Taiwan at a Crossroads

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It gives me extreme delight at being here with you today. At the outset, I would like to express my profound thanks to the organizers of this gathering, University of Wisconsin's East Asian Legal Studies Center and Taipei Economic and Cultural Office in Chicago, for their touching gesture to welcome me being part of the University of Wisconsin-Madison Law School. I greatly appreciate the kind words from Professor Ohnesorge, and especially would like to pay tribute to my old friend, Professor Chuck Irish, not only for his gracious introduction today but also for his most touching friendship, which has been lasting for more than fifteen years. Last but not least, I would also like to register my most sincere thanks to you all for being here today.

Having been accorded with such a great honor, I'm delighted to reciprocate by giving a talk. In light of my former capacities as Taiwan's Finance Minister from 2000 to 2002 and Taiwan's first Ambassador to the WTO from 2002 to 2005, I consider it to be both a unique privilege and a most welcome task to share with you my observation on Taiwan's current economic status, with some emphasis on the relations between Taiwan and the United States.

In 2000, due to the first-ever political transfer in Taiwan, I already decided to leave the government because of being Deputy Finance Minister, a political appointee. I still vividly remember Chuck flew to Taipei on April 5 just after the presidential election on March 20. After knowing my plan to depart the government, Chuck greatly moved me by offering me a place at University of Wisconsin Law School. However, to my surprise, by the end of April, Chuck flew to Taipei again to urge me to stay for the new administration. Based on his belief that Taiwan's financial market was still in a fragile state due to the impact from the Asian Financial Crisis, Chuck strongly suggested me to accept the invitation from the incoming new administration. He was also very generous to let me know then that his previous offer for me would stand valid all the time.
Another surprise to Chuck and me was my appointment to be the Finance Minister four months later. It seems to me Chuck was very proud of his suggestion to me for I, in the capacity as Finance Minister, embarked on the first-ever financial reform in Taiwan's history. So ladies and gentlemen, instead of coming to Madison to cash my check which was issued by Chuck thirteen years ago, I would say I came here today to reciprocate Chuck's longtime touching friendship to me. Whenever there’s a chance for me to describe our friendship, I would always refer to the following: “Though miles may lie between us, we’re never far apart, for friendship doesn’t count by the miles, it’s measured by the heart.”

As for Baushuan, the Director General of the Taipei Economic and Cultural Office in Chicago, I have fond memories working with him in Geneva. Together with some other colleagues, Taiwan's delegation to the WTO had distinguished itself by the quality of its taking part in the negotiations on the Doha Round. Just within a short period of time, we have been highly recognized by the other delegations in Geneva. For this, I would like to take this opportunity to once again express my profound thanks to Baushuan, an outstanding trade diplomat.

Ladies and gentlemen, before going any further, I would like to begin with something once said by Sir Winston Churchill, whom I’ve always admired: "An optimist sees an opportunity in every calamity; a pessimist sees a calamity in every opportunity." In this regard, being neither an optimist nor a pessimist, I consider myself a cautious optimist. Therefore, based on this conviction, I will try my best to provide you with an overall picture and balanced information on Taiwan's economy now and beyond, and my talk today is entitled "Taiwan at a Crossroads."

Literally speaking, the word "crossroads" has a twofold meaning. First, it is a place where two roads meet and cross each other. Second, it is a time when someone has to make very important decisions that will affect their future. As such, this word vividly encapsulates where Taiwan currently stands and any decision made now will create a ripple effect on the future of Taiwan's economy.
Current Economic Status of Taiwan

So to know which direction to take while standing at this crossroads, it is important to have an idea of what Taiwan's economic status is like at present first.

Taiwan has been a dynamic capitalist economy, with foreign trade being the engine for Taiwan's rapid growth during the past five decades. In so doing, Taiwan has successfully transformed itself from an underdeveloped, agricultural island to an economic power that is a leading supplier of high-tech products. Over the years, Taiwan has been the world's largest producer of computer monitors, and leader in PC manufacturing, although now much of the final assembly of those products occurs overseas, typically in China. Exact figures are rather difficult to obtain, however, more than one million Taiwan people are estimated to be residing in China, and more than 70,000 Taiwan companies have operations there. I will further elaborate on this phenomenon later.

