Taiwan’s Development Strategy for the Next Phase

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Introduction

In the past forty years, Taiwan’s economic development has seen transitions between several important stages, evolving from an export processing-oriented economy during the 1970s and 1980s, to the technological development in the 1980s up to the early years of the 21st century. This latter phase saw the development of Taiwan’s semiconductor and high precision machinery industries, nowadays both crucial to Taiwan’s economy. With cross-strait relations becoming more open, and Taiwan seeing an increase in its foreign currency reserves, Taiwan’s industries have sped up plans for development overseas. One crucial strategy for Taiwanese companies is to invest in Mainland China, which has borne a direct influence on Taiwanese exports to Mainland China. Now, with exports to China making up nearly 40% of Taiwan’s total exports, Taiwan’s next major challenge is to adjust its industrial and trade policies under such a substantial export framework. In terms of future developments and strategic adjustments, the diversification of exports, as well as the enhancement and diversification of industries, will no doubt help Taiwanese industries become more competitive in the open international trade market, and thus forms a challenge Taiwan must face in its next stage of economic development.

In the following pages, I will briefly detail some of Taiwan’s achievements, and then discuss the challenges Taiwan currently faces. Since Mainland China is inextricably tied to Taiwan’s economic development, one of the issues Taiwan must actively face in the long term is the rise of the economy in Mainland China. The third part of this study will deal with this issue, while in the fourth part, I will use the aforementioned results to propose possible developmental strategies Taiwan may pursue for the next phase of development. Finally, I will explain the benefits of Taiwan joining the Trans-Pacific Strategic Economic Partnership (TPP).

1. Some of Taiwan’s achievements

Taiwan’s past achievements in economic development have already been widely recognized and lauded. With the development of high technology since the 1980s, Taiwan’s economy has shifted from labor-intensive industries to industries concentrating high capital and technologies. This has been a very rapid process, during which Taiwan has achieved major successes. The following tables and statistics explain Taiwan’s past achievements in economic development:

First, in terms of Taiwan’s ranking in global competitiveness, Table 1 shows that Taiwan has excelled in the Business Risk Report issued by the US rating agency BERI, ranking number 3 globally, and second only to Singapore in the Asia-Pacific region, indicating Taiwan is one of the countries with the lowest risk for investment. In addition, from the rankings from other institutions shown in Table 1, we see Taiwan’s competitiveness in the world economy. Table
1 shows that Taiwan won third place in the Asia-Pacific region in the IMD “World Competitiveness” category for 2013, while also being ranked 11th place on a global scale. The “Global Competitiveness” index issued by WEF mirrors that issued by the IMD. Furthermore, the “Knowledge Economy Index” (KEI) issued by the World Bank in 2012 places Taiwan at third place in the Asia-Pacific region, a ranking even higher than Singapore, while also achieving a high global ranking of number 13. These figures show that Taiwan remains in a leadership position in the knowledge-based economy of the 21st century. The only figure in Table 1 for which Taiwan shows a not-so-stellar ranking is in for the “Ease of Doing Business” index issued by the World Bank in 2012: although here Taiwan is placed at 16th place, we must bear in mind that in 2008 Taiwan finished 61st place globally, and the improvement to 16th place within the following four years is a testament to Taiwan’s hard efforts.

Table 1: How Taiwan ranks in international competitiveness

<table>
<thead>
<tr>
<th>Ranking institute or report</th>
<th>Taiwan</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Global ranking</td>
<td>Asia-Pacific ranking</td>
</tr>
<tr>
<td>BERI Business Risk Report (US) (2013-II)</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>IMD “World Competitiveness” (2013)</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>WEF “Global Competitiveness” (2013)</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>World Bank “Doing Business” (2012)</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>World Bank “Knowledge Economy Index (KEI)” (2012)</td>
<td>13</td>
<td>3</td>
</tr>
</tbody>
</table>

Sources: BERI; IMD; WEF; World Bank.

