

Taiwan's Cross-strait Economic Policy Under Ma Ying-jeou

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Taiwan President Ma Ying-jeou's active promotion of the signing of Economic Cooperation Framework Agreement (ECFA) exemplifies the administration's outright pro-China tendency. Such tendency became even more marked on the face of the global financial crisis: rather than adopting long-term and cautious approaches like the ones under the previous DPP administrations, the current administration sees greater economic dependence on China as remedy to its inept responses to the crisis and Taiwan's economic recession. The impact of the current administration's pro-China economic policy on cross-strait trade, Taiwan's industrial structure and the overall economic conditions is significant and therefore requires immediate attention.

Cross-strait Economic Policy: From Cautious Interaction to Hasty Integration

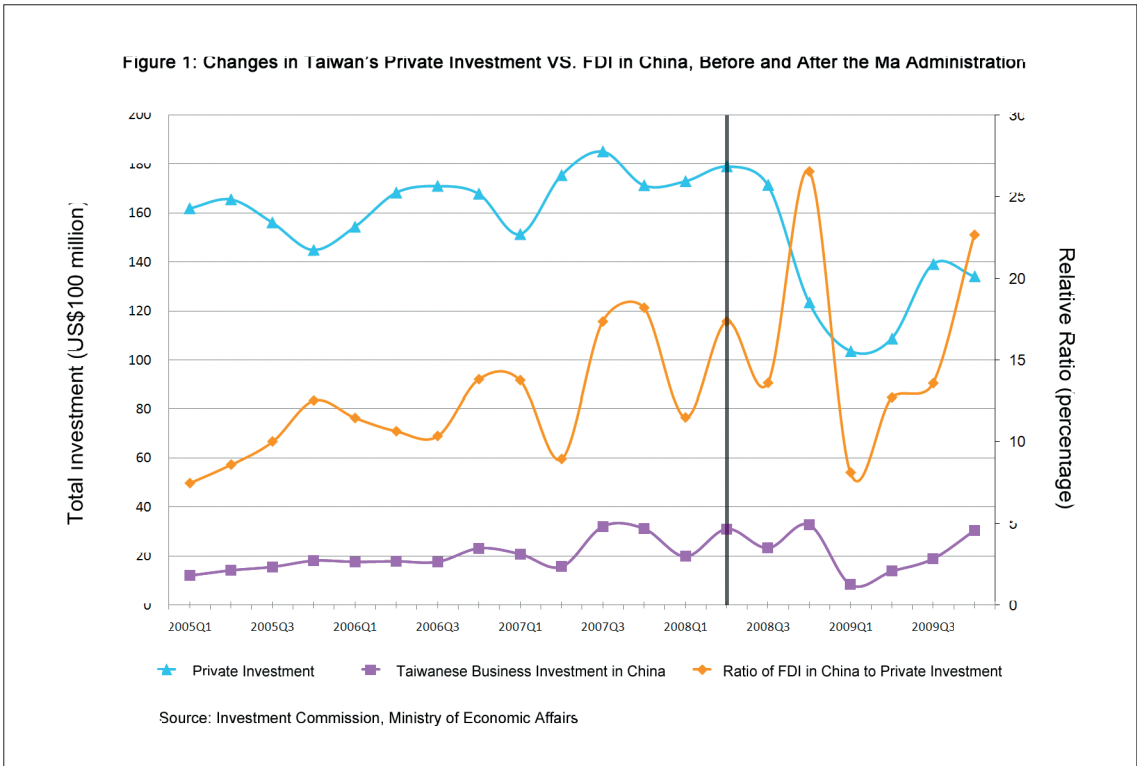
Economic relationship between Taiwan and China began in 1990s and was marked by ambiguity and some management. Economic policy towards China became more conservative and precautionary in March 1996: in response to continuous military threats from China, Taiwan's first democratically elected President Lee Teng-hui promulgated the "no haste, be patient" policy. The succeeding DPP administration at first followed the policy and did not alter its course until late 2001, when Taiwan became severely impacted by the global IT industry downturn. After a major Economic Development Advisory Conference in August 2001, the government under ex-President Chen Shui-bien adopted a more liberal cross-strait policy: active opening, effective management. The effect of such principle is two-sided: Taiwan's investment and trade in China grew, but the "hollowing out" of Taiwan's industries (which moved their production to China) also caused declining growth and rising unemployment. To reduce the negative impact of growing cross-Strait economic interactions, the DPP government, after a meeting in July 2007, modified the policy to "active management, effective opening."

Taiwan's cross-strait economic policy experienced a drastic turn after the transition from the DPP to the KMT government. The Ma administration rushed to lift the

restrictions set by its predecessors through the following measures: direct-flight service, direct link in post, greater encouragement of Taiwanese investment in China (by increasing the maximum amount of investment and expediting the application process), signing of the cross-Strait financial supervision memorandum of understanding (MOU), lift on the restriction of Chinese tourists and business visits, etc. Besides the abovementioned moves along with the signing of twelve trade agreements with China, the current government also actively promotes the signing of ECFA. Contrary to its DPP predecessor, the Ma administration is pursuing an overtly pro-China economic policy with no risk assessment and management.

