,000 people worldwide lost their lives to SARS, far less than to ordinary influenza, the novelty and initial deadliness of SARS, the mysterious manner in which it seemed to spread, and the lack of medicines to treat it created widespread fear sometimes verging on panic” (Morrison and Baker 2004, 2). Accordingly, measuring and understanding the full picture of the impact of SARS cannot just rely upon calculating the number of canceled trips and the decline in retail trade (Lee and McKibbin 2004, 1). Taking the factor of economic interdependence into account would rather help capture the overall impact caused by the SARS outbreak, which went beyond the direct damages incurred in the affected areas and sectors.

With economic interdependence featured with intensive flows of goods, capital and people, SARS indeed spread quickly across countries through networks associated with global travel, and any economic shock to one country was soon spread to other countries through trade and financial linkages. Erupting in China, as of July 2003, SARS spread to almost 30 countries. At the same time, there were at least 8,400 probable SARS cases worldwide and 99% of them

were in the Asia Pacific.¹² According to Lee and McKibbin's (2004, 123-124) estimation by the G-Cubed (Asia Pacific) model, a temporary shock (6 months) caused by the SARS outbreak would reduce the GDP of Hong Kong by 2.63%, much larger than the corresponding loss of 1.05% for China. Taiwan was the next most-serious-affected area, losing 0.49% of GDP in 2003, followed by Singapore with a loss of 0.47% of GDP. Hence, as the Asia-Pacific economy becomes more integrated, the cost and security concerns of a highly contagious disease like SARS are expected to rise. Though SARS did not reappear in 2004, an outbreak of avian flu with some associated human deaths in Southeast Asia quickly incurred region's anxiety and concerns again.

Therefore, economic interdependence might be traditionally conceived conducive to diminishing political or military conflicts and positive to facilitate international cooperation. As indicated above, nevertheless, economic interdependence indeed could spread, extend, and even create security threats. As a consequence, the concept of security is no longer determined by political, military, or strategic affairs. Instead, conceptual understanding of security has been expanding to cover such new security threats as economic volatility, terrorist activities, highly contagious diseases, cultural conflicts and so on.

VI. Prospects

The relationship between economic interdependence and security has engendered considerable debate in history. While positive or optimistic views argue that international economic interdependence would reduce conflicts, increase cooperation, and contribute to security preservation and improvement,

¹² WHO website, "Cumulative Number of Reported Probable Cases of SARS," available from http://www.who.int/csr/sars/country/2003_07_11/en/

skeptical or pessimistic views hold that economic interdependence provides no guarantee against conflict and may even increase uncertainty and threaten security. For the post-Cold War political economy, however, both views may be too one-sided and oversimplified. The relationship between economic interdependence and security in fact is much more complicated than what both traditional positive and skeptical views perceive.

Particularly for the Asia Pacific, as indicated above, its economy has become extraordinarily interdependent both externally and internally in trade, capital flows, and people's flows, which has increased cross-border exchanges as well as improved international cooperation in such areas as FTAs, regional economic integration, and economic development. Against this backdrop of increasing economic interdependence, nevertheless, power relations (including the Sino-US, Sino-Japanese, and Sino-US-Japanese relations) are increasingly complicated and unstable. Similarly, traditional security troubles in the Taiwan Strait, Korean peninsula, and South China Sea have not been altered much by economic interdependence. Rather, economic interdependence has spread, extended, or generated such security threats as economic volatility, terrorist activities, highly contagious diseases, and cultural conflicts, and at the same time widened the scope of security concerns for the Asia Pacific.

