

BASC News

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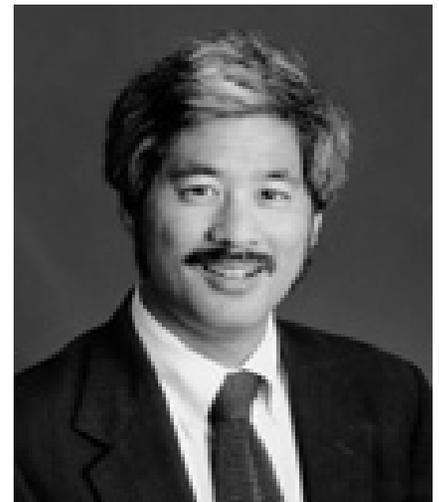
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BASC Interview

Daryl Hatano of SIA looks back on the Asia Crisis and forward to an open market environment in China

Daryl Hatano is the Vice President of Public Policy of the Semiconductor Industry Association (SIA). Founded in 1977, SIA is the leading trade association representing the computer chip industry—by far the leading manufacturing industry in terms of value added to the U.S. economy—and its member companies currently comprise 90 percent of U.S.-based semiconductor production. Mr. Hatano is responsible for legislative and regulatory issues that affect the semiconductor industry, including export controls, taxes, intellectual property and science policy, as well as workforce development. Through this program, SIA and member companies work directly with members of Congress, their staff, executive branch officials, foreign governments and other trade associations. This year, Mr. Hatano is also chairman of the board of the Beijing branch of the U.S. Information Technology Office (USITO), which represents the U.S. semiconductor, electronics, software, and telecom industries in China.

BASC: Please describe the nature and functions of the Semiconductor Industry Association. What does SIA do for its members?
Hatano: SIA represents semiconductor manufacturers such as Intel, Motorola, and Texas Instruments on issues where collective action through an association is more effective than acting individually. We strive to maintain U.S. semiconductor industry leadership in technology, worldwide market share, environmental safety and health programs, and workforce development. These are big bottom line issues for our compa-



nies—for example the phase-out of Europe's 14 percent tariffs represents billions of dollars which U.S. companies and their customers are now able to redeploy on R&D and capital investments.

BASC: Beyond providing a voice for the semiconductor industry, SIA is also affiliated with various other industry organizations such as SEMATECH. What is the nature of SIA's relationship with SEMATECH?

Hatano: SIA's board established SEMATECH in 1987 to help the U.S. industry compete against Japan, which had overtaken the United States in worldwide market share the previous year. It was a partnership with the U.S. government, with industry and government each paying half of the tab. Today the U.S. industry's worldwide market share is over 50 percent, SEMATECH is now "International SEMATECH" with European and Asian mem-

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Director's Notes

WELCOME TO *BASC News*. In the absence of major developments in the Asia-Pacific region, this issue highlights some of the underlying trends in the region that may be glossed over in the current environment of business-as-usual. And indeed we find that there is much of note going on beneath this relatively placid exterior.

While this past spring's headlines were dominated by the U.S. bilateral trade relationship with China and increasingly vocal grassroots opposition to trade agreements in general, more subtle developments continue to shape the context of Asia-Pacific and global trade. One critical factor in the balance of support for free trade is the activities of industries themselves. In our *BASC Interview*, Daryl Hatano of the Semiconductor Industry Association provides a lucid account of what the U.S. computer chip industry—a vital industrial sector that depends heavily on international trade—is doing to promote liberalization in Asia as well as the position of U.S.-based semiconductor firms in those markets.

APEC Update notes the growing appetite among APEC members for bilateral trade deals—presented as supporting rather than supplanting broader liberalization—in the ab-

sence of trade breakthroughs at the regional or global levels.

Other developments in the Asia-Pacific region are more broadly political in nature. In *BASC Analysis*, Jörn Dosch considers the centrifugal forces that have recently buffeted the Association of Southeast Asian Nations (ASEAN). Dosch addresses the difficulties facing ASEAN leaders and questions whether the steps they have taken to redress their present difficulties will prove sufficient to resuscitate this organization's sagging fortunes. In *BASC Worldview*, we review some recent work on the implications of the democratization of Taiwan both for the Taiwanese themselves and for Taiwan's strategic relationships in East Asia.

