

A “One China, One Taiwan” Economic Policy: Why We Need a U.S.-Taiwan Free Trade Agreement

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Politically, the U.S. follows a “*one China*” policy, which prevents the U.S. from forming official ties with Taiwan. However, this *political* policy should not preclude the U.S. from forming a “one China, one Taiwan” *economic* policy. A formalized U.S.-Taiwan Free Trade Agreement is also the first step to a U.S. “*one China, one Taiwan*” economic policy. Such a Free Trade Agreement would provide significant economic benefits to the U.S., and more importantly, it would also help the U.S. strengthen its political and strategic influence in the Asia Pacific region.

Economic Benefits to the United States

Even though Taiwan and the U.S. already have a history of strong trade relations, the economic rationale for a formal U.S.-Taiwan Free Trade Agreement is compelling. Taiwan is the 16th largest economy in the world in terms of GNP. Its per capita income ranks 14th in the world, higher than countries such as Russia, Mexico, South Korea, Argentina and Chile. The total trade volume between the U.S. and Taiwan exceeds \$51 billion dollars per year. The U.S. is the 2nd largest exporter of goods to Taiwan and Taiwan is the 8th largest exporter of goods to the U.S. In particular, within the technology industry, an industry that has dramatically improved the productivity of the U.S. work force, Taiwan is one of the leading technology components suppliers to U.S. companies. Coming full circle, Taiwan is the leading Asian purchaser of U.S. computers and semiconductor products. The statistics cannot be disputed; there is an ongoing mutual economic interest shared between the two nations.

A study conducted by the International Trade Commission (‘ITC’) cites that with a U.S.-Taiwan Free Trade Agreement, U.S. exports to Taiwan of items such as cars, rice, fish and other food products would increase by more than 100%. Similarly, Taiwan exports to the U.S. of dairy, textiles, apparel, leather and other agricultural products would increase by more than 100%. It is clear there are measurable economic reasons for the U.S. to protect as well as to enhance its trade relations with Taiwan through a FTA.

There are also intangible aspects of an FTA that would further help sustain economic vitality for the U.S. Taiwan companies have had tremendous success engaging in international business in Asia. Taiwanese corporations are one of the largest investors in Asia, with tens of billions of dollars invested over the last several years. The U.S. can benefit from Taiwan’s experience. A FTA would promote partnerships or joint ventures between Taiwanese and American companies, and would thus allow American companies to benefit from their Taiwanese partners, and therefore strengthen and enhance U.S. interests in the Asia Pacific region. Taiwan’s management capabilities and knowledge in dealing with the Asian countries, particularly with China, could help their U.S. partner companies achieve their strategies to diversify and more efficient use of capital, thereby providing the highest possible return. From Taiwan’s standpoint, partnership with a U.S. company brings the added protection of having a strong political and economic ally, thus reducing the political risk when investing in China.

Given these factors, how does it make economic sense for the U.S. not to have a Free Trade Agreement with a trading partner of Taiwan’s status?

Protect U.S. Economic, Political & Military Interests in the Asia Pacific

A U.S.-Taiwan FTA will not only enable the U.S. to realize direct and indirect economic benefits, it will also protect U.S. economic, political and military interests in the Asia Pacific Region. Ensuring that Taiwan remains economically strong will help the U.S. maintain a balance of power in the region. China's growing economic dominance relative to other countries in the region is problematic for the U.S. A China that dwarfs other countries in the region could create political instability and uncertainty. The situation is especially worrisome since China continues to grow stronger at the expense of its neighbors, such as ASEAN nations, Japan and Taiwan. Ultimately, a China too dominant economically will lead to a China too dominant politically and militarily as well. For example, the Chinese army has lined up hundreds of missiles along its eastern coast, all aimed at Taiwan, ready to strike. Is it really in the best interest of the U.S. for China to be so dominant in the region? Is it realistic to believe that China, a country whose political, economic and humanitarian values differ so greatly from the U.S., will share common interests? Rather, I strongly believe that it is in the best interest of the U.S. to ensure that other countries in the region maintain relative economic strength to China. This includes Taiwan, which used to be one of the strongest economies in the region, and one of the closest allies to the U.S.

