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Remarks by Discussants

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COMMENTS**RALPH N. CLOUGH**

I would like to comment just briefly on the papers that have been presented, raising a number of points which may be useful to

discuss further in the question period. First, with respect to Dr. Heuser's paper, it was a very interesting and unusual paper which dealt with materials that most American scholars are unfamiliar with. It brought out very clearly the obstacles to trade and investment growing out of the fact that the German Federal Republic has had no diplomatic relations with the Republic of China since World War II. For example, he points out the absence of a commercial representative to assist German merchants in handling trade disputes in Taiwan. But he also shows ways in which many of the obstacles have been overcome. For example, he points out that a unilateral declaration by the government of the Republic of China concerning legal protection for a German investor qualifies that investor for participation in the German national investment guarantee program. A third point that comes out in Dr. Heuser's paper is that despite the obstacles which are presented by the lack of diplomatic relations, there has been an impressive growth in trade between Taiwan and the German Federal Republic.

Perhaps Dr. Heuser could respond to some questions in my mind concerning these relationships which he didn't touch on. I wonder, for example, whether there are difficulties impeding travel by merchants or officials to and from Taiwan. What about trade fairs? Are these permitted? Further, I think it would be very interesting to do some comparative studies to see how lack of diplomatic relations affects trade between the Republic of China and the Federal Republic of Germany. For example, it would be interesting to look at the trade between the Federal Republic of Germany and the Republic of Korea, where diplomatic relations do exist, to see how much greater that may be and why. It might also be interesting to examine the trade between France and Taiwan during the period before 1964 when diplomatic relations existed between France and Taiwan to see how that compared with German trade, or to compare the trade with Canada before and after severance of diplomatic relations with Taipei to see how that trade compares with German trade in these periods.

The paper by Dr. Wu and Dr. Yeh and the statement of the American Chamber of Commerce in Taiwan cover many of the same problems. The paper by Dr. Wu and Dr. Yeh is certainly an excellent analysis of Taiwan's economic development. It identifies very well those factors responsible for past development and those essential to Taiwan's future economic development. I think the paper makes a very strong case that U.S. economic interests in Taiwan would be best served if the United States were to develop

a more forthright two-China policy. Downgrading the political relations between the United States and the Republic of China in the process of normalizing relations with the PRC would inevitably have some adverse effect on economic relations between the United States and Taiwan. However, how lasting or how serious that adverse effect might be is a matter for debate. Much would depend on how far the United States went in downgrading its political relations with the Republic of China.

I think that the paper may underestimate the potential of the PRC as a trading partner of the United States in the long run. Certainly, in the past Taiwan has been a good deal more important and probably will be so for some years. But looking farther ahead, much will depend on the kind of policies carried out by the Peking government. Certainly, Mainland China will always be a largely self-sufficient economy, just like the other big continental economies, the United States and the Soviet Union. But trade could grow substantially and provide more opportunities for American traders. It's interesting to note, for example, that despite the importance of Taiwan as a trading partner with Japan, there have been some years in which Japanese trade with Mainland China has been larger than its trade with Taiwan.

It was, of course, beyond the scope of Dr. Wu's paper to discuss the importance to overall U.S. interests of normalizing relations with the PRC. The problem currently before U.S. policy makers is to decide whether the potential gains from normalizing relations with the PRC would outweigh the potential losses in regard to interests in Taiwan. In reaching that decision they would have to consider how possible economic losses in regard to relations with Taiwan could be minimized. The American Chamber of Commerce and Dr. Wu's paper point out ways in which Taiwan's economy could be adversely affected by normalization of U.S. relations with the PRC and they identify a number of legal questions which would arise on normalization with Peking, but they do not consider ways in which the impact of this change might be lessened, as, for example, by U.S. legislation which retained guarantees of U.S. investment in Taiwan by the Overseas Private Investment Insurance Corporation, permitted the ROC to buy American military equipment; provided for continuing access by the ROC to Eximbank loans, and so forth.

These are very complex, difficult issues. I don't want to get into a discussion of them here, but I would just point out that there seem to be two major factors in considering normalization of relations with Peking and its potential impact on Taiwan. One is

the psychological factor. It has been pointed out that past progress in Taiwan and future progress, too, depend a great deal on confidence, investors' confidence, in the future of Taiwan. Consequently, if the United States normalizes relations with Peking, it would need to take whatever action available to it to preserve confidence in the future of our relations with Taiwan. The second major area that needs to be considered — I've already touched on it — is the legislative questions that arise. There are a multitude of these which would affect American businessmen dealing in Taiwan. There are many ways in which they might conceivably be dealt with. All these factors have to be taken into account. One must try to strike a balance between U.S. interests in achieving normalization with Peking and retaining a satisfactory relationship with Taiwan. Thank you.

Dr. Sigur thanked Mr. Clough for his comments which touched upon some of the very fundamental problems with which we were trying to deal at this time. Dr. Sigur then introduced the next discussant, Mr. Talbot Linstrom, to speak. Mr. Linstrom, Dr. Sigur said, was from one of Washington's most prestigious law firms, Whitman and Ransom, and he himself had dealt extensively with legal questions involving economic relations between the United States and the Republic of China and other parts of Asia as well.

