

## THE SIGUR CENTER FOR ASIAN STUDIES

### ASIA REPORT

NOVEMBER, 2008

#### “TAIWAN AS AN INTERNATIONAL ECONOMIC ACTOR: DRIVERS, PARTNERS AND PROSPECTS”

Taiwan, though politically limited in the international arena, is an important actor in the world economy. In 2006 Taiwan was the 16th largest exporter and importer in the World Trade Organization. Its role in manufacturing semi-conductors and other critical high tech products gives Taiwan leverage over the global supply chain. Due to its favorable balance of trade and high savings rate, Taiwan has become an important donor of international aid and a powerful investor. As it moved up the global supply chain from labor intensive to capital intensive industries, it has sought comparative advantages and used investment abroad to relocate labor intensive elements of production. This process has led Taiwan to become China's largest source of foreign direct investment. All three speakers at this Sigur Center Roundtable held on October 22, 2008 were in agreement on these major issues, but elaborated on different points.

Peter Chow, Professor of Economics at City College and Graduate Center at The City University of New York, spoke on Taiwan's ability to sustain economic growth through the role of the government as a partner in the economy, and placed importance on Taiwan's position in trade throughout Asia

and the world. He devoted the bulk of his presentation to Taiwan's ascent up the ladder of comparative advantage and its strong de-facto involvement in economic integration through the global supply chain in high tech products, particularly semi-conductors. Taiwan is also deeply embedded in the global financial system through its own investments abroad and through foreign investment in Taiwan. Chow pointed out that foreigners own upwards of 30% of Taiwan's stock market and that Taiwan's rate of foreign direct investment as a percentage of gross domestic product is "far ahead of Korea, Japan, and the U.S." His final assessment regarding Taiwan's future had three parts: Taiwan must continue to expand its role in regional intra-industry trade, develop research and development intensive industries, and take a careful multilateral approach on international economic integration to avoid antagonizing China.

Claude Barfield, Resident Scholar at the American Enterprise Institute for Public Policy Research, spoke primarily on Taiwan's place in Asian regional integration and the American role as a facilitator in further bilateral and multilateral engagement. He de-

#### ROUNDTABLE OCTOBER 22, 2008

##### FEATURED SPEAKERS

**Claude Barfield**, Resident Scholar, the American Enterprise Institute for Public Policy.

**Peter Chow**, Professor of Economics, City College and Graduate Center, The City University of New York.

**Rupert Hammond-Chambers**, President, the U.S.-Taiwan Business Council

Moderated By

**Bruce Dickson**, Professor of Political Science & International Affairs, The George Washington University

“TAIWAN IS ALSO DEEPLY EMBEDDED IN THE GLOBAL FINANCIAL SYSTEM THROUGH ITS OWN INVESTMENTS ABROAD AND THROUGH FOREIGN INVESTMENT IN TAIWAN.”

scribed Taiwan's place in the Asia-Pacific Economic Cooperation forum as the clearest example of the U.S. involvement in Taiwanese integration with the rest of Asia. However, emerging supranational players like the Association of Southeast Asian Nations bypass both Taiwan and the U.S. in part because the Bush administration has mainly focused on security arrangements and neglected trade agreements in Asia. Barfield pointed out that Taiwan has agreed to stringent World Trade Organization rules, and that "China has agreed not to challenge Taiwan as a customs territory." Taiwan should therefore be able to engage in free trade agreements. In the future, Barfield suggested, Taiwan could go ahead on its own with unilateral trade liberalization, match the forthcoming U.S.-Korea agreement, or, with direct U.S. involvement, enter into a free trade agreement between the U.S. and other Asian countries.

Rupert Hammond-Chambers, President of the U.S.-Taiwan Business Council, mentioned his organization's non-profit role in representing American companies by promoting U.S.-Taiwan rela-

tions. He tied several elements together about the value of Taiwan's economic leverage in international relations. Hammond-Chambers argued that Taiwan is particularly good at extracting value from the tight margins associated with original equipment manufacturing. Furthermore, Taiwan's role in manufacturing flat screen displays optimizes its position to manufacture solar panels which use the same supply chain. Taiwan is an attractive location for foreign direct investment across a range of high tech industries and it is the biggest investor in mainland China. Recently, as growth in coastal China has been filling out, Taiwan has shifted to developing existing investments and looking for new countries to invest in. Taiwan's ability to cluster strategic investments along its supply chain in high tech manufacture is its most significant strength.



Participants of the roundtable discussion on October 22, from left to right: Bruce Dickson, Rupert Hammond-Chambers, Peter Chow, and Claude Barfield.



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