Table 2 shows the number of Taiwanese patents registered in the US, along with the patent density per capita. Between 1998 and 2012, the US was naturally the country awarded with the most number of patents in the US, while Japan, Germany, and Taiwan finished at second, third, and fourth place respectively, with South Korea closely following at fifth place. This shows that Taiwan has shown incredible achievements in terms of technological development and the knowledge-based economy.

These statistics show the number of patents awarded to each country in the US during the period from 1988 to 2012. If we take the total population of the US, Japan, Germany, and South Korea into account, Taiwan—with a population of only 23 million people—naturally falls far behind these more populous countries. However, if we divide the number of patents by the total population, and compare the patent density per capita (ie. the number of patents awarded per million people), between 2006 and 2012 Taiwan’s patent density was the highest in the world. Using 2012 as an example, Taiwan was awarded 499 patents per million people, a figure higher than the US’ 427 patents, Japan’s 414 patents, Israel’s 338 patents, and South Korea’s 283 patents. By comparison, Singapore only had 89 patents per million people. In these terms, Table 2 shows that Taiwan has excelled in intellectual property and patent numbers.
Table 2: Number of Taiwanese patents and patent density in the US

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Total number of patents from 1988 to 2012</th>
<th>Total number of patents awarded</th>
<th>Patent density (Number of patents per million people)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Country</td>
<td>No. of patents</td>
</tr>
<tr>
<td>1</td>
<td>US</td>
<td>2,110,969</td>
<td>Taiwan</td>
<td>348</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>795,453</td>
<td>US</td>
<td>338</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>245,290</td>
<td>Japan</td>
<td>308</td>
</tr>
<tr>
<td>4</td>
<td>Taiwan</td>
<td>124,290</td>
<td>Israel</td>
<td>195</td>
</tr>
<tr>
<td>5</td>
<td>South Korea</td>
<td>111,906</td>
<td>Finland</td>
<td>191</td>
</tr>
<tr>
<td>23</td>
<td>Singapore</td>
<td>7,077</td>
<td>-</td>
<td>106</td>
</tr>
</tbody>
</table>

Sources: United States Patent and Trademark Office (USPTO); Department of Industrial Technology, Ministry of Economic Affairs, Taiwan; Market Research Department, TAITRA.

Table 3 shows the GDP per capita calculated according to purchasing power parity (PPP) by the IMF. Here, after adjustment according to PPP, the country with the highest GDP worldwide is Qatar, with a GDP per capita of US$102,211. The next highest country is Luxembourg, with a GDP per capita of US$79,785, following which is Singapore at US$60,410. In the statistics issued by the IMF, Taiwan’s GDP per capita is US$38,749 after adjustment according to PPP, with a global ranking of 19th place; this is higher than Japan’s US$36,266, France’s US$35,548, and South Korea’s US$32,272. Table 3 shows that, although Taiwan does not have a high nominal GDP per capita, Taiwan’s commodity prices are relatively stable, and Taiwan thus enjoys a high performance when PPP is taken into account. Table 3 shows that in terms of the macroeconomy, Taiwan has excelled in both economic growth and stabilization of prices.
Table 3: GDP of Major Global Economies and Taiwan

<table>
<thead>
<tr>
<th>IMF GDP per capita (PPP) global ranking</th>
<th>Economies</th>
<th>GDP per capita (PPP) (USD)</th>
<th>Nominal GDP per capita (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Qatar</td>
<td>102,211</td>
<td>99,731</td>
</tr>
<tr>
<td>2</td>
<td>Luxembourg</td>
<td>79,785</td>
<td>107,206</td>
</tr>
<tr>
<td>3</td>
<td>Singapore</td>
<td>60,410</td>
<td>51,162</td>
</tr>
<tr>
<td>4</td>
<td>Norway</td>
<td>55,009</td>
<td>99,462</td>
</tr>
<tr>
<td>5</td>
<td>Brunei</td>
<td>54,389</td>
<td>41,703</td>
</tr>
<tr>
<td>19</td>
<td>Taiwan</td>
<td>38,749</td>
<td>20,386</td>
</tr>
<tr>
<td>24</td>
<td>Japan</td>
<td>36,266</td>
<td>46,736</td>
</tr>
<tr>
<td>25</td>
<td>France</td>
<td>35,548</td>
<td>41,141</td>
</tr>
<tr>
<td>27</td>
<td>South Korea</td>
<td>32,272</td>
<td>23,113</td>
</tr>
<tr>
<td>56</td>
<td>Malaysia</td>
<td>16,922</td>
<td>10,304</td>
</tr>
<tr>
<td><strong>Global Average</strong></td>
<td><strong>11,789</strong></td>
<td><strong>10,168</strong></td>
<td></td>
</tr>
</tbody>
</table>

