

Cross-strait Trade

Global Reach, Safety, Autonomy, WTO Principle

Cross-strait trade relations are quite complex, because we do not only need to look at them from a historical perspective, but also take into account the political and economic factors affecting them. Taiwan and China have engaged in trade for more than 20 years. During that period trade continued to expand steadily with bilateral trade relations making rapid progress after China and Taiwan joined the World Trade Organization (WTO) in 2001 and 2002, respectively. Meanwhile Taiwan has become China's seventh largest trade partner, its ninth largest export market and its fifth largest source of imports. China is Taiwan's largest trade partner, its biggest export market and the top source region of the island's trade surplus.

Currently China accounts for more than 40 percent of Taiwan's export market. Between 2000 and 2009 cross-strait trade totaled US\$802.22 billion. Taiwan's accumulated trade surplus with China stands at US\$510.6 billion, accounting for 63.6 percent of total cross-strait trade. Based on figures for 2010, Taiwan exported goods worth US\$114.8 billion to China and Hong Kong, about 41.8 percent of Taiwan's total exports worldwide. At the same time, imports from China and Hong Kong totaled US\$37.6 billion or 14.95 percent of total foreign imports. On the other hand, China's dependence on Taiwan for its trade increased initially to gradually decline later on. In 2010 China sourced only 3.92 percent of its total imports from Taiwan, while Taiwan accounted for an even lower share of Chinese exports. On top of that Taiwan registered a US\$77.2 billion trade surplus with China in 2010 due to the large excess of exports over imports with China, whereas Taiwan's global trade surplus (including China) totaled only US\$23.2 billion. These figures show that cross-strait trade contributes quite heavily to Taiwan's economic growth.

At the same time China is the top recipient of Taiwanese investment, accounting for more than 70 percent of Taiwanese overseas investment. Chinese exports have grown rapidly, because Taiwanese and foreign businesses are investing heavily in China with a focus on the manufacturing industry and export-import oriented businesses. In 2009 China had become the world's largest exporter with total shipments worth US\$1.20 trillion. But figures by China's National Bureau of Statistics show that 55.9 percent of Chinese global exports were contributed by foreign-funded

companies, including Taiwanese-owned businesses, which accounted for 15 percent to 20 percent of that share. Moreover, in 2009 11 out of the 20 top foreign currency earning exporters in China were Taiwanese-owned enterprises. These data show that Taiwanese businesses contribute substantially to Chinese exports and the country's economic growth.

However, looking back on the development of Taiwan's economy over the past three decades, we find that the economic growth rate in the most recent decade (2000-2010) has markedly declined compared to the previous two decades. Major economic indicators show that Taiwanese investment in China has grown massively in the most recent decade, causing gross domestic capital formation to virtually stagnate. As a result the unemployment rate has more than doubled from around 2 percent in the past, while real wages not only failed to rise, but even fell to the level of ten years ago. These statistics amply show that massive Taiwanese investment in China is the major cause of these downward trends. The reason behind the rapid growth of Taiwanese investment in China is the wide opening of cross-strait trade by the government from the year 2000. As a result Taiwanese investment in China did not only lead to the supply of capital, but also a large number of Taiwanese managers who followed the flows of money across the Taiwan Strait. Therefore technology, management and markets also followed suit, which is tantamount to the complete relocation of all factors of production to China. Such thing does not happen when corporations from other countries engage in foreign direct investment. After the government of President Ma Ying-jeou took power in 2008, further opening toward China made things worse on all fronts, creating a core-periphery effect described by U.S. economist Paul Krugman in his new economic geography theory with China becoming the core and Taiwan the periphery. Consequently industrial hollowing out grew worse leading to the marginalization of the Taiwanese economy.

Based on Krugman's suggestions Taiwan must adopt a "national policy" if it wants to solve its economic marginalization by turning interregional trade into national trade. For the sake of Taiwan's national interest and security, Taiwan must adopt concrete courses of action to correct the wrong policies of the past. But unfortunately after taking power the Ma government completely opened up Taiwan, allowing Chinese officials and enterprises to directly visit Taiwan for exchanges and investment. The Ma government not only fails to restrain Chinese efforts to infiltrate Taiwan's economy and society, but even completely plays along. If policy does not change, Taiwan will therefore probably be in danger of being annexed by China.

We need to clearly understand the nature and dangers of trade relations between Taiwan and China and propose appropriate policy measures in response or else we won't be able to reverse Taiwan's marginalization in order to realize autonomous development. We also urge China to renounce the use of force to solve bilateral differences. On the international stage China should also no longer obstruct Taiwan's participation in international organizations and the negotiation of economic cooperation agreements such as FTAs. Instead Beijing should recognize Taiwan's contribution to China's economic development in the past 20 years. Taiwanese capital, technology, management, markets and talent were major forces behind China's economic success today. Embracing the principles of equality and reciprocity, the two sides should march toward normalizing trade ties in the hope of mutually more beneficial cooperation in the future.