

Can Taiwan Depart from Economic Dependence on China?

By KODAMA Katsuya

The Democratic Progress Party (DPP) won the last presidential election of Taiwan. The result of this draws much attention from analysts of international relations and politics, and economists should also keep their eyes on cataclysmic changes caused by this election. According to a survey by the Yuanta-Polaris Research Institute of Taiwan, Taiwan's export to China accounted for about 16% of its GDP in 2014. This is quite a high ratio, following 19.18% of Malaysia. Among Asian nations, South Korea with 14%, Singapore with 10.73%, and so forth, are highly dependent on export to China. Meanwhile, Japan depends merely 2.48% on China. In view of the China risk, the Japanese government has made every effort to lower the dependence these days. This is one of the reasons why Japan has been actively involved in TPP negotiations.

Taiwan has boosted trade relations with China, and shifted manufacturing bases there, under President Ma Yingjeou. When the Chinese economy was growing rapidly, the Taiwanese economy rose accordingly, with this economic policy. Today, the per capita GDP of Taiwan is over 20,000 dollars, which is already at the level of industrialized nations. This is a spillover effect of rapid development of the Chinese economy. However, in view of economic slowdown in China, Taiwan's high dependence on this country has become a problem. The Taiwanese economy is also slowing down. In addition, new DPP administration may lead to increasing political clashes. It has become more likely that Sino-Taiwanese conflicts develop into intensified US-Chinese geopolitical rivalries, which would force Taiwan to get involved. If the United States took a hardliner policy to China, DPP-ruled Taiwan would have no choice but to follow it. If it happens, Taiwanese companies in China will face critical harassment by the authority. This will disrupt the Taiwanese economy.

Nevertheless, China is a huge market for Taiwan today. It is the largest trade partner for Taiwan, and 40% of Taiwanese export China. Also, most of the Taiwanese big businesses have manufacturing bases in China. Up to now, Taiwan failed to join any framework of a Free Trade Agreement (FTA) in Asia. Nor, does Taiwan join TPP negotiations. That is because it had to give the foremost priority to trade relations with China. However, Taiwan needs to pursue an economic policy to diversify trade partners for the future, instead of excessive reliance on China. On January 17, Chairman Mitsuo Ohashi of the Interchange Association Japan, which is a Japanese-Taiwanese mutual

exchange organization, met DPP leader Tsai Ingwen. According to the Central News Agency of Taiwan, Tsai pointed out importance of bilateral economic and trade relations, and expressed deep interests in the FTA. This is a vital step for the future.

Taiwan has to adopt a strategy to boost trade with the United States, Japan, and Asian nations, and to shift production bases to Vietnam, Thailand, and so forth, gradually. To begin with, Taiwan has to sign the Free Trade Agreement with as many countries as possible. This does not mean that Taiwan is turning anti-Chinese, but moving toward omnidirectional diplomacy and trade relations. The trade ties with China have grown so important for Taiwan that it cannot dismiss that. However, Taiwan cannot stay excessively dependent on this country. Therefore, the relationship with Japan will be the key to lessen such dependence. For this objective, Taiwan needs to expand broad based cultural and human interactions with Japan, beyond business and diplomatic relations. Taiwan is a pro-Japanese nation. The number of Japanese tourists to visit this country is expected to rise.

(This is an English translation of the article written by Dr. KODAMA Katsuya, President of Socially Responsible Investment, which originally appeared on the e-forum "Hyakka-Somei" of CEAC on January 28, 2015.)