



# Prospects & Perspectives

## *Taiwan: A Resource Coordinator and Risk Buffer for Asia*

Prof. Yih-chyi Chuang

The rise of China since the 1990s has significantly changed the world economy and regional production networks in Asia. While the world economy has been mired in a global financial crisis since 2008, half of the 2009 world economic growth was contributed by China, an economic driving force expected to last in the years to come. Economic cooperation -- be it bilateral, plurilateral or multilateral -- has shaped the new order of international trade, and cross-boundary investment and outsourcing have dominated international business. Up to the present, more than 400 free trade agreements (FTAs) have been reported to the World Trade Organization (WTO). In Asia, ASEAN +1 or ASEAN +3 is a prominent example.

Since the mid-1980s, currency appreciation, rising awareness of environmental protection, growing wages and the implementation of the Labor Standard Law have pushed Taiwanese firms to invest abroad, first in Southeast Asian countries, and later in China after the lifting of Martial Law in 1987.

Taiwan's official statistics show that up to 2009, Taiwan's accumulated investment in China reached US\$82.7 billion and accumulated cross-strait trade amounted to US\$854 billion, despite the fact that the Taiwan government had adopted a restricted economic policy toward China in 1996. In May 2008, when Ma Ying-jeou became the president with the Kuomintang returning to power, the government policy began to focus on strengthening the cross-strait economic ties and the division of labor. Businesses have called for the institutionalization of the economic relations between Taiwan and China to lower transaction costs and reduce market risks. Thus, an Economic Cooperation Framework Agreement (ECFA) between Taiwan and Mainland China is proposed and urged to be signed in June 2010.

The major implication of ECFA for Taiwan is to protect Taiwan's investment in China, strengthen Taiwan's de facto division of labor, and maintain Taiwan's competitiveness by enlarging the technology gap and exploiting China's huge domestic market. With such a bilateral agreement with China in place, Taiwan could seek similar FTAs with other Asian economies to prevent





Taiwan from being marginalized in the wave of the Asia regional integration.

Since June 2008, there have been four talks between Mr. Chiang Pin-kung, the chairman of the Straits Exchange Foundation (SEF), and Mr. Chen Yunlin, the president of the Association for Relations Across the Taiwan Strait (ARATS). The two sides reached 11 economic agreements all on economic issues. The ECFA, which is likely to be signed at the fifth Chiang-Chen talks this June, will primarily cover economic issues with no political or sovereignty issue. Setting the political issue aside and focusing on the economic matters, the ECFA is the first step for the two sides to negotiate and learn from each other and hopefully reach a certain consensus.

China should not consider the ECFA as a means for economic reunification eventually leading to political reunification. If China tries to use the ECFA to marginalize Taiwan and exclude Taiwan from the Asian regional integration, this will be unfavorable for the regional security and stability, and also not in the national interest of the United States and Japan. As a result, the U.S. and Japan or other Asian countries might consider FTAs with Taiwan if Taiwan is under the threat of being marginalized. Thus, for a win-win solution, China should be glad to see Taiwan to sign FTAs with other Asian countries in Asia, and Asian neighbors should welcome Taiwan's membership in any FTA.

The ASEAN is Taiwan's second largest trading partner, only second to China. Boasting a highly

entrepreneurial industrialization centered on small- and medium-sized enterprises, Taiwan can be an excellent resource coordinator and technology counselor for the Asia-Pacific region. Cooperation rather than competition should be the motto for Asian regional development. One of the lessons from the 2008 global financial crisis is that the Asian countries should advance from an export-oriented economy to a domestic-demand-oriented economy to enhance the welfare of the majority of the working class. In this regard, China's potential consumption market plays a very important role. From China's own perspective, it is important to develop the inner rural areas, increase the income of the rural sector, mitigate regional income disparity, boost domestic consumption, and maintain a healthy economic growth rate. From the perspective of the Asian countries, the growth of Asia needs a momentum to sustain regional demand and supply. China, in particular, and Japan should play the pivotal role. China's rapid urbanization and the emergence of the middle class are the driving forces for China's domestic economy.

The ECFA enables Taiwanese firms to develop China's domestic market in the sense that Taiwan and Mainland China share a common language, culture, and similar business practices. For the past 20 years, Taiwanese firms have made intensive direct investments in China, particularly after the turn of the century. After China's accession to the WTO in 2001 Taiwanese manufacturers on food products and home electronics and distribution chain stores started to focus on China's domestic market utilizing local upstream suppliers. The large Taiwanese manufacturing firms together with small- and



medium-size component suppliers and distributors will form a complete supply chain from upstream R&D and product design to downstream manufacturing and logistic services. Not only will the coastal development experience be smoothly transferred to the central and western inner regions, but the creation of brand names and the establishment of product standards become possible in light of the huge domestic consumption market.

The ASEAN+ 1, namely the ASEAN plus China, brings in a new era for the East Asia economic integration. The process of ASEAN +3 or ASEAN +6 will keep evolving no matter in what form or in what name in the future. There is confidence that Asia will soon be the center stage of the world economy. While the growth of Asia is picking up momentum, none should be left behind; indeed, everyone should play a role in facilitating the process. Among them, based on its past remarkable experience and its contribution to the international community, Taiwan should actively participate in the process as a regional resource coordinator and technical supporter.

The ECFA will establish an overall economic framework on the cross-strait economic exchanges and thereafter Taiwanese firms will play an even more vital role in China's domestic market. Also, it is in the interest of the ASEAN and other economies in Asia to consider seriously signing FTAs with Taiwan as a middleman coordinator as well as a risk buffer in the region. More important, signing an ASEAN-Taiwan FTA after the China-Taiwan ECFA will contribute to the ASEAN's role as a hub of regional integration process.

It is thus apparent that Taiwan and China signing the ECFA, and Taiwan signing FTAs with other Asian economies, will definitely further consolidate and facilitate the on-going process of the East Asian economic integration. The marginalization of Taiwan is not in the common interest of the Asian economies. For a prosperous and peaceful Asia, Taiwan needs Asian friends and Asian communities should not neglect Taiwan.

*(Prof. Yih-chyi Chuang is currently Professor of Economics Department, National Chengchi University)*

---

The Cross-Strait Interflow Prospect Foundation is an independent research institution dedicated to the study of cross-strait relations and international issues. The Foundation maintains active exchanges and communications with many think tanks of the world.

Cross-Strait Interflow Prospect Foundation  
No. 1, Lane 60, Sec. 3, Tingzhou Rd., Zhongzheng District  
Taipei City, 10087, Republic of China (Taiwan)  
Tel: 886-2-2365-4366 Fax: 886-2-2367-6511  
<http://www.pf.org.tw>