As a result, the relationship between economic interdependence and security should be neither unilinear nor monocausal, but dynamic and networking. In other words, economic interdependence in a sense can increase exchanges and provide chances for cooperation, but should not be accepted as a panacea for contemporary security problems. Unmanaged economic interdependence and untamed market forces can sometimes threaten economic security, undermine communal harmony, damage social well-being, and aggravate international

peace and security issues (Moon 1998, 12). In other words, security has been gradually regarded as one sort of public good in the context of increasing economic interdependence. International cooperation and coordination are thus essential to manage/govern the contemporary tie between economic interdependence and security. No single country, no matter how hegemonic, could resolve security problems associated with economic interdependence. As Moon asserts (1998, 12), "There must be coordinated, collective efforts." No stakeholders can be excluded with any reason; otherwise, the efforts will fail eventually.

In the Asia Pacific, the ASEAN Regional Forum (ARF), established in 1994, is currently the only official venue to discuss security matters. The ARF members thus far have included ten ASEAN countries and other 14 dialogue partners.¹³ Except Taiwan, all stakeholders associated with (potential) conflicts in the region are members now. Although the ARF was established to promote "preventive diplomacy," build confidence, and manage or peacefully resolve conflicts, it had nothing to say on the 1996 Taiwan Strait crisis, did nothing to North Korea's WMD programme, and had little to do about countering terrorism and other new security threats. The ARF "has therefore been accused of being unstructured, under-institutionalized, and therefore ineffective" (Mak 1998, 117). Given its current institution, what the ARF can do most is probably to build confidence via the process of socialization that is, however, also its major obstacle to address immediately pressing issues or crises. In short, the Asia-Pacific region has been lacking an inclusive, responsive and effective multilateral regime for security

¹³ ARF members include: Australia, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Peoples' Republic of Korea, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, Philippines, Russian Federation, Singapore, Thailand, United States, Vietnam.

cooperation since the end of the Cold War.

In the face of remaining security troubles and potentially serious security threats and uncertainties and given the weak institution for security cooperation, the Asia-Pacific region is compellingly in need of cooperation mechanisms to address increasingly multi-faced and pressing security issues responsively and effectively. Some have proposed to established new regional mechanisms for security cooperation; some have argued to strengthen the current ARF or to extend the existing APEC to address security problems. However, no matter what the region prefers, “nonexclusiveness” should be the principle and all relevant stakeholders should be taken into consideration, because collective efforts is imperative to manage increasingly dynamic and complex relationship between economic interdependence and security.

Nevertheless, having proper cooperation mechanisms including all relevant stakeholders might be necessary, but still not sufficient to address the security problems associated with economic interdependence. To improve the efficiency and effectiveness of international cooperation and coordination in this regard, capacity building should not be neglected either. In particular, as the origin of security threats moves from traditional to non-traditional concerns, security threats delivered via economic interdependence could be prevented, contained or reduced if individual state’s related capacity is sufficient. This is why APEC, ASEAN, or ASEAN+3¹⁴ recently have gone beyond traditional economic cooperation to focus on capacity building in such areas as financial reforms, accommodation to globalization, social security, countering terrorism, health security, and disaster preparation and responsiveness. In spite of this, such efforts have been by and large fragmented, sporadic, and framed around each

¹⁴ “ASEAN+3” means the cooperation mechanism among the ASEAN, China, Japan, and South Korea.

issue area. The capacity gap among Asia-Pacific countries has also made the region far from creating and sustaining a cooperation mechanism to cope with insecurity related to economic interdependence. Narrowing the capacity gap or capacity building thus becomes desperately needed. But such a transition cannot be undertaken without international cooperation or assistance.

Therefore, in sum, as economic interdependence increases and security becomes more like public good in the Asia Pacific, international cooperation and coordination are essential to manage the tie between economic interdependence and security as well as cope with relevant insecurity. However, to initiate, sustain, and reinforce such international cooperation and coordination, the principle of nonexclusiveness and the improvement of capacity building must be emphasized.

