

THE SIGUR CENTER FOR ASIAN STUDIES
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TAIWAN, ASIA, AND THE GLOBAL
ECONOMIC CRISIS

Taiwan's position in the world is, in many ways, dependent on its economic power and influence. Taiwan's open economy means both that it is heavily integrated into the world economy, and that it is extremely vulnerable to international economic trends. This conference, held on December 2, 2009, looked not only at the consequences of the recent economic crisis on Taiwan's political strategies, but also its current economic strategies and its increasing ties with the People's Republic of China.

The first panel, "The Economic Crisis and Taiwan's Political Strategies in Asia and Beyond," focused on political factors and consequences of the global financial crisis. The speakers looked at the changes in Taiwan's role in Asia, its relationships with China and the U.S., with the international community, and with the global economic system. The panel concluded that there have been changes to these relationships, and that they are likely to continue reshaping Taiwan's place in the global political system as well as its relationships with other countries.

M. Terry Cooke, founder of GC3 Strategy and Senior Research Fellow at the Foreign Policy Research Institute began the conference with a general look at the crisis itself, Taiwan's position in Asian regional dynamics, and the consequences of the crisis for Taiwan. Cooke points out that Taiwan had

been hurt badly by the economic crisis, and that its relationship with China was one of the strengths helping it to prevent further damage. He stated, "The specific path forward for Taiwan has been through the ECFA negotiations—The Economic Cooperation Framework Agreement—... an FTA-like bilateral agreement proposal between Taiwan and China that is adjusted to take into account the sovereignty concerns."

Cooke also comments that there have been a few political dividends from the economic closeness with China, including Taiwan's admittance to the World Health Assembly and the lessening of the "checkbook diplomacy wars." The question, according to Cooke, then becomes what other political dividends can be reaped by the economic normalization process, and how the U.S. will respond.

Kerry Dumbaugh, with the Congressional Research Service, presented her views in much the same vein as Cooke. Dumbaugh argues that though recent dramatic political and economic changes in both Taiwan and China have had very substantial consequences for policy that could ultimately change the entire character of U.S.-Taiwan-China relations, these changes are only beginning, and for now, the Obama administration will continue on the same path that the U.S. has followed for 30 years. Potential future changes stem from closer economic ties between Taiwan and the PRC,

CONFERENCE

PANEL I

M. Terry Cooke, Founder, GC3 Strategy and Senior Fellow, Foreign Policy Research Institute

Kerry Dumbaugh, Specialist in Asian Affairs, Congressional Research Service

Vincent Wei-cheng Wang, Associate Professor of Political Science, University of Richmond

Moderated by: **Edward McCord**, Associate Professor of History and International Affairs, The George Washington University

PANEL II

Peter Chow, Professor of Economics, City College & Graduate Center, City University of New York

Jiawen Yang, Professor of International Business and International Affairs, The George Washington University

Scott Kastner, Associate Professor of Government and Politics, University of Maryland

Moderated by: **Shawn McHale**, Associate Professor of History and International Affairs, The George Washington University

which could affect not only the U.S.'s economic relations with Taiwan, but also issues such as arms sales and defense assurances.

Consequences of the financial crisis have been significant. Dumbaugh comments that the crisis might help to "foster a new appreciation in Taiwan and perhaps even a new humility about its—Taiwan's—global interconnectedness and thus its global economic vulnerability." The crisis may also cause Taiwan to reassess its own vital national interests, creating a more pragmatic political outlook to fit with a more pragmatic economic approach, and thereby place a new emphasis on the improvement of cross-Strait relations. It may also, therefore, precipitate a change in how the U.S. and Taiwan engage, the U.S.'s approach to cross-Strait relations, and even the U.S. economic relationship with Taiwan.

Vincent Wei-cheng Wang of the University of Richmond focused on Taiwan's international strategy in relation to the economic crisis, especially its economic imperatives and the resulting security concerns. Taiwan's export-led growth has left it particularly vulnerable to changes in the international economic system, though the outward orientation also provided Taiwan a measure of security through its importance to the world economy and China's economy. However, Taiwan's economy has suffered significantly from the economic crisis, and, according to Wang, the Ma administration's most important solution is the ECFA.

Wang discusses a variety of reasons why the ECFA could be important to Taiwan's future. First, China and the Asian region as a whole have been extremely active in pursuing FTAs and other trade agreements, and Taiwan is concerned about being marginalized if it does not join. Taiwanese policymakers also argue that ECFA is needed. Taiwan's entry into the World Trade Organization in

2001 did not provide the kind of economic or diplomatic dividends they hoped for, and so "if multilateralism cannot proceed...let's have second best, which is bilateral or regional [trade]." Another reason for the ECFA that Wang points out is the possibility of using it to offset potential damages from the ASEAN plus One or ASEAN plus Three trade agreements, which would give China a strong advantage over Taiwan.

Aside from using the ECFA as a defensive strategy, it holds potential advantages for Taiwan, including the possibility of expanding its international space and sending a signal to other countries that China may be more amenable to accepting Taiwan having some kind of trade agreement with others. In addition, China is Taiwan's largest export market, which makes the ECFA a logical step to improve exports. It also has the potential to improve Taiwan's regional standing.