Meanwhile, more in-depth analysis of these and other issues can be found in the BASC-sponsored journal *Business and Politics*. Vol.2 Issue 1 focuses on the particularly timely subject of campaign finance, with articles that analyze the roles of various corporations and industries in funding parties and candidates in national elections in the United States. Vol.2 Issue 2 features several articles examining the interplay between bureaucracy and industry in various hi-tech sectors. We welcome inquiries on submissions for future issues.

—*Vinod K. Aggarwal*

BASC Projects

In recent months BASC has simultaneously steered ongoing projects toward their successful conclusion and launched new initiatives to broaden the center's research agenda.

The multi-year "Asia Beckons" project, supported by the Japan Foundation Center for Global Partnership, is moving toward its culmination. This project has engaged an international group of scholars and consultants in assessing the Asia strategies and prospects of European, Japanese, and U.S. firms. To date, BASC has convened conferences for participants to discuss Asia strategies for firms based in each of these economies, including a symposium on September 22, 2000 to review the actions of American firms in Asia. A final conference will be held in March 2001 to bring together the three threads of the project, allowing the participating analysts to meet with the academic, policy, and business communities to consider European, Japanese, and American firms from a comparative perspective. These conferences will be followed by the publication in 2001 of three volumes by St. Martin's Press of the main findings.

BASC Director Aggarwal has also un-

dertaken two new endeavors not specifically centered on the Asia-Pacific region. First, he was recently appointed Chair of the Advisory Board of the California Trade Education Center, an independent research organization that seeks to survey the effects of international trade on California. BASC will work with the Monterey Institute of International Studies, the Centers for International Trade Development, and other colleges in designing and implementing the study.

Second, with the support of the Institute of European Studies at U.C. Berkeley, BASC has initiated a project that will consider "transregionalism" as an emerging level of international trade relations. In particular, it will study the effect on EU trade strategies of the growing importance of new economy firms and the halt in progress in global trade negotiations. Will the EU give priority to "bilateral" relationships with ASEAN+3, Mercosur, and others in the absence of a new WTO round? This project will aim to make an informed speculation on whether incipient EU transregionalism will make a lasting impression on the ever-changing face of international trade.

All BASC projects are open to corporate participation.

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ASEAN 2000: Institutionalization or Marginalization?

By Jörn Dosch

The Association of Southeast Asian Nations (ASEAN) is suffering an identity crisis. The three years since the Asian crisis have seen the ten member states—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam—mired in self-pity and defiant business-as-usual. At ASEAN's annual series of high-level meetings in July in Bangkok, Singapore's Foreign Minister S. Jayakumar concluded in an unusually candid way: "We must ask ourselves why the economic recovery has not translated into a restoration of international confidence in ASEAN. We may not like perceptions of ASEAN as being ineffective and a sunset organization... But they are political facts." How has ASEAN, one of the world's most successful regional organizations, developed this so-called "image problem"? And what are ASEAN leaders doing to resolve it?

Founded in 1967, ASEAN quickly distinguished itself among developing-country organizations through its positive impact on regional peace, political stability and predictability, and economic development. The Asian crisis, however, demonstrated that members' economic success had masked increasing strains within ASEAN. A growing dissensus regarding both internal and external relations has seriously weakened ASEAN's international standing. The recent accession of Vietnam, Laos, Myanmar and Cambodia—despite their economic and political problems—has added to these difficulties, achieving the ASEAN goal of comprising all ten Southeast Asian states at the cost of diminishing internal coherence. ASEAN's woes have encouraged other actors such as the United States and the European Union to curtail their sensitivity to members' views on issues like human rights, "good governance" and development strategies.

Some key ASEAN officials have accepted the need to review traditional patterns of interaction, even the cardinal principles of strict non-interference and consensus. In 1998, when Thailand's Foreign Minister Surin Pitsuwan proposed replacing the group's non-interference policy with "flexible engagement," most demurred. But the idea has recently gained ground. In Bangkok the foreign ministers formally approved Thailand's proposal for an "ASEAN

Troika," a new mechanism to enable the sitting chair to formally consult with his immediate predecessor and successor to tackle specific problems with regional implications.

While one of ASEAN's most notable attempts at institutionalized management of regional affairs, the initiative's likely effectiveness remains questionable. Explicitly modeled on the "EU troika," it seems hard to believe that the ASEAN's troika could obtain a similar mandate to act on behalf of all members. If the troika gained the authority to deal with border disputes between members, or even ethnic-religious violence and political instability in Indonesia, ASEAN would become a truly supranational organization. But such a quantum leap in regional integration seems unlikely, at least for now.