Sources: IMF, 2013/09/12. Taiwan’s GDP per capita taken from data from the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan. GDP per capita (PPP) data are estimates by the IMF.

If GDP growth does not enable most of the population to enjoy the benefits of a rising economy, then much still remains to be improved. In this regard, Table 4 shows national statistics for countries which collect income data, and uses the Gini coefficient as a basis for comparison.\(^1\) From Table 4, we see that the countries with the lowest Gini coefficient (and thus with the best income distribution) are Sweden, Norway, and Finland, while Taiwan’s Gini coefficient of 0.276 places it at fourth place globally, with Germany’s 0.283 coming in at fifth place. Table 3 and Table 4 show that Taiwan not only has enjoyed economic growth and stable prices, but also has a stellar performance in terms of domestic income distribution.

Of course, GDP, commodity prices, and wealth distribution all portray only a small part of the total economy, and do not entirely reflect the living standards and so-called “happiness” of the ordinary citizen. To reflect this, Taiwan’s Directorate-General of Budget, Accounting and Statistics followed OECD’s methodology and constructed a “Better Life Index” (BLI) in 2013, which showed, in Figure 1, that Taiwan garnered a score of 6.64, placing it at number 19 of the OECD countries. Although this cannot be considered outstanding, it is nevertheless fairly respectable, besting both Japan and South Korea, as well as Portugal, Brazil, and Chile.

\(^1\) A lower Gini coefficient means that income is more evenly distributed.
Table 4: Distribution of Domestic Income for Major Countries  
(According to per capita income)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Year of survey</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sweden</td>
<td>2000</td>
<td>0.250</td>
</tr>
<tr>
<td>2</td>
<td>Norway</td>
<td>2000</td>
<td>0.258</td>
</tr>
<tr>
<td>3</td>
<td>Finland</td>
<td>2000</td>
<td>0.269</td>
</tr>
<tr>
<td>4</td>
<td>R.O.C. (Taiwan)</td>
<td>2012</td>
<td>0.276</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>2000</td>
<td>0.283</td>
</tr>
<tr>
<td>10</td>
<td>Japan</td>
<td>2009</td>
<td>0.313</td>
</tr>
<tr>
<td>15</td>
<td>United Kingdom</td>
<td>2011</td>
<td>0.390</td>
</tr>
<tr>
<td>20</td>
<td>Mexico</td>
<td>2010</td>
<td>0.477</td>
</tr>
<tr>
<td>22</td>
<td>Brazil</td>
<td>2009</td>
<td>0.547</td>
</tr>
<tr>
<td>23</td>
<td>Columbia</td>
<td>2010</td>
<td>0.559</td>
</tr>
</tbody>
</table>

Source: Statistics issued by each country, collected by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan.
Figure 1: Happiness Index of Taiwanese Citizens  
2013 Happiness index of OECD countries and Taiwan

![Happiness Index Chart]

Note: The higher the BLI index, the happier life is for citizens of the country, and the higher the ranking. As the OECD does not include ASEAN countries, they are not included in this chart.
Sources: OECD; Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan.

After reviewing the statistics above, we see that Taiwan has seen superb economic achievements in recent years, the result of much sustained effort and hard work. In a technological and knowledge-based age, Taiwan is generally speaking situated in a strong position, and in macroeconomic terms Taiwan has enjoyed fair results in a stable environment.