Mr. Talbot Linstrom stated that law, economics, politics, culture and social realities are all inseparable. He stated that the papers presented indicate that from the standpoint of U.S. balance of payments, trade with the PRC has been more favored, because the greater proportion of our trade with the PRC consists of American exports, paid for in hard cash, rather than imports. On the other hand, while the Republic of China may be a large exporter to the U.S., it is also a major debtor of the United States, and hence has some leverage in negotiations — the larger the debt, the greater the economic advantage. He suggested that Taiwan might consider a reverse investment in underdeveloped Central American and Caribbean countries and in United States cities. He also suggested that as to nuclear and defense questions, an abrogation of the defense treaty might not be so bad, because

independent countries have a certain bargaining power and such treaties prevent self-help in terms of a build-up of a country's own defense mechanisms.

[The following is the summary of Mr. Linstrom's statement.]

COMMENTS

TALBOT S. LINSTROM

I would like to begin my brief remarks by noting that, as I think both the papers and the prior discussant have indicated, law, economics, politics, military realities and culture are inseparable. Although I am here as an attorney, my comments will of necessity be broader in scope than just the legal aspects of the future relations between the United States and the Republic of China and the United States and the People's Republic of China. To the extent possible in the available time, I would like to cover all three of the papers presented here today. With respect to the paper submitted by the Chamber of Commerce, I think we ought to focus on some critical issues which have been briefly touched upon, and those are the nature of trade between the United States and the People's Republic of China and the nature of trade between the United States and the Republic of China. While trade is much, much larger in dollar terms between the United States and Taiwan, in terms of balance of payments, it would appear from the papers and, I think, on the basis of my own recollection, that in regard to balance of payments the PRC trade has been much more advantageous to the United States. There is currently a very large, it would appear — I don't have any exact figures immediately available — imbalance in trade between the United States and Taiwan. Taiwan is a major exporter to the United States for hard currency. A great portion of the total trade is Taiwanese exports *to* the United States, whereas in respect to the Mainland, the People's Republic, a great portion of that trade is going *from* the United States and is being paid for in hard cash. One of the points that the Chamber of Commerce made in its paper was that it does not expect — at least it's not currently the case — that the PRC will utilize American credit. A lot is being paid in cash. I am not sure in respect to long-term good relations

between nations that that is a net disadvantage. It may be a net advantage.

However, with respect to the future, the fact that the Republic of China has become a major debtor of the United States (I believe that the paper points out that it is the second largest user after Brazil of Eximbank-type credits from the United States and I think that includes both direct credits, guarantees and FCIA insurance) may give the Republic of China a very substantial — I don't want to use the word "weapon" — means of leverage in its future relations with the United States. This debtor relationship is not a disadvantage to a country. In economic terms it is generally an advantage, and the larger a debtor you become, the greater your advantage. This has been proven to be the case in respect to Yugoslavian financial relationships with both the United States and the European Community. Whenever the Yugoslavians have payment problems, they indicate to their creditor countries that they may have difficulty in meeting their payments. The result of that generally is an increase in credits available for purchasing goods in both the Community and in the United States. I am not suggesting this be done; I am only dealing here with potential realities of the future, and I think that that factor is certainly a net advantage to the Republic of China, and it's a net advantage in dealing with the United States both in political terms and economic terms.

Returning to the question of the proposition of the trade between the United States and the Republic of China and its future course, I think this has been gone into in some depth in Dr. Wu's paper. Imports from Taiwan to the United States in recent times have grown much more rapidly than our imports from the rest of the world. This, of course, has been to a great extent in the textile field and to a certain extent in shoes. I understand shoes were touched upon yesterday; textiles were an earlier problem. In both cases these rapid increases in imports from Taiwan to the United States have resulted in some type of trade-restrictive measure by the United States as a result of pressures both from U.S. labor and manufacturers. The same thing is happening now in the consumer electronics field. I think the major developments in this field have also been touched upon both in the International Trade Commission in the last month and in federal court two days ago in New York, the Customs Court, with respect to consumer electronics imports from Japan. But as Dr. Wu has pointed out, there is a very close relationship between Taiwan, Japan and the United States. Taiwan is a major supplier, not only of the

components that go into Japanese consumer electronics, but has itself been used by Japan to a certain extent as a supplier manufacturing source for finished consumer electronic product exports to the United States, a very good use and a very beneficial one in trade terms to the U.S. consumer. Taiwan has become, often through the aegis of Japanese trading companies, a major supplier of consumer electronics to the United States. This means it is directly involved in what is happening now. Perhaps if one looks at the future, Taiwan ought to consider what Japan has done in the U.S., and that is to reverse some of the investment and itself come into the American market and invest in the areas in which we have high degrees of unemployment and can utilize the management and technology that Taiwan itself is developing. It can also consider doing the same thing in the underdeveloped countries of Central America and the Caribbean, which have and will continue to enjoy very preferential economic relationships with the United States.