The increasingly assertive new ASEAN members are the least keen on speedy integration. According to the Far Eastern Economic Review, it was Myanmar that most vocally opposed the troika's proposed power of addressing regional crises without a consensus, and pushed hardest to water down the new body's mandate. Similar problems are affecting implementation of the ASEAN Free Trade Area (AFTA): instead of developing a proposal to speed up the process, the Foreign Ministers only recalled an earlier decision to eliminate all import duties on intra-ASEAN trade by 2010 for the six original signatories and by 2015 for Vietnam, Laos, Myanmar and Cambodia "with some flexibility."

Given these obstacles to liberalized intraregional trade, proponents of integration have sought to focus on the wider East Asian context. To this end, the foreign ministers launched an "ASEAN+3" meeting to confer with their counterparts from China, South Korea and Japan. The meeting represents the most recent evolution of Malaysian Prime Minister Mahathir Mohamad's 1990 proposal of an East Asian Economic Caucus, and was even described by the Straits Times as "a step closer towards a loose East Asian alliance." The only tangible result of the first formal gathering in Bangkok was Japan's announcement of a five-year, \$15 billion plan to help regional countries to develop their information technology infrastructure. Still, ASEAN+3

promises to become an essential part of the association's annual conference alongside the foreign ministers meeting, the Post-Ministerial Conferences with observers such as the United States and the European Union, and the ASEAN Regional Forum (ARF).

This year's ARF, for its part, will be primarily remembered for the side meeting between Madeleine Albright and Peak Nam-sun, the first between an American secretary of state and a foreign minister of North Korea. The Bangkok meetings also marked East Timor's debut on the world stage, with Jose Ramos-Horta, Xanana Gusmao and others attending the conferences as special guests of the Thai government. Still, despite its important role in an institution-poor region, ARF has not proved pivotal in resolving regional conflicts in Korea and Indonesia, and was not even involved in the bilateral side meetings that overshadowed the actual ASEAN-sponsored multilateral events.

In Bangkok ASEAN missed an opportunity to take an historic step toward greater institutionalization. While many were aware of the organization's shortcomings and willing to discuss how to overcome them, caution prevailed. For the most part the Bangkok communiqués, which stressed "prepar[ing] the region for the complexities and magnitude of globalization" and reaffirmed "South-South Cooperation as an essential mechanism for promoting the sustainable economic self-support among developing countries," appear as vague and empty as previous such pronouncements.

It is useful in certain situations of international cooperation to avoid effective rules and procedures and instead to promote non-binding "soft" institutions and informal means of consensus-building. The emergence of ASEAN in the 1960s and 1970s is a case in point. But if today's ASEAN is to overcome its recent dithering and become a "concert of relevance, dynamism and coherence," as Thai Prime Minister Chuan Leekpai put it, it needs to take serious steps toward becoming a deeper, more tightly integrated organization. ●

Jörn Dosch is a lecturer at the University of Leeds, UK.

Daryl Hatano Interview

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bers, and there is no government funding. SIA continues to work closely with International SEMATECH on issues such as the semiconductor technology roadmap, which identifies barriers to packing more and more transistors on every chip, and which encourages research to find ways to overcome these barriers.

BASC: Another stated function of SIA is to provide market forecasts. How is this service utilized by SIA's members and how effective and reliable have these projections proven to be?

Hatano: SIA has the best statistics program in the electronics industry. Producers from around the world submit their sales data to Price Waterhouse, which releases the data in aggregate form, so no individual company's data is disclosed. We publish monthly statistics on the size of various prod-

are the enabling technology behind the world wide web, which is bringing people around the world closer than ever before.

BASC: What opportunities and/or obstacles did the Asian crisis produce, in terms of asset or manufacturing capacity acquisition and market liberalization?

Hatano: The Asia crisis caused significant restructuring in Korea and Japan. Two of Korea's "big three," LG and Hyundai, merged their semiconductor operations, and a number of Japanese firms left the volatile memory chip arena. While this restructuring was painful for these firms, they have emerged as stronger and, in many cases, leaner competitors.