In 2003, China supplanted the United States as Taiwan's largest trading partner, reflecting the outcome of continued increase of Taiwan's investment in China. In 2012, China together with Hong Kong accounted for over 28% of Taiwan's total trade and 39% of Taiwan's exports. Japan ranked Taiwan's second-largest trading partner with 11.6% of total trade, including 17.6% of Taiwan's imports. The United States is now Taiwan's third-largest trading partner, taking 10.9% of Taiwan's exports and supplying 8.7% of its imports. In 2012, Taiwan was the United States' eleventh trading partner.

Ladies and gentlemen, you may probably be well aware, Taiwan is the 17th largest economy, 14th largest exporter and 16th largest importer in the world. With respect to its economic freedom, Taiwan ranks the 20th freest in the world in the 2013 Index, the 5th out of 41 economies in the Asia-Pacific region. Furthermore, in spite of hugely channeled invested capital into China, Taiwan has been a longtime creditor economy, holding the world's fourth-largest stock of foreign exchange reserves which amounted to more than $400 billion as of July this year.
After sharing with you the current economic status of Taiwan, I trust you would allow me to have a glow of pride if I draw a conclusion as follows: In Taiwan, the private sector benefits from a well-developed commercial code, and open-market policies that facilitate the free flow of goods and capital. Small- and medium-sized enterprises have always been the backbone of Taiwan's dynamic economic development.

In addition, I would like to bring to your attention that the soundness of policy planning in the areas of fiscal and tax measures, and economic development strategies etc., also played an important part in the past history in Taiwan.

Taiwan's Challenges Ahead

As described at the very beginning of my talk today, I consider myself a cautious optimist instead of purely an optimist or a pessimist. So, having shared with the encouraging signs of Taiwan's economy, I would now like to bring to your attention of my views on Taiwan's challenges ahead.

First, I trust you can vividly recall what I mentioned earlier, the huge outbound investment from Taiwan to China has caused more than 70,000 Taiwan companies having operations in China. As a result, private investment in Taiwan has been sluggish in recent years; the level of foreign direct investment (FDI) is also woefully below the average compared with most other countries in the Asia-Pacific region.

Based on my longtime working experience at the Ministry of Finance, I have no hesitation in pointing out that the continued capital formation especially by virtue of private investments has always been the most important driving force of economic development. Without ample flow of capital injected into private investment, either from local or foreign sources, Taiwan's economy will experience a bumpy ride if not a total dismal outcome. In this connection, we must never lose sight of the aforementioned fact that more than a million Taiwanese people are residing in China because of doing business there. Relatively better in spending power, however, those people simply contribute little, if any, to the level of consumption in Taiwan, a vital part of economic growth.
Second, Taiwan used to be referred to as one of the dynamic four "Asian Tigers," not to mention Taiwan's unique experience in remaining relatively unscathed during the 1997 to 1998 Asian Financial Crisis when I served as Deputy Finance Minister to tackle all the unwelcoming situations. However, it has been rather disappointing to see in recent years, Taiwan's wage levels have been weak, and more and more young people in Taiwan are worrying about their future. As a ranking official who handled Taiwan's policies during the Asian Financial Crisis and in the aftermath to sharpen Taiwan's competitive edge, I cannot help but to despair.

Third, Taiwan has been a WTO Member since November 2001, thanks to the great support from the United States. Having said this, Taiwan's experience in acceding to the WTO was certainly not a pleasant one, for which Baushuan would certainly agree with me. Anyway, let bygones be bygones. I would not once again navigate the deep and storming waters of history in terms of Taiwan's acceding process here today. Well, ladies and gentlemen, as we know, the stalemate of the Doha Round of Trade Negotiations of the WTO has triggered the "mushrooming" of the free trade agreements (FTAs) among some WTO Members. As for Taiwan, the most eye-catching example would be President Ma Ying-jeou's effort to complete the signing of the ECFA with China in June 2010, which is an FTA by virtue of the trade rules of the WTO.