2. Taiwan’s economic challenges

In the previous section I have recounted some of Taiwan’s economic achievements; however, this does not mean that Taiwan will not face economic challenges in the future. In fact, Taiwan will face substantial economic trials in both the international and domestic arenas, which can be categorized into the following five points:

(1) Isolation in the international economic environment

Isolation in the international economic environment can be seen in the numerous bilateral or multilateral trade agreements signed between world economies starting from the 1990s. Countries in Asia, Europe, and North and South America have all engaged in trade discussions with each other, and have achieved substantial results. Because of the political situation, Taiwan has up until now only been able to sign free trade agreements with smaller nations in Central and South America, such as Panama and Chile,² which is a far distance

² To date, five countries have entered into free trade agreements with Taiwan: Panama, Guatemala, Nicaragua, Honduras, and El Salvador.
from Taiwan’s main markets of Europe, the US, Japan, and Mainland China. In June 2010, Taiwan officially signed a Economic Cooperation Framework Agreement (ECFA) with Mainland China, which is one of Taiwan’s breakthrough FTAs in recent years; yet this is also a far cry from South Korea, with whom Taiwan has been aggressively competing. Since 2000, South Korea has signed FTAs with the EU and the US; these include the South Korea-US FTA signed in June 2007, which came into force in March 2012, and the South Korea-EU FTA signed in 2009, which came into force in July 2011. South Korea has also become actively engaged in FTA negotiations with ASEAN countries, which is a major advance compared to Taiwan. Objectively speaking, Taiwan might be Asia’s most isolated economy, which is one of Taiwan’s most crucial challenges it must face. To date, Taiwan has signed an FTA with New Zealand in mid-2013, and is negotiating FTAs with Singapore, the EU, Japan, and Canada. I believe that the international economic environment presents a significant hurdle for Taiwan, and as such, negotiations for Taiwan to join the TPP are a focal point for both ruling and opposition parties. This is one of the directions Taiwan must actively pursue in the future.

(2) Challenges in technological advances

Since 1990, technology has entered into a phase of rapid development and highly concentrated knowledge. In such a rapidly changing age, we see that Taiwan may be able to maintain a considerable standard, as evidence by the number of US patents aforementioned. However, with technological advances inevitably speeding up in the future, the scale of the economy in question will become ever more important, and with the large amount of capital and knowhow needed for technological advances, the challenge for Taiwan will be to find a solution to compete when large amounts of capital and manpower are needed. Moreover, Taiwan’s economic backbone is formed by small and medium-sized businesses, which have relatively scarce human resources, capital, and technology. How Taiwan copes with technological advances will, therefore, become a major question in the future.

(3) Insufficient economic scale

As mentioned in the above section, Taiwan’s economic backbone is formed by small and medium-sized businesses. With such paucity in terms of scale, this not only negatively impacts competition for capital and human resources, but also proves to be a major hurdle for brand marketing and market expansion for Taiwanese companies. This deficiency in economic scale is a undeniable fact, faced not only by Taiwan but also by small and medium-sized businesses in many other countries, especially when the global economy is undergoing simultaneous trends of globalization and regionalization.

(4) A conservative bureaucracy

Throughout Taiwan’s democratization, the Taiwanese bureaucracy has always been closely scrutinized, and been under the keen eye of the opposition. In addition, since the Taiwanese governmental system is not only scrutinized by the parliament and media, but also by the Control Yuan, the bureaucracy has gradually formed an atmosphere under which the less done the better, which is of course not suited for the enormous pressures brought by the globalization of the world’s economy and the rapid acceleration of technological advances. A conservative air is prevalent in the current bureaucratic system; one example is the electronic commerce industry, in which the flow of currency is just as paramount as the flow of materials and products. In order for currency to pass on uninhibited, a third-party payment
system is required, a particularly successful example being Paypal in the US. However, Taiwan’s Financial Supervisory Commission has remained extremely passive and conservative on the issue of setting up a third-party payment system in Taiwan, which has hindered the development of the e-commerce industry. With mounting pressure from all fronts, a breakthrough was only managed when the former head commissioner resigned from his post. This example illustrates that the conservativeness of the bureaucracy, as well as that of the leadership, poses a substantial obstacle for advances in Taiwan.