The Asia financial crisis also promoted market liberalization in two ways. First, it forced companies to purchase the most competitive chips, be they domestic or foreign, rather than favor domestic suppliers who may

"Our strategy has always been to ensure that we enjoy the same access to foreign markets as our competitors enjoy in the U.S. market."
— Daryl Hatano

uct markets by region. Our statistics program also includes semiannual forecasts for the industry. This is a very cyclical business—worldwide sales were down 8 percent in 1998, but went up 19 percent last year and are projected to be up 30 percent this year. It is very difficult to forecast when the market will turn. Much of the volatility is a result of the supply side—overinvestment leading to overcapacity—rather than changes in demand.

BASC: Global and regional trade liberalization has suffered significant setbacks in the past two years, including the Asian financial crisis and political divisions exposed at the WTO Seattle Summit. What kind of actions have SIA and its individual members taken in response to these challenges?

Hatano: This industry is a big booster for free trade. I was at the Seattle WTO meeting and was disheartened by the protestors trashing of the WTO. The protestors did not understand that, over the long run, increased trade promotes the values that they were seeking to advance. Increased trade makes war less likely—war between Germany, France and England today is unthinkable in large part because of the economic integration that occurred after World War II. Our industry needs to continue to educate the public about the benefits arising from free trade—particularly since semiconductors

not be as efficient. Second, it is leading financial institutions in those countries to make investment decisions on the same basis as U.S. financial institutions. The high debt to equity ratios that gave Asian producers an advantage in the past is coming down as a result of the financial reforms resulting from the crisis.

BASC: Generally speaking, how important is the Asia-Pacific region to the business of SIA members? Could you provide examples?

Hatano: Japan represents about 22 percent of world semiconductor demand, with the rest of Asia representing another 26 percent, so together Asia represents almost half of the world semiconductor market. The Asia-Pacific region is also important to U.S. companies as a production base. U.S. firms typically etch the electronic circuits on silicon wafers in factories in the United States, and then ship the wafers to South East Asia where they are cut into individual chips, packaged in plastic, and tested.

It is interesting to note that, because of this production model, trade figures are very difficult to interpret in this industry. If a U.S. firm performs \$100 of wafer production in the United States, exports the wafer to Malaysia for assembly and test, and then imports the finished product which is now worth \$130, we have a \$30 trade deficit. If U.S. production doubles, the trade figures show \$200 of

exports and \$260 in imports, or a \$60 trade deficit. In this case the doubling of the trade deficit is a positive development because it indicates a doubling of U.S. production and increased employment in the United States. I often need to explain our unique dynamics to the media.

BASC: Does SIA perceive a common strategic future for its members in the Asia-Pacific region? If so, which countries or markets do you think offer the greatest opportunities in the next five to ten years?

Hatano: Our strategy has always been to ensure that we enjoy the same access to foreign markets as our competitors enjoy in the U.S. market. We spent decades working to open the Japanese market, and the U.S.-Japan relationship suffered a number of bruises over the years from the trade frictions in our sector. Today, U.S. firms have unprecedented access to the Japan market, partly as a result of the priority a series of U.S. presidents placed on opening Japan, and partly as a result of the restructuring that Japanese firms were forced to undergo as a result of the financial crisis. We want to avoid such conflicts with China in the future, and are taking a number of steps now to encourage China to have open markets from day one. China in particular is growing rapidly: it will be the second largest PC market later this year, and it is expected to be the second largest chip consumer in the world by 2010.

BASC: Has the Asian-Pacific Economic Cooperation (APEC) Forum dealt with issues of concern to the semiconductor industry? Has the SIA found APEC useful and a forum for agenda setting or negotiation?

Hatano: APEC has been a leader in lowering trade barriers—both tariff and non-tariff. APEC played a key role in advancing the Information Technology Agreement, a deal which eliminates tariffs on semiconductors, computers, and telecom equipment. SIA companies have also been involved in the APEC process to facilitate trade, such as discussions on customs procedures.

BASC: Aside from SIA's interactions with the U.S. government, what is its level of involvement with other governments and international organizations?

Hatano: Another international organization which we are directly involved in is the World Semiconductor Council. SIA represents the U.S. producers on the council, and meets with its counterparts from Europe, Japan, Korea, and Taiwan. It allows us to discuss international solutions to common challenges in technology, environmental safety and health, and public policy. The council also makes

The New Asia-Pacific Bilateralism: Whither APEC?

By Edward A. Fogarty

In this column last spring, we asked whether the failure of the WTO meetings in Seattle in November 1999 augured well for the status of APEC in the international trade system. While too early to make any definitive judgements, early signs suggest that the answer is "no."