The ECFA is not without potential costs, Wang also points out. Both security concerns and sovereignty concerns would plague any potential agreement. Some observers are also concerned that the ECFA may be a move towards first economic integration and then political unification, or that it could, at the very least, reduce Taiwan's political options. Within Taiwan, many charge that the negotiations process has not been transparent enough. Though Wang is hopeful about potential benefits from the ECFA, he does not argue that it is a "magic bullet," but rather that it has the potential to help, but may have some unpleasant costs as well.

The second panel, "The Economic Crisis and Taiwan-China Relations" continued the conference's focus on the economic impact of the financial crisis on Taiwan. Peter Chow of the City University of New York, highlighted Taiwan's importance in the global supply chain for electronics. In order to generate an economy of scale, the Taiwanese economy

must concentrate in a narrow area, such as IT. The supply chain runs from Silicon Valley through Taiwan to China. This not only integrates Taiwan heavily into the global economy, but also impacts its relations with China. Most of the trade between Taiwan and China is intra-industry, which means they are more interdependent.

On the other hand, since Taiwan is concentrated so heavily on IT, it becomes vulnerable to the global recession. Taiwan did not have the toxic asset exposure that the United States did, but because it is so heavily dependent on IT exports and its economy is so closely tied to the U.S. economy, it is easily damaged by a global recession. Given these factors, Chow argues, Taiwan has the potential to break through international isolation, enjoys comparative advantage in innovation, but continues to suffer from a deficit in terms of trade and technology.

The George Washington University's Jiawen Yang focused on the financial linkages between Taiwan and China. He points out that recently there has been more emphasis placed on financial cooperation between the two, which may change the current status.

To demonstrate the increase in financial cooperation, Yang discussed banking and financial service MOUs. Lending from mainland Chinese banks to Taiwan accounts for only about 30% of loans, which provides an opportunity for Taiwanese commercial banks to provide business services to the Taiwanese investors on the mainland. In addition, Yang pointed out, a Chinese credit service's card is now being accepted in Taiwan, increasing the financial linkages between the two. Recently, a financial service MOU has been signed, which covers cross-Strait financial supervision; exchange of financial information; opening financial markets to each other; and currency-clearing between the Renminbi and the

New Taiwan Dollar; allowing financial firms to invest in each other; and upgrading Taiwan's financial representative offices in China. All of these are opening steps to the ECFA.

Finally, Yang discussed the U.S. view of the China-Taiwan relationship. He argues that there are some challenges for the U.S., but also some opportunities in the improving economic ties between the two, and that the fundamental nature of the U.S.-Taiwan relationship has not changed, though its form may be somewhat different now.

Scott Kastner of the University of Maryland focused on the security consequences of economic integration between Taiwan and China. Kastner suggests that there are three main security consequences we should expect: 1) some impact on cross-Strait stability contingent on Taiwanese domestic politics, 2) *de jure* becoming independence harder to achieve, and 3) ambiguous effects on unification. "Growing economic ties across the Taiwanese Strait can potentially change the location of Beijing's redline," he stated. With increased economic integration, it could take more to provoke Beijing to military conflict, giving Taiwan more space to maneuver, and raising Beijing's cost of initiating military conflict.

In addition, the impact on cross-Strait stability, according to Kastner, is dependent on the governing party. If the governing party is satisfied with the status quo and does not aim to move towards more formal independence, then increasing economic ties should serve to reinforce cross-Strait stability. They could also give the governing party more confidence that Beijing would not act militarily. On the other hand, if a revisionist party comes into power, it could take the increased confidence that Beijing would not attack, and move more radically towards independence.

Kastner's second expectation was that "over the longer term... cross-Strait economic ties make formal Taiwan independence somewhat less likely." Economic integration creates a growing constituency in Taiwan that prefers a stable relationship between China and Taiwan, and makes more and more people uneasy about the consequences of military conflict.

Finally, Kastner discusses the consequences of economic integration on the prospects of unification. Economic integration could enhance China's coercive capacity over Taiwan, increasing the prospects of unification on China's terms. It could also change preferences

among actors in Taiwan who could then demand unification as a method of maintaining a stable cross-Strait relationship. However, Kastner does not see either of these consequences as likely, as he argues that "the PRC will remain quite reluctant to use economic coercion as a means to maneuver Taiwan into some sort of unification deal," because sanctions are potentially extremely costly to China as well, damaging the Chinese economy and harming those in Taiwan with the most interest in a good Taiwan-China relationship. This leads Kastner to his prediction of "ambiguous" results on unification prospects from economic integration.

The conference painted a detailed picture of the status of Taiwan's economy post-financial crisis, the depth and consequences of Taiwan's increasing economic relations with China, and the continued importance of the U.S. to Taiwan's economy. Though there are differing perceptions of the consequences of increasing Taiwan-China economic integration, and different opinions on the viability and desirability of the ECFA, all speakers agreed on the importance of Taiwan to the international economy, and the importance of Taiwan's economic power to preserve its stance on the world stage.



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