China's strategy of isolating Taiwan internationally has already weakened Taiwan's economy. The Chinese government has made political threats to countries that are interested in doing business with Taiwan. China's trade minister warned in June 2002, "Countries signing free-trade pacts with Taiwan are bound to bring political trouble on themselves." Unfortunately, these threats from China are working. For example, at last October's APEC meeting in Mexico, Taiwanese representatives approached several Asian countries with plans for FTA talks. Countries such as Singapore, New Zealand, Japan and Thailand made up hollow excuses for not entering into such talks, obviously afraid of China's wrath. With few options available, Taiwan *is* becoming more economically dependent on China as are other countries in the region. This of course is not desirable for Taiwan or for the U.S. Even after joining the World Trade Organization, Taiwan is still isolated and blocked from many international forums. A U.S.-Taiwan Free Trade Agreement is where the U.S. can make an appropriate and decisive first step to recognize Taiwan economically. Not only will the U.S. send a signal to China that it cannot bully its neighbors, but the U.S. will lead the way and set an example for other countries to strike similar trade agreements with Taiwan. Fostering more trade relationships that do not include China would help Taiwan and other countries in the region maintain relative economic strength to China.

There are significant mutual advantages in the joint ventures (JVs) and partnerships that would arise under a US-Taiwan FTA.

The United States (US) would (1) acquire Taiwanese partners whose management skills, cultural sensitivity of both Asia and America and superior language skills are unmatched within Asia. Taiwan businesses are the best possible partners for American businesses seeking new markets in China or S.E. Asia. (2) Both the US and Taiwan are heavily concentrating their foreign direct investments in China. Economic growth and security dictate greater diversification into ASEAN states. Finally (3), such joint ventures into the ASEAN nations would greatly enhance the probabilities of successful market penetration as compared to individual efforts by either partner alone.

Taiwan would (1) acquire greater legal protection under international law when working on joint ventures and partnerships, thereby reducing the political risk in their investments in China. (2) One of the most difficult bilateral trade issues, the protection of American intellectual property rights, would be enhanced by the monitoring of Taiwanese partners and officials in

Taiwan. Moreover, Taiwanese can also assist US firms doing business in China in protecting American IPR there. (3) This alignment of American and Taiwanese business interests would provide greater economic successes in China alongside of diversification into other Asian states and will provide renewed economic growth for Taiwan.

The goal of economic development is to raise the standard of living through growth, better distribution of wealth and improvements in the standard of living. Regionally, the American-Taiwanese JVs and partnerships would be a catalyst to economic growth. Taiwan's economic miracle arose from the combination of generous US assistance and the hard work of the Taiwanese people. Improved economic growth will come with the FTA between Taiwan and the United States that benefits all, while restoring an element of competition in Asia that is highly desirable. Of course, the ITC model does not calculate these potential trade benefits, but I am presuming that the Taiwan GDP would grow by more than the 0.3% estimated to be the FTA influenced growth. Finally, it is, as I argued earlier, important strategically to retain American presence in Asia in all three spheres: economic, political and militarily to insure stability and peace.

Ambiguity of the One China Policy

With strong economic and political arguments in support of a U.S.-Taiwan FTA, why is there still such reluctance by the U.S.? After all, the U.S. had no problem signing FTAs with Chile, Singapore, Jordan, and Mexico. Why is Taiwan not as worthy as these countries? Taiwan is the one country that most closely resembles the U.S. from its economic and political standpoints. Yet, the U.S. is dragging its feet on U.S.-Taiwan FTA talks. This ambiguity in U.S.-Taiwan relations is rooted in the U.S. "one China" policy.

During the Cold War, in order to achieve a greater balance of power against the former Soviet Union, the U.S. wanted an alliance with the Peoples' Republic of China ("PRC"). So the U.S. compromised its anti-communist principles by forging diplomatic relations with the PRC. The price to pay for this U.S.-China alliance was the severance of U.S.-Taiwan diplomatic ties. . Now that the Cold War is long over, the original argument for the U.S. "one China" policy is no longer valid. However, this policy remains and results in ambiguity in U.S. policy toward Taiwan, which adds to the tension in the Taiwan Strait and also creates confusion as to how the U.S. should treat Taiwan. The "one China" policy is wrong and inconsistent with current U.S. political and economic interests.