This is not to suggest that commercial liberalization is moribund in the Asia-Pacific region, that APEC members have lost their appetite for trade deals, or that APEC itself is on the verge of disintegration. However, it appears that APEC has yet to present a convincing case to members and businesses that it can hold the torch of free trade while the WTO seeks to recuperate from last year's blow. Instead, bilateralism is ascendant, at least for now.

Recent months have seen a host of bilateral trade initiatives. Singapore has been the most active, engaging in bilateral trade talks with countries such as New Zealand, Canada, Chile, and Mexico. (A Singapore-Mexico agreement, expected to be signed in November, would be the first ever such deal between an East Asian and a Latin American country.) Each of the countries in negotiations with Singapore is pursuing deals with other countries with the Asia-Pacific region as well. Japan, whose government ministries are divided on the merits of bilateral free trade agreements, has also begun to get in the act. The United States—resented for its standoffishness in the Asian financial crisis and saddled with a presidency that lacks fast-track authority to negotiate agreements—is

notably absent from this trend.

Where is APEC in the midst of this flurry of activity? While Barry Desker, chief executive officer of Singapore's Trade Development Board, and others have stressed that these potential bilateral deals are intended to be building blocks toward broader transpacific free trade, a variety of factors may be hampering APEC's involvement. Commercially, APEC is often perceived among businesses as a mere talking-shop that lacks the clout to drive real market opening on the Pacific Rim. Timothy Ong, chairman of the APEC Business Advisory Council, recently acknowledged the prevalence of this perception, and responded by arguing (somewhat paradoxically) that industries should moderate their expectations given the political and economic diversity of the membership and that APEC is the only realistic way to lower trade barriers throughout Asia.

Meanwhile, there may be a trend toward a narrower East Asian economic grouping that may compete with—if not entirely supplant—APEC. As Fred Bergsten argued in the *Economist* (July 15, 2000), Asian countries that spurned suggestions of an East Asian Economic Caucus only a few years ago are now beginning to reconsider. To a certain extent such a trend may be natural, considering the growing interdependence among East Asian economies. But disaffection with the United States—with its imperious imposition of the Washington Consensus and growing fondness for including labor and environmental standards on the trade agenda—is also a factor.

APEC, of which the United States is a prominent member, was bound to suffer as a consequence of this ill-feeling.

Still, these dynamics buffeting APEC can be overplayed. Asian countries remain loath to shut out the United States, given U.S. consumers' unabated hunger for Asian imports and the U.S. military's stabilizing role in East Asian security. What's more, intra-Asian trade liberalization is not proceeding too smoothly: as Jörn Dosch points out in the BASC Analysis, the ASEAN Free Trade Association is stumbling in its pursuit of free trade throughout Southeast Asia. ASEAN+3, a grouping that includes China, Japan, and South Korea, remains similarly inchoate.

Moreover, the trend toward bilateralism may be both more benign and more limited than it appears. The keen participation in bilateral talks of New Zealand, Chile, and Mexico suggests that such deals may indeed strengthen common interests among *all* APEC members, not just those in Asia. Meanwhile, for political reasons it would be difficult to imagine a bilateral agreement between Japan and China, the most important economies in East Asia and perhaps the only pairing in the region that would have major trade-diversionary consequences for others in Asia.

Given these moderating factors—and a U.S. administration willing and able to negotiate straight trade deals—the new bilateralism currently in fashion among APEC members may wane as the memory of the recent failures of multilateralism begin to fade. ●

Hatano interview (continued from page 4)

policy recommendations which the governments/authorities from the five key producers then meet and discuss.

BASC: How does SIA feel about China's Permanent Normal Trade Relations and its imminent accession into the WTO? What, if any, actions has SIA taken on this matter?

Hatano: SIA fully supported Permanent Normal Trade Relations for China and was active in urging Congress to pass PNTR legislation. The U.S.-China bilateral WTO accession agreement reached last year dealt satisfactorily with all of the key issues which SIA identified, including semiconductor tariffs,

intellectual property, investment, government procurement, and trading and distribution rights. In addition, SIA is working to include the Chinese industry in the international semiconductor discussions through the World Semiconductor Council, and SIA shares an office in Beijing with the electronics, software, and telecom industries through the U.S. Information Technology Office (USITO). Through these mechanisms, we hope to work with the Chinese to prevent WTO compliance problems from arising in the first place, rather than trying to adjudicate trade problems before the WTO dispute panels years later.

