

capita annual income has reached approximately \$9500; accumulated foreign reserves now exceed \$85 billion. In 1989, Taiwan's total GDP for a population of about 20 million was more than thirty-five percent as large as that of the PRC with a population fifty times larger. It has also become a significant exporter of capital. In 1989, its direct foreign investment in Eastern Asia exceeded \$5 billion.

Considering Canada's interest in trade, the absence of a deep historical connection, and political sensitivities inspired by Canada's close relationship with mainland China, it is not surprising that the overwhelming dimension of our bilateral relations with Taiwan has been economic. From virtually nothing in the early 1960s, Taiwan is now Canada's seventh largest trading partner. Two-way trade in 1989 exceeded \$3.2 billion. All five major Canadian banks now have offices in Taipei. Emigration and investment from Taiwan to Canada have been increasing steadily in the past three years.

This modest momentum towards expanded relations has been the product of several factors. From the Canadian perspective, the most important are the recognition of Taiwan's economic importance as a trading partner, as a potential source of investment, and as a major player in the Eastern Asian regional economy. There is also a new acknowledgement of political changes which are transforming one-party authoritarian rule into a more democratic form of electoral competition.

Viewed from Taipei, the 1980s were a period of adjustment to the major shocks produced by its increasing diplomatic isolation, leadership succession problems, and social upheaval. The two principal outcomes have been a new sense of self-confidence about its future and a new policy line in international affairs. In the last years of President Chiang Ching-kuo and, more strikingly, under current President Lee Teng-hui, the policy of exploiting commercial and cultural relations to score points in the competition with Beijing, has largely been replaced by a move toward assuring security and prestige through "substantial relations." This marks an important turning point in foreign relations as well as the base of legitimation of the KMT in Taiwan.

The pragmatism and flexibility associated with the policy of "substantive relations" have facilitated the expansion of unofficial connections with Canada as well as many other countries in Asia, Australasia, the Middle East and Western Europe. More recently, trade and cultural relations have been expanded even with the socialist countries of Eastern Europe and Indochina.

The final factor has been the evolving relationship between Taiwan and the mainland. From a situation of overt hostility and uncompromising opposition in the early 1980s, tensions have been somewhat reduced in the past three years. ROC citizens are now permitted to visit the mainland, "indirect" trade has reached about \$3 billion per year, and Taiwanese investment in the mainland has been running at about \$150 million per month. The end of ideological conflict and reunification are far off, but the lessening of tension between the two sides has increased the area for manoeuvre by foreign countries which wish to increase relations with Taiwan while maintaining contact with the PRC. This room for manoeuvre has been perceptibly widened by changes in public perceptions