I might touch in the one or two minutes I have left on two other points in the Chamber of Commerce paper and which were covered peripherally by the prior discussant. These are nuclear questions and defense questions. It may not be a disadvantage to the Republic of China to be under the threat of the abrogation of the mutual defense treaty. What we have tended to learn in the world, all of us in this community of nations, is that independence gives a great deal more bargaining power. To the extent that Taiwan is closely tied to the U.S. by a defense treaty, it is hampered in its own development in the nuclear area. Political pressures are easily applied by the United States to prevent its purchase of nuclear materials from other countries, and at the same time similar pressures are probably applied to prevent Taiwan from developing its own defense capability. A nation the size of the Republic of China is perfectly capable of developing an extremely credible defense to protect its own interests in the future. To the extent it does so, it enhances its prestige in the world and its ability to deal as it should in the future as an equal both with the United States and with the PRC.

The Chairperson thanked Mr. Linstrom and commended him for touching upon, like Mr. Clough, some very fundamental issues which would certainly generate a great deal of discussion. Dr.

Sigur said that he thought that we all knew the importance of the Export-Import Bank to the economic relations between the United States and the Republic of China. Now we were very fortunate to have with us a Senior Counsel from the bank who dealt a great deal with these relations, Mr. Marvin Solomon, to be our third discussant. The Chairperson then invited Mr. Solomon to speak.

Mr. Solomon stated that Eximbank has the largest stake in Taiwan of any single institution, and cited the Eximbank's history of dealings with Taiwan. He said that Eximbank has been involved in the Republic of China at least since 1942, when it invested in the construction of the Burma-China Highway. From 1945 to 1948 loans were made to the ROC under the predecessor to the Marshall Plan. The PRC has no dealings with the Eximbank, largely because the PRC has an outstanding debt which it assumed when the ROC left the Mainland. Since 1965, the Eximbank's dealings with the ROC have been in the areas of financing power projects and petrochemicals, commercial aircraft, telecommunications and industrial projects. Other banks participate with Eximbank in making these loans.

[The following is the summary of Mr. Solomon's statement.]

COMMENTS

MARVIN SOLOMON

I am not going to direct myself precisely to the thoughts given by the speakers this morning, but to nevertheless make comments like them by first giving a little history and then a little bit of prognostication for the future involving the Export-Import Bank, which by the way, is the single institution in the world having the largest exposure in the Republic of China. We have an exposure of 1.55 billion dollars there.

Eximbank's first relationship with the Republic of China was in 1942 for the amount of 25 million dollars to build the Burma-China Highway. In 1945 to 1948, Eximbank's relationship with the ROC, on the Mainland, was as part of the Marshall Plan program and its predecessor programs, principally loans for locomotives, some old World War II Liberty vessels, and some electrical generating equipment. These loans were in the amount

of approximately 30 million dollars. When the ROC left the Mainland and went to Taiwan, the equipment was left behind and was used by the PRC, and Eximbank considered that since they were using the equipment they should be paying for these loans. Unfortunately they haven't paid for them. Consequently, Eximbank is presently blocked from making any form of financial assistance in the PRC for two reasons, the Foreign Assistance Act of 1962, as amended, and the fact that there is an outstanding indebtedness to Eximbank of the PRC. Between the late 1940s and mid-1965, Eximbank was not active in the ROC. This was the realm of the Agency of International Development and its predecessor agencies. Since 1965, Eximbank has been active in the ROC, principally in the areas of power, transportation, petrochemicals, heavy industry and light industry, and we had an actual exposure several years ago of \$1.8 billion. This amount has dropped off to about 1.55 billion dollars, principally as repayments have been received.

One of the more interesting factors of our activity with the ROC is that we do not go to make transactions by ourselves. We have participation by commercial banks, usually American banks, but even in the past year or so, sometimes from Japan, Canada and Great Britain. In many of these transactions we are not guaranteeing these banks; they are just participating with us.

Even though most countries in the world recognize the PRC, the United States manufacturer does not have the ROC's contracts all to himself. He has to compete with manufacturers of other countries, and those manufacturers of the other countries have support from their official export credit agencies. So notwithstanding the fact that country X does not have diplomatic relations with the ROC, its official export credit agency is making most of the guarantees in the ROC. This more or less summarizes the past and the present situation concerning the Bank's dealings with the ROC.

The future: Last week we authorized official financial assistance to the ROC. Last month we had a team over in the ROC and we found that Eximbank may be getting approximately 2 billion dollars worth of business. I might add that since Eximbank does not provide 100 percent financing, we're talking about 1.2 billion dollars in the ROC's present Six-Year Economic Plan. As I pointed out, the Export-Import Bank as an official export credit agency is still competing with other export credit agencies; consequently Eximbank is looking forward to continu-

ing its excellent relationship with the ROC and its large corporations, banks and industries.

Dr. Sigur announced a coffee break for five minutes and then the session would be resumed for discussion.

The meeting adjourned at 11:05 a.m. and resumed at 11:15 a.m.

Dr. Sigur announced the resumption of the meeting and first called Dr. Heuser to answer several questions raised by Mr. Clough.

[The following is the summary of questions and answers.]