BASC: Are SIA members concerned with policy debates that link trade and investment issues to non-trade issues including human

rights, national security, and labor and environmental standards? How has SIA responded to these issues?

Hatano: We are concerned with proposals to unilaterally cut off trade with countries whose practices we disagree with. First, these proposals ignore the positive contributions U.S. firms' overseas plants are making in improving human rights, labor conditions, and the environment. Second, the proposals ignore the fact that with economic growth, domestic attitudes change in favor of the values that Americans hold. Recently opposition parties in Korea, Taiwan, and Mexico have been elected to replace parties that had

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Democracy in Taiwan: Domestic Transformation and Regional Implications

By Steve Byun

The following is a summary and review of several presentations made at the 20-22 August 2000 conference at the East-West Center (Honolulu, Hawaii), "Taiwan Presidential Elections: Outcome and Implications." The authors whose arguments are most reflected in this review are Alan Wachman, The Fletcher School of Law and Diplomacy; Yu-Shan Wu, National Taiwan University; Yun-han Chu, National Taiwan University; Larry Diamond, Hoover Institution; and Chua Beng-huat, National University of Singapore.

U.S.-China-Taiwan Strategic Triangle

The security relationships between the United States, China (PRC) and Taiwan can be described as a "strategic triangle." Within a relatively self-contained framework of reference and strategic interactions, each of the three actors perceives the strategic importance of the other two, anticipating the reaction of the second when dealing with the third.

From 1950 until 1979, the United States and Taiwan had generally amicable ties with one another and hostile relations with Beijing. The normalization of Sino-American relations and the signing of the Taiwan Relations Act in 1979 dramatically altered the formal status of the PRC and Taiwan in the international system while essentially leaving relations among the three—despite the advent of official U.S.-China ties—unchanged. As such, all this diplomatic activity has not changed the fact that this trilateral relationship has continued to reflect the balance of power among them and domestic ideological shifts over time.

With this "strategic triangle" model as their theoretical framework, several presenters assessed whether this year's presidential election will affect cross-strait relations. The rapid democratization of Taiwan from the late 1980s has added a new dimension: popularly elected presidents Lee Teng-hui and now Chen Shui-bian have had to respond to popular pressures to address the diplomatic isolation and ambiguous nationhood identity of Taiwan. But does Taiwan's political transformation represent a fundamental break with old patterns in the strategic triangle?

Many scholars believe that China and/or the United States may indeed perceive Chen Sui-bian's victory as a harbinger of change. Beijing might interpret the situation as an excuse for both the United States and Taiwan to push for a greater autonomy (if not independence) of Taiwan. In this case, China would try to thwart the creeping independence of Taiwan through threatening to use force. The United States, in turn, would likely feel compelled to provide a stronger military support for Taiwan, as an unchecked Chinese takeover of Taiwan would severely damage U.S. credibility in the region and have major political consequences at home. No American president would want to face the inevitable question "Who lost Taiwan?"

Thus one might conclude that Chen's election portends spiraling tensions among the three. Yet what has happened thus far does

not suggest that a state of increased tension is or will be inevitable, because:

- The United States urged cautious relaxation of tensions and provided assurances to both sides that its "one-China" policy had not changed.
- Chinese Communist Party elites in Beijing have adopted a "wait and see" approach.
- In his inauguration speech, Chen proclaimed that Taiwan would not declare independence if it were not attacked.

While events over the longer term may belie the current state of calm, there have been few short-term repercussions for U.S.-China-Taiwan relations from the election of the avowedly pro-independence Chen.

The strategic triangle model offers a number of explanations for this surprising stability. First, the United States has its own reasons to play the role of moderator between China and Taiwan. According to Alan Wachman, U.S. support for Taiwan is "motivated less by a genuine concern for the autonomy of Taiwan's citizenry and more by a sense that Beijing should not be permitted by the United States to 'get away with' a forceful absorption of a democratic state." That said, the United States does not support a unilateral declaration of Taiwanese independence due to the likelihood of a violent Chinese response. Hence the U.S. policy of "strategic ambiguity" gives each side an incentive to proceed cautiously.

Second, the PRC itself has few incentives to seek to unilaterally overturn the status quo. Beijing cannot afford to let Taiwan dismantle the principle of "one-China," since such a violation of "China's territorial integrity and national sovereignty" could undermine the legitimacy of the government. But as long as Taiwan does not declare independence, China faces mostly negative incentives to engage in the use of force or an arms race due to the high costs of such a course, both financially and in terms of the PRC's international status. Therefore, China's approach has been to repeatedly caution Taiwan against independence and to follow a "wait and see" policy.

