



Taiwan-China Economic and Trade Relations

Speaker: Prof. Lin, Chien Fu Jeff

Chair: Ashok. K. Kantha

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In the first part of his lecture Prof. Lin sketched out the big picture of the Chinese economy. At as it stands now, China is the largest trader, the largest owner of foreign exchange, the second-largest economy and the third largest recipient of FDI in the world. The Chinese economy, despite these positives is stressed, especially in the supply front. In order to address this, Prof. Lin points out, China is adopting an array of reforms in areas of labour, land, capital and innovation. They are also transforming their high-value industries like IT, bio-pharma, robotics, aerospace, among others. China is also internationalizing the Renminbi with the ultimate aim of making it an alternative reserve currency. The OBOR is a major element of contemporary economic thinking in China. On this Prof. Lin argued that China's aim is to export its accumulated overcapacity and if the project fructifies than an annual 1% rise in Chinese exports to countries along the OBOR would by 2023 amount to one-third of China's total exports.

Prof. Lin then moved into discussing cross-strait economic cooperation. This, Prof. Lin pointed out, was hugely facilitated by the 2010 Economic Cooperation Framework Agreement (ECFA), their version of Free-Trade Agreement (FTA) designed to circumvent the unique political relationship. This agreement boosted the Taiwanese goods industry which already had some presence in China, while the services industry was for the first time allowed to enter the Chinese market. Out of Taiwan's total exports, that which was headed for the Chinese market increased to 40% in 2016 from a mere 12% in 1990. Imports from China to Taiwan increased to 20%. Taiwanese investment to China as of 2016 was US\$150 billion as opposed to China's US\$1.7 billion to Taiwan; Prof. Lin characterized this asymmetry in investment as 'quite unbalanced'. On Taiwanese perception about China as an economic factor, the Prof. Lin pointed towards a 2017 survey which found that China was

perceived to be the ‘trade bloc with the greatest development potential’, ‘trade bloc with the greatest advantage in integration of value chain’ but also the ‘main trade rival’. The current cross-strait trade is characterized by the existence of both complementarities and competitiveness, a mutual demand for innovation and technologies and while Taiwan requires China for its continuous economic growth, China is dependent on Taiwan for modernizing its economy. At the same time trade continues to be dominated by politics.

Cross-strait trade has also seen new developments. Taiwan and China are attempting to informalise trade by increasing the role of non-government actors. With rising student-inspired agitation – symbolized by the 2013 Sunflower Movement – both sides have opened opportunities to increase student interactions. With the third edition of its Patronage Policy towards Taiwanese businesses, China adopted a ‘Generalized System of Preference (GSP)’ towards Taiwan. This meant that henceforth China sought to attract all sectors of the Taiwanese economy. Despite new initiatives Prof Lin observed that challenges persist for Taiwan: shrinking global trade; financing difficulties for Taiwanese Small & Medium Enterprises (SMEs); and overcapacity in some Chinese industrial sectors. To circumvent these and other related challenges to cross-strait trade Prof. Lin outlined a few recommendations: promotion of ‘peaceful and intensive interaction’ between China and Taiwan; ‘create a win-win situation with more cooperation over competition between enterprises with more official communication’; governments on both should ‘discard all ideology’ and find a political compromise; cooperation should be increased in areas of Research and Development (R&D), intellectual property rights, innovation and both should cooperate for global opportunities; and finally cooperation should lead to further engagement of the next generation of Taiwanese and Chinese.

In the Q&A session Prof Lin took up a range of questions. A few are highlighted below. On the question of whether there is any prohibition against Taiwanese companies in investment in infrastructure in China, Prof. Lin replied that because Taiwanese companies are mostly SMEs they are unable to compete with much larger SOEs of China. Therefore, it was not a matter of prohibition. On whether it was the Taiwan government’s or his personal view as an economist that Taiwan should join the OBOR, the speaker replied that it was the view of economists like him, and not that of the government. Another question enquired whether a major rift exists between the business community and the government in Taiwan over the issue of cross-strait trade. To this Prof. Lin replied that indeed there was a ‘huge dispute’ in the Taiwanese society. On the question of the potential of deeper trade intercourse between Taiwan and India, Prof. Lin remained positive. He argued that the two economies complemented each other – Taiwan’s high-tech industry could join hands with manufacturers in India to produce cheap high-tech commodities.

About the Speaker

Prof. Lin is currently the President of Taiwan Institute of Economic Research and Professor at the Department of Economics, National Taiwan University. He is also the Chairman and Board of Director, Chinese Taipei Pacific Economic Cooperation Committee, CTPECC and Chief Executive Officer, Chinese Taipei APEC Research Centre. Prof. Lin has a doctorate in Economics from the University of California, San Diego. He is an expert on economic policy analysis, macroeconomic analysis, econometrics and finance.

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