(5) An aging population

The fact that Taiwan’s population is aging is undeniable. According to statistics compiled by the Council for Economic Planning and Development, by 2025 the elderly aged 65 and up will comprise 20% of Taiwan’s population, with the rate set to accelerate in the years to come. Under these circumstances, the rate of acceleration will be just as fast as Japan’s, which will severely impact Taiwan’s future economic development, technological advances, governmental finances, social structure, and even voting trends. Whether or not aging will reduce Taiwan’s future economic vitality and reforms, as well as negatively impact Taiwan’s edge in technology, are changes that must be seriously monitored. This study views population aging as one of Taiwan’s most crucial challenges in the future.

3. Taiwan’s economic relationship with Mainland China: Utilization or Necessity?

After 2000, Taiwan actually developed closer economic and trade ties with Mainland China when the previous opposition Democratic Progressive Party came into power. Using figures from 2000 as an example before the DPP came into power, in that year Taiwan’s exports to Mainland China took up approximately 24.4% of Taiwan’s total exports; by 2007, this figure had risen to more than 40.7% (see Figure 2). There are at least three ways to explain this rise:

First, from the perspective of industrial specialization, Taiwan’s costs in human resources, land, and other production-related factors have all risen dramatically, so that Mainland China’s cheap labor and land have proven to be enormously attractive. From a natural economic viewpoint, investing in Mainland China has become a feasible and attractive option. Although no precise figures have been available for Taiwanese investments in Mainland China, estimates from Taiwanese trade associations in Mainland China indicate that Taiwanese investments in Mainland China have now totaled more than US$200 billion. With such a large amount invested, Taiwan’s investments in Mainland China have also influenced exports to Mainland China, especially in terms of intermediate goods and raw materials, which is reflected in the 40% figure previously stated for 2007.

Second, in addition to the resources factor, investment in Mainland China was also natural from a commercial standpoint. Since many of Taiwan’s businesses operate according to an OEM framework, many companies who place orders with Taiwanese companies will request that their OEM partners set up factories in Mainland China to reduce OEM costs. Therefore, foreign companies who order from Taiwanese companies are also a main reason for Taiwanese companies to invest in Mainland China.

Third, when the DPP was in power between 2000 and 2008, cross-strait relations were often in a state of flux. Ranging from the movement for Taiwan to join the UN to calls for Taiwanese independence, these fluctuations made Taiwanese businesses reconsider their
strategies, and not put all of their eggs in the same basket. As minimizing risk is a crucial factor, they sought to diversify their production and investment environments, and this resulted in the acceleration of Taiwanese businesses rethinking their plans for Mainland China and other overseas locations. This further led to an increase to Mainland China of intermediate goods and raw materials, which resulted in a rapidly increasing ratio of exports to Mainland China.

**Figure 2: 1987-2013 Taiwan’s exports to Mainland China (including HK)**

Export ratio and degree of dependence on foreign trade

Note: degree of dependence on foreign trade is defined as total value of imports and exports relative to GDP ratios.

Source: Ministry of Finance import and export statistical database, Directorate-General of Budget, Accounting and Statistics; data compiled by the Market Research Division, TAITRA.
The above-mentioned facts reveal that the trading relations between Taiwan and Mainland China reached a peak when DPP was the ruling party. This also demonstrates that economic affairs are sensitive to the point that if government policies are not following economic rules then things will go against the grain economically, as shown in Taiwan’s growing dependence on Mainland China in terms of trade.