Taiwan, for its part, has little immediate impetus to declare independence. As the weakest actor in the strategic triangle, Taiwan is strongly constrained by its structural inferiority and the associated security dependency on the United States. Without U.S. sup-

port—recently reaffirmed by the Clinton administration after Chen’s victory—Taiwan would surely lose a protracted war against mainland. Therefore, even though it seeks to maintain and enhance its current autonomy, Taiwan’s position in the strategic triangle heavily constrains the extent to which it can actively project a pro-independence foreign policy.

What remains unclear in this model of the strategic triangle is whether the relatively stable power dynamics among the three will be upset by ongoing flux in the respective domestic politics. Chen is only the first of what will be “three transitions from one-long governing president to another.” With the U.S. presidential election imminent and the end of Jiang Zemin’s term as president of PRC in 2002, one anticipates the potential for two major policy realignments in the near future. While one might expect continuity in U.S. policy regardless of the winner of the presidential election, Chinese foreign policy realignments have historically reacted to crisis in domestic legitimacy. If the Chinese leadership transition in 2002 is tumultuous, Chinese foreign policy will likely swing toward aggressive resolution of the Taiwan question, as an aggressive-nationalist foreign policy has often proved effective in rallying Chinese people behind the existing regime. How the United States, China and Taiwan each copes with its own internal political transitions should prove a key variable in determining the future of the strategic triangle.

Has Taiwan consolidated democracy?

Taiwan’s recent elections were a watershed for the country’s burgeoning democracy. After the election results became public, the long-ruling Kuomintang (KMT) acknowledged its defeat and the military reaffirmed its loyalty to the constitutional process. Such magnanimity has generally not been the norm in political transitions in the region. In the past, when an entrenched regime in an East Asian country was faced with losing its grip on power, ruling cliques preferred constitutionally dubious means—as with President Suharto’s “New Order” in Indonesia after 1965—or overtly extra-constitutional means—as with Chun Du-hwan in South Korea after the assassination of Park Chung-hee—to retain control. By comparison, Taiwan’s transition was remarkably smooth.

However, such an optimistic picture can be misleading, as Taiwan still has many difficult challenges left to face. Yun-han Chu and Larry Diamond point out “the credibility, legitimacy and integrity of the existing constitutional order were under severe strain” toward the end of Lee Teng-hui’s tenure, and the underlying strength of this constitutional order still remains unclear. On September 4, 1999, the National Assembly passed a series of constitutional changes, including an extension of members of the Assembly’s terms by more than two years even though public opinion was strongly against such a measure. In response to such a seemingly blatant breach of the constitution, the Legislative Yuan requested the Council of Grand Justice to rule on the legality of such actions. However, even though it appears clear that the amendments were unconstitutional, it is not self-evident that the Council has the authority to reject any constitutional amendments passed by the National Assembly, and so the Council had to postpone the ruling until after the presidential election. Also, President Chen

Sui-bian faces a difficult choice between strengthening the stability of the constitutional order through a rigorous observation of the Constitution (which will somewhat undermine his capacity to set the policy agenda) or aggrandizing the office of the president through further “constitutional tinkering.” Until the constitution achieves a more stable and institutionalized status, the normal ebb and flow of politics will in itself remain a threat to Taiwanese democracy.

Another problem is that of Taiwanese Mafia politics.” Because of the longstanding relationship between the KMT and the Mafia, the problem of “black and gold politics”—the intimate relationship between the “black” Mafia and the “gold” politicians—is deeply entrenched. Opposition presidential candidates James Soong and Chen Sui-bian both campaigned against the corruption endemic to KMT rule, promising to cleanse the relationship between business and politics. In many ways, the outcome of this election symbolizes the extent to which the Taiwanese people perceive corruption as a threat to Taiwan’s democracy. Yet a change in government will not in itself bring an end to corruption. Not only is “Mafia politics” deeply ingrained, but Chen’s need to gain support from the regional leaders will hinder his efforts to tackle the problem of “black and gold politics.” Since in many regions the leaders need the support of the Mafia in order to remain in power, Chen would face grave difficulties from those regional leaders, who depend on the Mafia, once he embarks on purging the Mafia from the realm of politics.