President Ma deserves to be congratulated on his endeavors not only to reduce the tension but also to enhance cooperation between the two sides across the Taiwan Strait. In addition, President Ma has also prioritized his policy to engage in more negotiations on FTAs with some other countries – the FTA negotiations with New Zealand, which was just completed in July this year and that with Singapore, which seems to approach the finishing line soon. However, based on my working experience in Geneva as Taiwan's first Ambassador to the WTO, I have to point out that the policy-making in this regard would be a very challenging one, due to its far-reaching effect on Taiwan's future economic development.

Last but not least, given the latest statistics show that China and Hong Kong accounted for about 40% of Taiwan's total exports; and 70% of
Taiwan's outbound investment went to China. In this connection, allow me to share with you an IMF study published in July last year, regarding the possible impact on China's trading partners should it encounter a one-percentage-point economic slowdown. In the analysis, the IMF concluded that should China's investment be reduced by 1%, Taiwan's economic growth would consequently be reduced by 0.9% -- the highest among all China's trading partners. The IMF study once again reminded us of the saying "don't put all your eggs in one basket," an irrefutable truth that has been passed down for so many generations. So, standing at this crossroads, I have to stress that Taiwan simply cannot afford the luxury of postponing a proper "think-through" in taking the direction to complete the ECFA.

Roadmap for Taiwan's Future Development

Having shed some light on Taiwan's current economic status and some of Taiwan's major challenges, I would now like to draw a possible roadmap for Taiwan's future development. Without a crystal ball in place as an aid, based on my working experiences as Finance Minister and Taiwan's Ambassador to the WTO, however, I have some confidence in pointing the path leading to a new bright future for Taiwan. In this regard, I trust the following four routes will put Taiwan back on the right track so as to ensure its long-term prosperity.

Route No. One: Taiwan's government is in urgent need of changing the policy direction from "Made by Taiwan" to "Made in Taiwan." While recognizing the choice of the private sector to find cost-effective sites for conducting manufacturing, Taiwan's government has to be aware of the great importance of attracting inbound investment from both foreign and domestic sources. I would like to take this opportunity to express my tribute to the United States for its standing as the largest foreign investor in Taiwan, in particular, in the finance, insurance, manufacturing, and wholesale trade sectors. However, I have to point out that, Taiwan has been losing the momentum for being an industrial powerhouse due to the ever-increasing outbound investment, with its ensuing effect of losing attractions for foreign investment. It comes as no surprise that as high as more than fifty percent of Taiwan's total exports have been supplied by
the manufacturing sites overseas for some time. Rather to my embarrassment, our government seems to be quite happy with the economic power shown by "Made by Taiwan," without knowing the adverse impact of it.

Route No. Two: Taiwan's government has to fully respect the functioning of market mechanism. As a matter of fact, market mechanism has been the cornerstone not only in advancing economic progress for developed countries, but also in supporting the operations of the GATT/WTO trading regime for more than sixty years. Market mechanism might have some defect like all the human system, but there are no other better options for promoting economic efficiency, which is so vital to the overall development of any country. Furthermore, looking back at the "economic miracle" achieved by Taiwan in the past several decades, among other things, I would like to emphasize that the superior quality of its "comparative advantage" was the key to Taiwan's success. I therefore strongly advocate that Taiwan has to fully live up to the functioning of market mechanism, so as to ensure the best policy for its long-term economic development.

In this regard, I urge that second thought should be given to the current privatized measures taken by our government. In other words, although the previously state-owned enterprises have been "privatized" for some time, their ownerships, unlike the common practice prevailing in most of the countries, are not 100% transferred to the private sector. Through the status of single largest shareholding, the government continues to dominate the board of directors of those privatized companies in financial and non-financial areas. More strikingly, those companies currently have become the notorious hurdles for the much-needed consolidation if we pay attention to the widespread global trend.

In this connection, I would like to share with you that in my former capacity as Finance Minister, to provide Taiwan's financial sector with the legal framework for consolidation in accordance with market mechanism, I have completed the enactments of the Merger Act of Financial Institutions and Financial Holding Company Act. The lack of meaningful consolidating cases achieved in recent years fully reflects that our government is in need of some second thought on the continuation of
such important policy.