There are four phases in the trade relations between Taiwan and Mainland China. The first phase, before 1987, occurring in an environment of cold relations, saw little cross-strait trade. Then in July 1987, the late president Chiang Ching-kuo lifted the ban on relative visiting to Mainland China, a fact which, when coupled with the rapidly accumulated foreign exchange in Taiwan, entailed Taiwan’s investment rush in Mainland China. Thus, the period between lifting the ban on relative visiting and president Lee Teng-hui’s “no haste, be patient” policy was announced saw itself as the second phase of relations between the two shores, which can be called slow growing period of trade between the two shores or the burgeoning period of interaction between the shores. Lee Teng-hui’s “no haste, be patient” policy in 1996 undoubtedly spoiled the trade relations between the shores, which at that time were beginning to incubate. As a result, between 1996 and 2008 (in which DPP was the ruling party from 2000 to 2008), the third phase of the trade relations featured itself as lying dormant between the two governments.

What is worth noting is that trading activities were suppressed by the government’s policy in the third phase. Ironically, as mentioned earlier, the oppressing policy, when reflected in the real world situation, served only to fortify the trade relations between the two shores instead of slowing them down. That is also why Taiwan’s exports to Mainland China as opposed to other parts of the world in 2007 increased to 40% of its annual total for the first time ever.

The fourth phase of the economic relations between the two shores started in May 2008 when the KMT returned to its ruling position. Basically, the KMT regarded the trade relations between the shores had reached a point of no return, which necessitated a positive attitude to deal with instead of avoiding or neglecting them. This is also the important reason why in 2010 the government signed ECFA, which covers investment assurance and other related agreements that help stabilize in a tremendous way the economic relations as well as investments. What is even more important is that through ECFA, the Taiwanese government can pay more attention to the future development of enormous Taiwanese investments in Mainland China. It also serves as an official channel for Taiwan to negotiate with Chinese government in regard to individual person’s safety and investment assurance. As a whole, the general interests of Taiwanese business people operating in Mainland China can be assured. In doing so, the purpose of being practical, either in a general sense or in addressing economic realities, is well served. In fact, a bizarre downturn in the ratio of exports to Mainland China happened in 2012, 39.4% of its annual total.

In retrospect, we have to weigh our achievement against that of South Korea in the past 10 years to fully understand the changing courses of history. Korea signed FTAs with the US and the EU in 2007 and 2009 respectively, while Taiwan spent quite a lot of energy fighting against Mainland China politically without meriting much accomplishment in this regard. As a result, South Korea has surpassed Taiwan in nominal GDP. To make it up before it is too late, Taiwan has to modify its relationship with Mainland China and countries in every part of the world in hopes of building up mutual confidence that leads to the signing of FTAs and eventually returning back to the international economic society.
In the presidential election campaign in 2012, Ma Ying-jeou debated with the DPP candidate Tsai ying-wen. Ma Ying-jeou spoke of going to the world via Mainland China, while Tsai Ing-wen insisted the other way around, going to Mainland China via the world. As evidenced by numerous business cases, a lot of Taiwanese entrepreneurs, after running a successful business in Mainland China, extended their business territory to the Southeast Asia or India, Europe and the U.S.A. for heavy investments in order to better position themselves on the international stage. They helped to substantiate Ma Ying-jeou’s vision of going to the world via Mainland China.

At present, Taiwan has signed Free Trade Agreement with a couple of countries, including New Zealand. This helps to exemplify the fact when Taiwan enjoys a good rapport with Mainland China, it would be easier for Taiwan to attain a breakthrough in the international trade. It is true that the FTA with New Zealand enables New Zealand’s commodities to be processed in Taiwan and then exported to Mainland China to enjoy its huge market. In fact, this is an example of going to Mainland China via the world. However, either going to Mainland China via the world or the other way around, Taiwan is closely related to Mainland China. With the fact that Taiwanese businesses have been operating in Mainland China for a long time, Taiwan’s best economic policy lies in cultivating our advantage to the full extent instead of regarding it as a stumbling block.