Table 1: Trade Development in Selected Asia-Pacific Countries (% of GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	34.72	34.28	34.07	33.44	33.68	33.48	34.27	36.59	37.67	39.31	39.81	39.40	41.38	40.29	42.37	45.74	42.96	41.76	..
Cambodia	..	..	..	12.63	18.76	18.93	25.48	34.32	49.21	65.61	79.94	70.66	80.94	77.36	89.17	113.86	118.88	126.59	..
Canada	54.68	55.22	52.94	53.23	51.83	52.01	51.35	55.17	61.12	67.61	72.28	73.61	77.96	81.89	83.63	86.78	82.46	..	..
China	24.10	26.54	27.32	27.18	26.24	31.85	35.52	37.46	35.67	48.77	45.68	39.90	41.38	39.21	41.49	49.06	48.54	54.77	65.00
Ecuador	51.74	48.37	57.66	59.35	65.01	64.98	67.43	67.21	51.78	50.99	53.99	50.48	51.35	49.85	56.48	68.06	58.13	55.42	52.46
Hong Kong, China	206.69	212.15	232.24	253.71	251.58	255.88	265.12	273.99	267.02	270.14	294.65	278.24	261.42	250.57	254.55	287.41	278.00	293.31	330.60
Indonesia	42.65	39.97	46.33	44.87	45.69	49.06	49.90	52.85	50.52	51.88	53.96	52.26	55.99	96.19	62.94	76.39	77.11	65.09	56.94
Japan	24.88	18.38	17.33	17.42	19.08	19.81	18.26	17.45	15.92	15.99	16.74	18.87	20.34	19.49	18.54	20.10	20.09	21.00	..
Korea, Rep.	62.90	65.83	69.32	65.76	59.94	57.40	55.82	54.93	53.22	54.92	58.75	59.20	65.39	79.46	71.44	78.49	73.31	69.12	73.81
Macao, China	184.94	189.27	185.69	180.58	176.60	164.24	157.01	136.93	126.36	122.83	119.88	119.47	120.75	123.25	133.37	152.68	159.25	161.75	..
Malaysia	103.17	104.95	111.92	122.62	136.69	146.96	159.31	150.61	157.94	179.91	192.11	181.77	185.67	209.49	217.57	229.28	214.48	210.68	204.78
Mexico	25.75	30.77	32.88	38.47	38.06	38.31	35.64	35.51	34.42	38.48	58.07	62.10	60.64	63.49	63.11	63.94	57.26	55.46	58.53
New Zealand	62.63	53.78	50.93	49.30	52.99	53.78	55.87	60.53	58.64	59.87	57.77	56.08	56.29	59.40	63.45	70.80	68.20	64.82	..
Papua New Guinea	94.55	94.93	92.84	95.17	93.40	89.57	94.42	93.55	89.59	94.30	105.62	95.55	92.42	96.52	90.03	..	..	..	..
Peru	39.42	29.27	23.69	41.45	24.64	29.60	26.69	27.99	28.78	28.92	30.70	31.20	32.74	31.99	32.05	34.14	33.63	33.77	34.99
Philippines	45.85	48.68	52.90	55.27	58.78	60.80	62.18	63.16	71.17	73.96	80.54	89.81	108.25	110.93	102.78	108.90	100.30	98.38	99.01
Singapore	277.53	267.32	298.12	328.33	313.24	307.58	289.57	272.04	272.89	282.53	289.25	277.97	269.85	258.36	277.40	297.74	280.13	277.82	..
Taiwan*	..	..	..	..	80	76	78	72	72	73	81	78	82	81	81	94	82	86	95
Thailand	49.16	49.17	57.23	67.41	72.41	75.78	78.47	77.95	80.16	82.59	90.43	84.78	94.60	101.87	104.02	124.91	125.40	122.16	122.35
United States	17.25	17.51	18.59	19.76	20.20	20.62	20.64	20.80	20.93	21.99	23.46	23.71	24.50	23.87	24.19	26.31	24.13	23.63	..
Vietnam	..	23.22	20.80	18.95	57.90	81.32	66.95	73.58	66.21	77.47	74.72	92.71	94.34	97.00	102.79	112.53	111.56	115.01	..
East Asia & Pacific	36.62	37.68	40.70	42.42	44.23	49.46	52.69	53.74	53.52	63.27	63.92	59.70	63.63	70.97	68.37	78.67	77.13	78.17	82.03

Note: ..=Data not available or not applicable. * Data compiled and calculated from the statistics of the Ministry of Finance, Taiwan.

