

## Taiwan's Choice: Signing Free Trade Agreements Is Not a Panacea for Taiwan's Economic Ails

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Officials within the Ma administration continue to insist that Taiwan expedite the signing of free trade agreements (FTAs) with other states. They hold up the recent agreement between China and South Korea to sign an FTA as proof that if Taiwan fails to join in regional economic integration, “Many of Taiwan’s industries will be crowded out of the global value chain, and many major Taiwanese companies may move their business to other markets.” What they are actually saying is that Taiwan must make haste to sign the Cross-Strait Service Trade Agreement (CSSTA) and a trade-in-goods agreement with China, or Taiwanese products will be unable to compete with Korean products in the Chinese market.

However, we should not rely solely on participation in regional trade organizations or the signing of FTAs to increase the international competitiveness of Taiwanese products. They will not automatically stimulate exports or prove the panacea for Taiwan’s economic ails. What is really needed is for the government to put forward measures to promote industrial competitiveness. The purpose of participating in regional trade organizations and signing FTAs is to achieve a greater level of trade liberalization through mutual concessions and the removal of trade barriers or tariffs. This allows our exports to enjoy lower tariffs in participating markets, but it also means that we must reciprocate by lowering tariffs on their imports. Essentially, each side opens its market to the other.

We need to clearly recognize that signing an FTA benefits the exports of certain industries, but it also brings foreign competition that impacts other industries. In other words, signing an FTA allows a signatory to request that other parties to the agreement open their markets, but it also means that country must open its own market to the other parties. This explains why FTA negotiations are such lengthy processes. Governments must communicate with affected domestic sectors and propose measures to offset their losses. The agricultural sector, in particular, often requires government subsidy and assistance when an FTA is signed. Problematically, throughout the process of signing the Economic Cooperation Framework Agreement (ECFA) with China, the Ma administration neither thoroughly studied ECFA’s impact on Taiwan’s economy as a whole nor communicated with affected domestic sectors to find remedy. Ma’s negligence invited criticism that the deal was concluded in a “black box,” and provoked the March 2014 Sunflower Student Movement.

A comparison between ECFA’s actual effects on cross-strait trade and the anticipated benefits touted by the government at its signing in August 2010 would prove that ECFA brought to Taiwan the exact opposite of what was promised. From its entry into force in 2011 through October 2014, Taiwan’s average growth rate in exports to China not only fell below that of total exports, but was also lower than the growth rate of Taiwanese exports to other Asian countries. When compared to the growth rate of Taiwan exports to members

of the Association of Southeast Asian Nations, the discrepancy is even more remarkable. In contrast, the growth rate in Chinese imports to Taiwan was twice as high as Taiwan's total import growth, and also out-paced growth in imports from Asia as a whole.

In other words, since signing ECFA, growth in Taiwan's exports to China has actually lagged behind total exports. In comparison, increases in imports from China have significantly surpassed any increase in imports as a whole. ECFA's effects have been the exact opposite of the economic benefits extolled by the Ma administration. Behind this set of circumstances is a shift in Chinese economic policy. Previously, Taiwanese exports to China had primarily been raw materials and intermediate goods purchased by Taiwanese businesses in China. However, since China's implementation of import substitution policy, many products previously imported from Taiwan have been replaced by those manufactured domestically. Meanwhile, Taiwan reduced limits on Chinese imports, which made Chinese products more competitive and led to their increasing imports.

During the same period, Taiwan's exports to ASEAN states grew by a rate more than twice that of its exports to China, notwithstanding the lack of an FTA between Taiwan and ASEAN. Clearly this demonstrates that FTAs in no way determine the competitiveness of exports. To address Taiwan's current economic difficulties, the government must propose effective solutions rather than mistakenly relying on ECFA, the CSSTA, or a trade-in-goods agreement. Furthermore, China already accounts for 40% of Taiwan's exports and more than 80% of its investment. Over-dependence on any single

market not only makes one vulnerable to the vicissitudes of that state's economy, but, in the case of Taiwan's over-reliance on China, also generates threats to our national security that require appropriate responses. **BT**

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