4. Taiwan’s Economic Development Policy in the Next Phase

From the above discussions, we understand that Taiwan to Mainland China is just like some small European countries to the European continent. As such, Taiwan should develop a mechanism to enjoy mutual benefits economically with Mainland China and complement each other as what is happening in Europe between the whole continent and its small countries. It is not practical to imagine that those small countries could afford to ignore the cooperation with the continent to enjoy mutual benefits. If logic lies behind this, then we would definitely endorse the idea of developing mutually beneficial economic policy to complement each other. As described earlier, economic rules are free from political interference. In this article, we think that before we talk about economic policies, there is a subject that needs to be addressed. If our idea is leaning toward confrontation instead of cooperation as the DPP adheres to, then all economic policies will be a drop in the bucket, serving no purposes except weakening, isolating, endangering Taiwan’s economy.

If we regard the experiences of those small European countries as successful, then we will think the experiences of the Netherlands, Finland, and Sweden can all serve as an inspiration to our economic transformation in the next phase of development. Take the Netherlands as an example: It has the most important cargo handling ports in Europe. It also serves as a platform for European enterprises to enter the international stage. That concept as reflected in Taiwan’s situation helps us to understand that Taiwan can never be isolated from Mainland China’s economic system. Pursuing mutual benefits, complementing each other in their economic system is the best way to position Taiwan as a platform for logistics, capital flows, and talent flows in the region. In the past, when Mainland China’s economic policies were less open, Taiwan’s status as a platform was much easier to notice. Now that Mainland China has rapidly adopted much open economic policies, Taiwan’s status has therefore become less noticeable. But if the concept of platform is not incorporated in the economic reform during the next phase, then Taiwan will definitely be running away from Mainland China and the regional integration, and thus will isolate itself from the international economy, embarrassing
itself. What we must do is to follow the Netherlands’ model of economic development and liberalize economic activities by lifting restrictions on the movements of human talents, capitals, and commodities. With that, Taiwan can become a platform to Mainland China, regional economies and even major economies in Asia in regard to manufacturing, marketing, and design, a real breakthrough in Taiwan’s economic development.

Next, when talking about economic development, Taiwan should also pay attention to Finland for its educational reform and its success in running a government with high efficiency and transparency. These are good examples for us to notice in our economic development of the next phase. Finland enjoys high ranking in many economic evaluations across the world, especially in running a government of high efficiency, transparency, and free of corruption. In addition, its education and human resource training are also successful examples for Taiwan’s reference.

There is another aspect. Sweden’s development in technology and service industries is also worth noting. Taking the service industry as an example, IKEA’s business model of marketing around the globe can be a valuable reference to Taiwan. Taiwan has long been focusing on trade of the B2B nature, without much accomplishment in B2C. Looking into the future, Taiwan really has to explore the B2C market, particularly in Mainland China. Actually, besides Mainland China, Taiwan also has to look for a breakthrough to tap the B2C market in the newly industrialized nations in Asia.

In short, Taiwan’s economic development policy in the next phase should give more considerations to liberalization, so that it can dovetail with regional or even global economy, transforming itself into a platform in Asia accessible to world-class enterprises. Hopefully Taiwan’s advantage in manufacturing, managing and regional position can be realized to the full extent. Furthermore, in many small European countries, the successful examples in running an efficient government, and nurturing its fruitful service industry can serve as our valuable reference in the development of Taiwan’s next phase.

5. Taiwan and TPP

The Trans-Pacific Partnership (TPP), originally a special arrangement under APEC, was designed to attain some breakthrough in trade among APEC’s member economies. The 2011 APEC Leader’s Meeting, its slogan being “Toward a Seamless Regional Economy”, focused on three main issues: strengthening regional economic integration and expanding trade, promoting green growth, and regulatory convergence and cooperation. With a combined GDP surpassing half of the APEC countries, the TPP—led by the United States, and encompassing countries including Japan—figured prominently in the strengthening of regional economic integration, and will no doubt become an important driving force in the future. Taiwan, being an open economy and an APEC member, will see enduring benefits in national development if it joins the TPP, and thus has a strong will in participating in the free trade negotiations in the organization.