Source: Compiled from World Bank, *World Development Indicators* database.

Table 2: Merchandise exports within Regional Trade Blocs

Year	1970	1980	1990	1995	1996	1997	1998	1999	2000	2001
Regions	US\$ million									
APEC	58,633	357,697	901,560	1,688,707	1,755,116	1,869,192	1,734,386	1,896,217	2,262,159	2,075,735
ASEAN	1,456	13,350	28,648	81,911	86,925	88,773	72,352	80,418	101,848	91,675
European Union	76,451	456,857	981,260	1,259,699	1,273,430	1,162,419	1,226,988	1,404,833	1,418,149	1,406,859
MERCOSUR	451	3,424	4,127	14,199	17,075	20,772	20,352	15,313	17,910	15,295
NAFTA	22,078	102,218	226,273	394,472	437,804	496,423	521,649	581,162	676,440	639,138
Regions	% of total bloc exports									
APEC	57.8	57.9	68.3	71.8	71.9	71.6	69.7	71.8	73.1	72.6
ASEAN	22.9	18.7	19.8	25.4	25.4	24.9	21.9	22.4	23.9	23.3
European Union	59.5	60.8	65.9	62.4	61.4	55.5	57.0	63.3	62.1	61.3
MERCOSUR	9.4	11.6	8.9	20.3	22.6	24.8	25.0	20.6	20.9	17.3
NAFTA	36.0	33.6	41.4	46.2	47.6	49.1	51.7	54.6	55.7	55.5

Note: Regional bloc memberships are as follows: **Asia Pacific Economic Cooperation (APEC)**, Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, the Russian Federation, Singapore, Taiwan, Thailand, the United States, and Vietnam; **Association of South-East Asian Nations (ASEAN)**, Brunei, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam; **European Union (EU)**, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom; **Southern Cone Common Market (MERCOSUR)**, Argentina, Brazil, Paraguay, and Uruguay; **North American Free Trade Area (NAFTA)**, Canada, Mexico, and the United States;

Source: World Bank, *World Development Indicators* 2003.

Table 3: Trade Dependency Index of 14 Economies

	1980	1985	1990	1995	1996	1997	1998	1999
Brunei	17.03	27.20	33.63	59.88	62.05	62.41	33.93	36.47
Myanmar	4.43	2.19	2.20	2.24	1.76	1.40	0.89	0.84
Cambodia	..	..	5.47	53.53	48.67	38.96	41.91	52.67
Indonesia	7.64	5.96	9.91	11.41	12.02	13.70	27.12	23.41
Lao PDR	..	1.89	18.28	31.26	34.82	24.42	43.31	45.13
Malaysia	26.78	30.36	49.72	62.36	61.05	62.42	70.21	78.53
Philippines	6.92	8.55	11.03	16.73	15.93	22.59	29.11	29.99
Singapore	140.24	107.65	112.06	130.61	125.91	124.86	112.95	122.74
Thailand	11.62	11.31	15.76	21.80	20.36	24.01	26.06	29.71
Vietnam		0.98	23.03	37.98	45.79	43.46	38.00	38.76
Taiwan	12.81	10.77	14.71	24.14	23.50	24.96	23.75	25.55
Hong Kong	47.40	71.24	106.56	138.20	130.86	123.69	117.09	121.72
Korea	6.11	7.23	6.84	12.66	13.57	15.77	18.80	17.63
China	3.36	5.23	14.73	14.26	12.36	13.33	11.73	12.06
(average of the above)	25.85	22.35	30.28	44.08	43.47	42.57	42.49	45.37

Note: The table assumes 14 economies as a group to calculate the index. ..=Data not available or not applicable.