Route No. Three: Taiwan's government can no longer be afforded the luxury of not conducting a proper "think through" about the priority of its trade policy. Ladies and gentlemen, during my time in Geneva, I strongly advocated that the Taiwan government should take a more positive attitude towards multilateral trade negotiations. One of my underlying reasons was that the bilateral or regional approach through the signing of FTAs or RTAs simply cannot solve the problems arising from international trade. I always hold the view that Taiwan's competitiveness lies in its further integration globally. As previously mentioned, although China has already become, and will continue to be, a very important trading partner from Taiwan's perspective, Taiwan should not regard China as the one and only market, and should beware of hinging its economy too closely to all the possible future ups and downs in China, as clearly indicated by the abovementioned IMF study.

Worthy of mention here today is the "2013 Taiwan White Paper" presented by the American Chamber of Commerce in Taipei: "It is not in the economic or political interest of either Washington or Taipei to see the Taiwan economy drawn ever closer to that of China. Both governments should welcome the opportunity to strengthen the U.S.-Taiwan economic relationship, both for its own sake and to provide Taiwan with a counterbalance to the pull toward overdependence on the mainland." Ladies and gentlemen, I would like to support the view that closer economic links with China could bring greater opportunities for the Taiwan economy. However, such a development would also pose new challenges as Taiwan becomes more economically dependent on China while political differences between two sides of the Strait remain unresolved.

In this regard, I would like to share with you the National Day Address by President Ma in 2009. I quote as follows: "We have never overlooked the military threat posed by Mainland China .... our foremost guiding principle in addressing cross strait issues is to safeguard our national sovereignty." Having said this, I trust you all would agree with me if I say that we need to come up with some magic formulas for the current economic and political situation between Taiwan and China.
Besides maintaining its unreserved support to the multilateral functioning of the WTO, Taiwan is advisable to consider seeking to enter the Trans-Pacific Partnership (TPP) to be its best option. Without going into too much detail, Taiwan's taking part in TPP would be the equivalent of an FTA not just with the United States, but with a dozen countries. Since this is a matter of mutual interest between the United States and Taiwan, I would strongly encourage the United States and Taiwan to adopt an ambitious target to work on together, spurring our two countries to carry the economic relationship to a new level of cooperation. In this regard, I have every confidence that, a highly prestigious university like Wisconsin-Madison, what we discuss here today will certainly create a much-needed ripple effect on the policy-makings in Washington D.C.

Route No. Four: Taiwan's government has to restore its fiscal soundness as soon as possible. While serving as Taiwan's Finance Minister some ten years ago, I had always enjoyed the fond memories of sharing the successful story of Taiwan's fiscal status on so many international occasions. I am one who believes that government spending should be controlled at a reasonable level. However, I was rather sad to learn from the latest figures that Taiwan's current fiscal status appears not as healthy as some Taiwan's ranking officials emphasized. As a matter of fact, the good old days would no longer appear again from the perspective of Taiwan's fiscal status.

In Taiwan, apart from the Ministry of Finance, the National Audit Office is a competent authority for overseeing and auditing the government's spending in Taiwan. According to their statistics, by the end of 2011, if we add up both central and local governments' debt, and the "contingent liabilities," the total debt of the Taiwan government would amount to 156% of the average GNP of the previous three years. In January this year, on one occasion I was invited to give a talk entitled "What Lessons Taiwan Can Learn from the European Debt Crisis." I raised a question to the audience, which deserved some food for thought, namely should Taiwan step into the storm of financial crisis due to a national debt problem, who would come to our rescue? Can Taiwan expect any country to lend a hand? Due to the lack of other options, I therefore strongly urged on that occasion, Taiwan's government should take every effort to secure a healthy fiscal status. Here today in Madison, I would reiterate
my points again because Taiwan's fiscal capability remains in a rather alarming state.

Conclusions

Ladies and gentlemen, as a responsible citizen in the international community and a most loyal friend to the United States, Taiwan needs to work closely with the United States and engage further with other trading countries under the frameworks of the WTO. In other words, Taiwan has to undertake every possible measure to sharpen its competitive edge, with the hope to sustain its long-term economic development.

In closing, I thank you, everyone, especially Professor Ohnesorge, Professor Irish and Director General Ger, for giving me the opportunity today to share with you my thoughts and personal experiences of Taiwan's economic development, and its implications on future Taiwan-US economic relations. While once again thanking you for your kind attention, I would greatly welcome any questions and comments you might have.