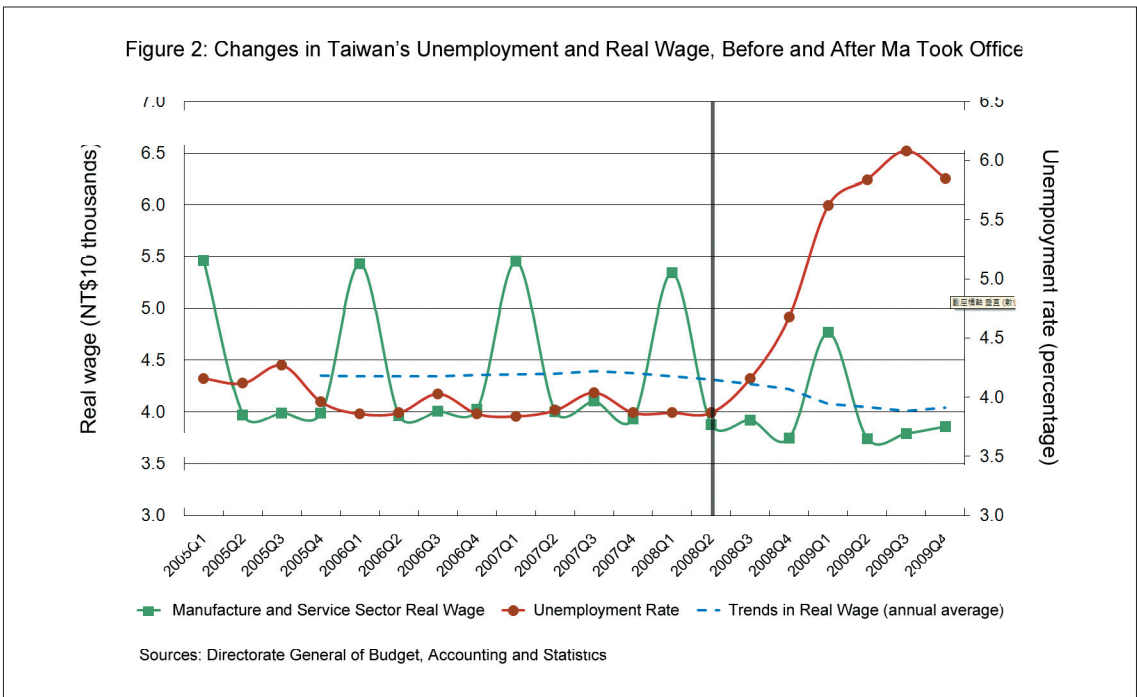
The Consequences of Economic Dependence on China: Sluggish Domestic Investment, Rising Unemployment and Declining Real Wage

As mentioned earlier, the current Ma government removed many of the controls that the previous administrations have imposed on Taiwan's economic interactions with China. The impact of such change became apparent one year after Ma took office. According to Figure 1, foreign direct investment (FDI) in China slightly declined during the first year of Ma's presidency as the global financial crisis hit Taiwan. After that the impact of Ma's economic policy became apparent: starting Q2 of year 2009, the decline rate went from positive to negative, and the amount of FDI bounced back to 2008 – right before the transition of the government. But a look at the private investment tells a different story: Taiwan had about 14 to 18.5 billion dollars (about NT\$ 500 to 600 billion) worth of actual private sector gross fixed capital formation, which accounts for an average 3 percent growth, during the last three years of the DPP administration. Under the Ma administration, real private sector gross fixed capital formation suffered a major decline after the global financial crisis; while it made a comeback after Q2 of 2009, the growth of private gross fixed asset capital formation in that entire year was still negative. Even if the rate of real private sector gross fixed capital formation had become positive later, the amount of private gross fixed capital formation still would not have reached the standards of the DPP era. As the result of the rapid growth of FDI in China, coupled with the sluggish growth of actual private sector gross fixed capital formation in the beginning of the Ma administration, the ratio of FDI in China to actual private sector gross fixed capital formation in Q4 of 2008 hit record high (26.53 percent). Even though the ratio fell in Q1 of 2009 (as the result of the financial crisis), it soon regained its growth following the current government's pro-China policy.



Although the current government responded to the global financial crisis with various loose monetary and expansionary fiscal policies, the actual private sector gross fixed capital formation remained low. Such trend indicates a more severe structural, rather than cyclical, problem in the Taiwanese economy that is caused by various factors. The most notable of these factors, which is a direct result of the current administration's liberal economic policy, is the so-called "hollowing out" of production chain. This shift of the production chain from Taiwan to China not only led to sluggish private gross fixed capital formation but also caused unemployment and the decline in real wage. As figure 2 shows, Taiwan experienced a rapid rise in unemployment rate while decrease in real wage for the manufacture and service sectors after Ma Ying-jeou came into office. While the global financial crisis explained changes in the beginning of Ma's term, unemployment rate stayed at about five to six percent, and real wage in the manufacturing and service sectors experienced further decline, even after the impact of the financial crisis waned. It is apparent that the current administration's economic policy attributes to the persistence of high unemployment rate and low real wage:

unable to deal with the impacts brought by the financial crisis, the Ma administration pursued further economic liberalization with China with the hope that doing so would serve as a remedy for Taiwan's stagnant economy. What the administration fails, or refuses, to acknowledge is the long-term negative effect of such policy on the Taiwanese workers.



Conclusion

The cross-strait economic interactions, which began in year 1990, has resulted in the shift from inward to outward investment, which in turn caused the following adverse consequences: the hollowing out of the Taiwanese industries, the rise in unemployment rate (due to decreasing job opportunities) and the decline in real wage. Facing global financial crisis, the Ma administration adopted a series of expansionary monetary and fiscal policies, but the effect of those policies were limited. What is even more troublesome, however, is the government's cross-strait economic policy: rather than diversifying Taiwan's FDI, which would help prevent the risk brought by cross-strait economic interactions, the government decided to further liberalize with the signing of

ECFA and removing restrictions on trade and investment in China. The government's policy would not lift Taiwan out of its economic stagnation; on the contrary, it would further Taiwan's economic dependence on China, economic integration between the two and then the eventual political reunification. **BT**

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