Source: IMF, Direction of Trade Statistics; World Bank database.

Table 4: FDI Flows in Asia and the Pacific (US\$ million)

	1985	1987	1989	1991	1993	1995	1997	1998	1999	2000	2001	2003
FDI inflows	5,468.8	13,431.8	17,328.0	24,348.3	58,954.6	80,280.8	110,349.9	102,449.3	112,884.3	146,194.8	111,966.1	107,277.6
FDI outflows	2,860.8	5,650.1	14,133.8	8,013.5	31,173.3	42,250.2	52,770.3	31,591.1	41,644.8	83,872.4	50,425.1	23,636.9

Source: The United Nations, *World Investment Report 2004* (Geneva: United Nations, 2004).

Table 5: Development Indicators of East Asian and Pacific Developing Countries, 1986-2003

Indicators\Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross private capital flows (%of GDP)	3.61	3.18	3.87	3.87	4.96	5.06	7.50	11.43	11.41	7.85	8.24	11.19	12.86	14.64	13.87	11.32	10.20	..
Gross foreign direct investment (%of GDP)	0.74	1.05	1.43	1.53	1.74	1.96	3.16	5.12	4.64	4.24	4.33	4.57	5.20	4.55	4.21	4.50	4.06	..
International tourism, expenditures (%of total imports)	..	..	..	..	2.35	2.33	3.32	3.24	3.22	3.24	3.42	4.23	4.65	4.68	4.31	4.67	4.40	..
Air transport, passengers carried (million)	34.7	40.0	47.8	44.1	52.2	57.9	69.1	77.2	88.8	104.3	110.9	107.7	106.4	105.5	117.5	129.1	144.1	..
GDP growth (annual %)	6.65	8.82	9.98	6.53	5.95	8.15	10.50	10.53	10.37	9.48	8.56	6.43	0.70	5.67	7.10	5.56	6.72	7.73

Note: East Asia and Pacific region refers to 24 developing countries: American Samoa, Malaysia, Philippines, Cambodia, Marshall Islands, Samoa, China, Micronesia, Fed. Sts, Solomon Islands, Fiji, Mongolia, Thailand, Indonesia, Myanmar, Timor-Leste, Kiribati, Northern Mariana Islands, Tonga, Korea, Dem. Rep., Palau, Vanuatu, Lao PDR, Papua New Guinea, Vietnam. ..=Data not available or not applicable.

Source: Compiled from World Bank, *World Development Indicators* database.

Table 6: Inflows of Foreign Workers of Selected Countries, (thousands)

	1991	1993	1995	1997	1999	2001
Australia	..	37.03	34.51	51.93	64.96	81.37
Canada	77.70	65.45	69.69	75.39	85.41	93.08
Japan	113.60	97.10	81.51	93.90	108.04	141.95
New Zealand	..	..	..	30.22	39.17	68.38
United States	229.20	329.29	306.00	90.61	582.52	867.68

Note: ..=Data not available or not applicable.

Source: Compiled from World Bank, *World Development Indicators* database.

Table 7: Registered Foreign Workers in Taiwan, by Origin

Year	1996		1997		1998		1999		2000		2001		2002	
Origin	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)
Indonesia	10.2	4.3	14.6	5.9	22.1	8.2	41.2	13.9	77.8	23.8	91.1	29.9	93.2	30.1
Malaysia	1.5	0.7	0.7	0.3	0.9	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.6
Philippine	83.6	35.3	100.3	40.4	114.2	42.2	113.9	38.6	98.2	30.0	72.8	23.9	69.4	22.9
Thailand	141.2	59.7	132.7	53.4	133.4	49.3	139.5	47.3	142.7	43.7	127.7	41.9	111.5	36.7
Vietnam	0	0	0	0	0	0	0.1	0.1	7.7	2.4	12.9	4.2	29.5	9.7
Total	236.5	100	248.3	100	270.6	100	294.9	100	326.5	100	304.6	100	303.7	100