Such underlying difficulties serve as a cautionary note to those who claim that Taiwan has consolidated democratic rule. Furthermore, these caveats have implications for other countries in the Asia-Pacific region that are going through the process of democratic consolidation. The recent experience of Indonesia, with reform-minded Abdurrahman Wahid being elected president, has been identified as bolstering the claim that much of the Asia-Pacific region is successfully completing the process of democratization. Yet Indonesia’s transition has hardly been free of complications. Residents of the region of Aceh, taking advantage of Jakarta’s looser grip on the reins of control, have through their secessionist activities called into question the unity of Indonesia in the wake of the successful (if bloody) independence of East Timor. Indeed Wahid’s seeming fecklessness may undermine democratic rule in addition to his own personal popularity.

One might add that similar problems beset leaders in other democracies in the region. In the Phillipines, for example, the government of President Joseph Estrada is deeply unpopular, fighting an enervating struggle against Muslim separatists. In Thailand, endemic corruption and a relatively shaky recovery from the Asian financial crisis have hampered democratic governance. Even South Korea, where Kim Dae-jung has won the Nobel Peace Prize for his “sunshine policy” toward North Korea, has only seen one actual democratic transfer of power in a country whose politics are sharply divided along regional lines.

While it is difficult to generalize across countries with vastly different historical experiences, for the sake of predicting the future of Taiwanese democracy, they remind us that consolidation is not an inevitable result of democratization—particularly in such a dangerous and volatile region. ●

Hatano interview (continued from page 5)

been in power for decades. It is not a coincidence that competitive democracies are emerging in the very same countries that have taken advantage of America's free trade policy. The economic growth that these countries have enjoyed has provided the basis for the political reform they are now experiencing.

BASC: On the point of national security, how do SIA members feel about the heightened sense of caution toward dual-use technologies, as reflected in the numerous enforcement actions brought against aerospace firms and the transfer of satellite licensing authority from the Commerce Department to the State Department?

Hatano: Semiconductors are a dual use technology in the sense that they have military as well as commercial applications. However, trying to keep semiconductors out of the hands of potential adversaries is like trying to plug a fire hydrant with a handkerchief. Last year the industry produced 250 million 32-bit microprocessors—too many for any government to effectively control. We have proposed that components in mass market items—products that you can buy at a Radio Shack—be exempt from U.S. export control licensing requirements. We are particularly concerned when the U.S. government applies export controls on a unilateral basis. Our foreign competitors are able to win over our customers, and U.S. national security is not improved one iota.

BASC: Has the absence of Fast Track in President Clinton's second term been a factor in the interests of SIA members? Is SIA likely to support Fast Track for the next president?

Hatano: Our industry supports Fast Track as a key to further liberalized trade. While tariffs on semiconductors are zero for most of the major markets in the world, there remain a few holdouts—especially in Latin America. While we certainly want to eliminate

trade barriers on semiconductors, of greater import to us is the elimination of trade barriers on products and services that use semiconductors. Tariffs on PCs or interconnection restrictions on telecoms providers affect the consumption of PCs or telecoms equipment and thus affect demand for semiconductors. We have a big interest in ensuring that the free trade gains made over the past 50 years in goods and services is transferred to the new economy, and that the internet is not hampered by trade barriers.

BASC: Philosophically or predictively speaking, how might trade in semiconductor products bring the benefits of technology to people around the world? What role does the Asia-Pacific play in SIA's vision of bridging the "digital divide"?

Hatano: Since we continue to pack more and more transistors on each chip, and we are producing more and more chips, we now produce over 20 million transistors for every person on earth. We expect to be producing a billion transistors for every person on earth by 2008. This represents a tremendous increase in computing power. Such advances in semiconductor technology will allow doctors to see real time medical imaging of moving organs. It will allow you to translate this article into a foreign language instantly. Our fastest computers will have more accurate models to allow improved weather prediction, and will enable refined maps of the human genome. I am sure there are hundreds of other applications that we cannot even dream of today.

The Asia-Pacific region will continue to play a role as a co-producer of the semiconductors that will enable these applications. However, increasingly the Asia-Pacific region will also be the source of the scientific advances that are the basis of commercial R&D efforts. American universities such as U.C. Berkeley are truly world resources. In the future, more universities around the Pacific Rim will also be discovering the fundamentals of physics and chemistry upon which our continued progress in microelectronics depend. •

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