In the cover letter of the 2002 *National Security Strategy of the United States of America*, President Bush stated that America will use its "position of unparalleled military strength and great economic and political influence" to actively work to "bring the hope of democracy, development, free markets and free trade to every corner of the world" and to seek "to create a balance of power that favors human freedom..."

Taiwan—America's Greatest Success Story

So why doesn't the U.S. use Taiwan as a shining example to show to the rest of the world that this strategy works? The irony is that Taiwan *is* the best representation of what the U.S. and President Bush hopes to achieve throughout the world: democracy, free markets, and respect for human rights. Instead, the "one China" policy prevents the U.S. from even recognizing Taiwan as a sovereign nation. The U.S.-Taiwan relationship dates back over 50 years. Thanks largely to U.S. support coupled with Taiwan's highly trained and motivated workforce, Taiwan created an economic miracle. To this day the people of Taiwan continue to be grateful to the U.S. The U.S. should be proud of this *economic* miracle. The people of Taiwan are also grateful to the Americans for putting political pressure on the former authoritarian regime to allow the wave of political reforms leading up to a peaceful transition of power in year 2000.

Once again, the U.S. should be proud of Taiwan's *political* miracle. Since the U.S. had a hand in creating these two miracles, shouldn't the U.S. find it even more important to *preserve* them? Taiwan has embraced the best of the American values. Taiwan *is* a shining example of how U.S. ideals and values can bring out the best in another country...but it is not treated as such. How can the U.S. effectively achieve its National Security Strategy if it will not recognize and *preserve* its greatest success story--Taiwan?

Recently, U.S. Senator Baucus stated that Taiwan is "a vocal supporter of U.S. policy throughout Asia and the world." Moreover, as Senator Baucus correctly pointed out, a U.S.-Taiwan FTA is "a concrete step that the United States can take towards supporting an ally that shares our values and mission."

Adopt a "One China, One Taiwan" Economic Policy

We as Americans should be outraged that our government continues to follow a hypocritical "*one China*" policy instead of a "*one China, one Taiwan*" policy. On one hand, President Bush clearly stated with conviction in his National Security Strategy that this country will use our unparalleled leadership position to support and promote democracy and free markets around the world. On the other hand, after the U.S. strategy has been whole-heartedly embraced by Taiwan, the U.S. marginalizes Taiwan politically by not even recognizing Taiwan as a sovereign nation. It is like a little brother idolizing his big brother only to have big brother completely ignore the little brother's existence because the bully on the block forced the big brother to do so. What kind of message does this send to other nations hoping to adopt U.S. principles and ideals? The "*one China*" policy painfully highlights how the U.S. has caved in to political and economic pressures and allowed China to dictate U.S. foreign policy. By not standing up to China and promoting U.S. principles with countries like Taiwan, the U.S. looks weak. However, the U.S. can still take steps to rebuild its credibility and leadership in the Asia Pacific region and around the world. One step is for the U.S. to stop penalizing Taiwan economically the way it has wrongly penalized Taiwan politically.

By adopting a "*one China, one Taiwan*" economic policy through a U.S.-Taiwan Free Trade Agreement, the U.S. would not make the same mistake twice regarding Taiwan, but instead, would send a strong message to the rest of the world that the U.S. will support nations with similar values. It just takes one leader like the U.S. to stand up to a bully and other nations will follow, thus inspiring others to find the courage to create their own economic and political miracles.

About Li-Pei Wu:

Following a life-long commitment to promoting human rights and democracy for Taiwan, in 2002 Li-Pei Wu founded the Formosa Foundation, non-partisan, public interest group dedicated to promoting human rights and democracy, and exchanging ideas and fostering better understanding and friendship between the United States and Taiwan. In 2004, Taiwan's President Chen appointed Wu as Senior Advisor to the President.

Wu has been a banker by profession. In 2003 he retired from GBC Bancorp and its subsidiary bank, General Bank, as Chairman of the Board, before GBC Bancorp merged with Cathay Bancorp to form Cathay General Bancorp in the same year.