Source: Council of Labor Affairs, Executive Yuan, Taiwan, <http://dbs1.cla.gov.tw/stat/index/4602.pdf>

Table 8: Overseas Workers of Philippine , by Destination

Year Destination Countries/Regions	1990		1996		1997		1998	
	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)	Number (1000)	Share (%)
Asia Pacific	100.4	30.0	182.7	37.7	242.2	43.3	229.5	40.8
Hong Kong	34.4	10.3	43.9	9.0	--	--	--	--
Japan	41.6	12.4	20.2	4.2	--	--	--	--
Malaysia	4.4	1.3	12.3	2.5	--	--	--	--
Singapore	4.7	1.4	15.1	3.1	--	--	--	--
Taiwan	0.1	0.0	65.5	13.5	--	--	--	--
Other Asia	5.6	1.7	17.4	3.6	--	--	--	--
Americas	9.6	2.9	8.4	1.7	7.1	1.3	8.2	1.5
Europe	6.9	2.0	11.4	2.4	12.6	2.3	15.7	2.8
Middle East	218.1	65.1	221.2	45.6	221.0	39.5	226.8	40.3
Other	9.6	2.9	69.3	14.3	79.9	14.3	84.9	15.1
Total	334.9	100.0	484.7	100.0	559.2	100.0	562.4	100.0

Source: Adapted from Goto (2002, 33).

Table 9: The Proliferation of FTAs in the Asia Pacific

	Within the Asia Pacific	With Non-Asia Pacific Partners
Signed	ASEAN FTA, NAFTA, Australia-New Zealand CER, Japan-Singapore EPA, Japan-Mexico EPA, China-Hong Kong CEPA, China-Macao CEPA, Singapore-Australia FTA, Singapore-New Zealand FTA, Singapore-US FTA, Chile-US FTA, Chile-Canada FTA, Chile-Mexico FTA, Chile-Korea FTA, Australia-US FTA, ASEAN-China FTA, China-Thailand Bangkok Agreement	US-Israel FTA, US-Jordan FTA, US-Bahrain FTA, US-Morocco FTA, Canada-Costa Rica FTA, Canada-Israel FTA, Chile-Costa Rica FTA, Mexico-Israel FTA, Mexico-Nicaragua FTA, Mexico-Bolivia FTA, Mexico-Panama FTA, Mexico-EU FTA, Mexico-EFTA FTA, Mexico-Singapore-Liechtenstein FTA, Singapore-Switzerland FTA, Singapore-Norway FTA, Taiwan-Panama FTA,
Under Negotiation or Study	ASEAN+3 FTA, ASEAN-Japan FTA, ASEAN-Korea FTA, Japan-China-Korea FTA, Japan-Korea FTA, China-Australia FTA, China-Chile FTA, China-Peru FTA, China-New Zealand FTA, China-Singapore FTA, Singapore-Chile FTA, Singapore-Canada FTA, Singapore-Mexico FTA, Singapore-Korea FTA, Singapore-Thailand FTA, Thailand-US FTA, Thailand-Australia FTA, Thailand-New Zealand FTA, Thailand-Chile FTA, Thailand-Mexico FTA, Philippine-Taiwan FTA, Philippine-US FTA, Korea-Mexico FTA, Korea-US FTA, Korea-Australia FTA, Korea-New Zealand FTA, Japan-Philippine FTA, Japan-Malaysia FTA, Japan-Thailand FTA, Japan-Brunei FTA, Japan-Indonesia EPA, Japan-Taiwan FTA, Japan-Chile FTA	ASEAN-EU FTA, ASEAN-India, China-India FTA, Singapore-EU, Singapore-India FTA, Singapore-Jordan FTA, Singapore-Sri Lanka FTA, US-Egypt FTA, Thailand-Peru FTA, Thailand-India FTA, Thailand-Bahrain FTA, Mexico-India FTA, FTAA, Taiwan-Nicaragua FTA, US-North Africa FTA, US-Central America FTA, US-SACU FTA

Source: Authors compiled from various news and sources.

