

# The Future is Now for a U.S.-Taiwan Free Trade Agreement

By I. P. L. PNG

LOS ANGELES - Despite its diplomatic isolation and lack of natural resources, over the last 40 years, Taiwan has propelled its economy from the Third World into the elite bracket of "newly industrializing countries," alongside Hong Kong, Singapore, and South Korea. In 1970, Taiwan's per-capita gross national product was one-third that of Greece's; by 1989, it was 40% higher. Recently, McDonnell Douglas disclosed that it had reached preliminary agreement to sell 40% of its civil air-frame subsidiary to Taiwan Aerospace, an indication of the growing sophistication of Taiwan's business sector.

The basis of Taiwan's economic success is an efficient export sector that is flexible enough to respond quickly to changes in market conditions. For instance, although the New Taiwan dollar appreciated by one-third against the U.S. dollar and labor costs rose by a similar factor between 1983 and 1990, exports doubled in real terms.

Taiwan's development has been paralleled of late by political progress. Under Chiang Ching-kuo, son of Chiang Kai-shek and president from 1978-88, the Kuomintang government in Taiwan substantially opened up the political system. The government legalized opposition political parties, ended 38 years of martial law, and conducted open (if partial) elections for the Legislative Yuan and National Assembly. This weekend's election is another step in Taiwan's continuing progress toward peaceful democratization.

Two dark clouds hang over this otherwise bright outlook: the future relationship between Taiwan and mainland China, and the rumblings of an independence movement.

After Britain hands Hong Kong over to the People's Republic of China in 1997, Beijing's attention will doubtless turn to Taiwan. Beijing has been committed to re-

covering Taiwan ever since the Nationalists fled to the island in 1949. Indeed, the preamble to the Chinese Constitution states, "It is the inviolable duty of all Chinese people, including our compatriots in Taiwan, to accomplish the great task of reunifying the motherland." That Taiwan is an integral part of China is one of the few issues on which the governments in Beijing and Taipei agree, but the prospect of the Chinese communists taking a keen interest in the affairs of Taiwan is not appealing to anyone.

Partly in response to the unpleasant prospect of absorption by Beijing and doubtless motivated by recent events in the Baltics, there is growing popular sentiment in Taiwan to declare an independent republic. Taipei, and more importantly, Beijing, have both issued severe warnings against the Taiwan independence movement. The day after the opposition Democratic Progressive Party endorsed Taiwan independence in October, the Taipei stock market dropped more than 5%. This is just one indication of how sensitive the Taiwan economy is to these political uncertainties.

As the world's foremost military and economic power, the United States is in a position to ensure that Taiwan's economic and political progress will continue. The U.S. could signal its commitment to Taiwan's free-market democracy in a powerful and tangible way by proposing a free-trade agreement with Taiwan, like the one already in effect with Israel. Under such an agreement, each economy's exports to the other would be exempt from tariff barriers.

From a purely economic standpoint, the U.S. stands to gain in the short term because Taiwan maintains relatively higher tariffs and other trade barriers. For instance, until recently, Taiwan restricted imports of automobiles through quotas that protected six domestic manu-

facturers, each one too small to compete efficiently in the global marketplace. An FTA would require Taiwan to lift all restrictions on imports of American automobiles.

Nor would there be any question of jeopardizing the jobs of lower-skilled workers, as some have argued will happen if the U.S. signs the proposed free-trade pact with Mexico. Wages in Taiwan are already high; entrepreneurs have been systematically shifting labor-intensive production offshore—to mainland China, Thailand, Malaysia, and Indonesia. Indeed, Taiwan ranks among the top sources of foreign investment in each of these countries.

What's in an FTA for Taiwan? First, it would guarantee access to its most important export market, the U.S., on the most favorable terms. Furthermore, an FTA with Taiwan would signal the U.S. commitment to Taiwan's future and help to calm the jitters that presently trouble it. Many Taiwanese students now in the U.S., for example, would rather take mundane jobs in America than much more-challenging ones at home just so they can secure a safe haven for themselves and their families. An FTA would help Taiwan to retain its well-educated and industrious population.

Taiwan's economic performance has earned it world-wide respect, if not political recognition. By extending free-trade status to Taiwan, the United States can signal a vote of confidence in its future without infringing on any commitments to Beijing. Economically and politically, a free-trade agreement would be an excellent investment for both the U.S. and Taiwan.

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*Mr. Png, associate professor of management, teaches international economics and pricing at the John E. Anderson Graduate School of Management at UCLA.*