In recent years, a strong push from the US has led to more and more countries joining the TPP. After Japan joined on July 24, 2013, the TPP now counts 12 member nations (the US, Canada, Mexico, Chile, Peru, Malaysia, Singapore, Brunei, Vietnam, Japan, Australia, and New Zealand), with a combined GDP of US$27.56 trillion in 2012, making up roughly 38% of the global GDP for that year. In addition, with a combined population of 800 million, the TPP has
become one of the world’s most influential regional economic integrations, second only to the TTIP, which makes up 47% of the global GDP, and enjoys an even higher leadership position in industry.

In addition to these statistics, the TPP’s “high quality, high standard” agreements will serve to be a model for the 21st century, encompassing traditional tariff issues, eliminating trade tariffs for commodities and services, as well as covering non-tariff issues, including simplifying red tape and customs procedures, thereby enabling a more fluid flow for investments and trade. One of the most important criteria for joining the organization is that tariffs must be eliminated for 95% of all commodities in membership nations, covering approximately 11,000 items across industry, agriculture and textiles.

Current TPP members are all important trade partners with Taiwan. Trade with the P12 countries (including Japan) accounted for 40.1% of Taiwan’s trade value in 2012; for this reason, mutual tariff reductions will not only serve to enhance export values, but also help increase total production values. If Taiwan joins the TPP, it will be a major breakthrough for Taiwan in regional economic integration, since with both ECFA and TPP enacted, Taiwan’s FTA export ratio (i.e. the ratio of exports to FTA nations against total exports) will reach more than 70%, on the same par as other Southeast Asian countries. This will be a phenomenal benefit for Taiwan.

In addition, according to a 2013 study by the WTO, in a global environment where work is highly specialized, Taiwan plays a crucial role in the global supply chain, exporting intermediate goods (such as separate parts) to many countries for assembly into finished products. According to statistics released by the WTO in 2011, Taiwan’s intermediate goods make up 72% of its total exports, higher than the Asian average of 53%, and also higher than Japan’s 56% and South Korea’s 54%; this makes Taiwan, whose exports include many world-leading goods, a key player among major Asian exporting nations.

If Taiwan joins the TPP, it will also be a great benefit for regional integration, helping the regional economies to trade without barriers, and enabling more efficient distribution of resources; in addition, this will also help to grow income levels and the economy in general. The freedom and internalization thus entailed will make Taiwan a gateway to Asia, and a center for global logistics and management, as well as attracting international businesses to come to Taiwan and build upon Taiwanese capital, using Taiwan as a base for widening the Mainland Chinese market and connecting to the Asian-Pacific market.

Furthermore, in the economic integration of Eastern Asia, Taiwan can serve as a key figure in between the ASEAN countries and China, becoming a springboard into China for companies around the world. In addition to serving as a key connector between developed and developing TPP nations, Taiwan can also assist developing TPP economies by providing capital, technology, and investments, creating tangible gains for all.

Indeed, some related studies substantiate the above statements. According to Peter Petri and Michael Pummer’s 2012 study, the Free Trade Area of the Asia Pacific (FTAAP) is better than the Trans-Pacific Partnership (TPP) or the Regional Com-prehensive Economic

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3 WTO(2013), Global value chains in a changing world.
4 WTO(2011), Trade patterns and global value chains in East Asia.
Partnership (RCEP) in terms of income and export creating effects globally. Taiwanese scholars Hsu Bor-hsiang and Kuo Nai-feng also claim in their 2013 study that Taiwan’s admission to TPP can benefit its members in a positive way, as well as help boost their export growth.

All the above studies show that Taiwan’s admission to TPP’s free trade agreement can fortify its relationship with key trading partners of free economies in Trans-Pacific. Further to improving its trades and investments among developed economies, it will also help promote the economic development among developing economies. We strongly believe that after Taiwan becomes a TPP member, it certainly will turn out to be one with the most creativity and contribution.

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Reference


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