Table 10: Military expenditure in constant US dollars (million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	5911	5940	6042	6218	6454	6526	6321	6244	6354	6666	6993	6973	7249	7624	7821
Chile	[1786]	[1835]	[1891]	[1958]	[2006]	[2029]	[2078]	[2156]	2347	2502	2650	2805	2912	3105	2975
China	[11300]	[12100]	[12700]	[15300]	[14200]	[13500]	[13900]	[15300]	[15500]	[17800]	[20000]	[22000]	[25900]	[30300]	[32800]
Indonesia	[1436]	[1587]	[1615]	[1739]	[1670]	[1845]	[1942]	[2110]	1963	1545	1273	1656	1740	1835	..
Japan	40140	41311	42259	43278	43753	43958	44398	45293	45510	45394	45479	45793	46259	46773	46895
N. Korea	(1867)	(1983)	(2053)	(2107)	(2157)	(2215)	..	..	..	(1343)	(1343)	(1379)	(1439)	(1517)	(1793)
S. Korea	9475	9624	9928	10506	10988	11310	11897	12539	12842	12398	12061	12801	13079	13533	13925
Malaysia	1057	1135	1545	1535	1631	1768	1879	1807	1698	1248	1689	1533	1908	2169	2312
Mexico	[1722]	[1788]	[1972]	[2183]	[2386]	[2978]	2630	2763	2865	2828	2991	2997	3113	2957	2873
New Zealand	(774)	(727)	(691)	647	631	635	647	651	638	639	648	650	636	613	606
Philippines	759	747	684	691	747	797	877	907	808	794	778	819	767	868	[881]
Russia	[93600]	[79200]	..	[18500]	[16400]	[15800]	[10000]	[9100]	[9700]	[7100]	[8300]	[9700]	[11000]	[11400]	[13000]
Singapore	1958	2248	2325	2472	2550	2636	3157	3459	3882	4396	4478	4331	4434	4679	4733
Taiwan	8572	9047	9298	9398	10664	10535	9525	9606	9973	9723	8377	7770	7927	7281	7272
Thailand	1851	1947	2148	2293	2538	2540	2709	2784	2736	2417	2109	1843	1773	1847	[1827]
USA	422133	403701	354284	374386	354778	334539	315107	298058	296530	289658	290480	301697	304130	341489	417363
Viet Nam	1018	988	694	437	343	468	..	..	..	..	..	..	..	..	..

Note: Figures are in US\$ million, at constant 2000 prices and exchange rates and are for calendar year. ()=Uncertain figure, []=SIPRI estimate, ..=Data not available or not applicable.

Source: Stockholm International Peace Research Institute (SIPRI)

Table 11: Cross- Strait Exchanges, 1988-2003

Year\Item	Two-Way Trade (US\$ million)	Share of Taiwan Total Foreign Trade (%) ¹	Export Share of Taiwan's Exports (%) ²	Taiwan Investment towards China (realized amount, US\$ million)	Taiwanese Visits to China (thousand)
1988	2,720.9	2.47	3.70		4.38
1991	8,619.4	6.20	9.84	844.00*	946.6
1994	17,881.2	10.02	17.22	3,391.00	1,390.2
1997	26,370.6	11.15	18.39	3,289.00	2,117.6
2000	31,233.1	10.84	16.87	2,296.28	3,108.7
2002	37,412.5	15.39	22.56	3,970.64	3,660.6
2003	46,319.7	17.07	24.52	3,377.24	2,731.9

Note: ¹ Taiwan's trade volume to China divided by Taiwan's trade volume to the world; ² Taiwan's exports to China divided by Taiwan's total exports to the world. * including data before 1991.

Source: Mainland Affairs Council, *Cross-Strait Economic Statistics Monthly* (Taipei), no. 144, August 2004. Available from <http://www.chinabiz.org.tw/chang/L1-5.asp>

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