

Reunification by trade?

A plethora of free-trade deals is driving Taiwan closer to China.



Illustration by Claudio Munoz

Free-trade agreements (FTAs) are often contentious but rarely would one have as much strategic significance as that proposed between China and Taiwan. On July 29th Taiwan's president, Ma Ying-jeou, elected last year on a platform of liberalising business restrictions and easing military tensions with the mainland, said a China-Taiwan trade pact should be signed as soon as possible. The two sides have quietly concluded months of unofficial negotiations and Taiwan's economy minister, Yiin Chii-ming, says he wants formal negotiations to start in October. The island is in a hurry.

Mr Ma is willing to take the political risk of tying a self-ruled democratic island economically to its giant authoritarian neighbour because of the rest of the world's craze for free-trade deals. Taiwan has diplomatic relations with 23 countries. Most nations recognise China and fear to sign FTAs with Taiwan lest they incur China's wrath. Already, says Huang Chih-peng, the director general of Taiwan's Bureau of Foreign Trade, the world's 230-odd bilateral or multilateral trade pacts are harming the export-dependent island's economy.

Mr Ma is even more worried about what will happen next year when trade agreements between China and the Association of South-East Asian Nations—so-called ASEAN+1—take effect. Taiwan's exports to China face tariffs ranging from 5% to 15% and its government fears that, unless they are lowered, the island will be left at a competitive disadvantage in the giant Chinese market. This disadvantage would greatly worsen if a planned ASEAN+3 were one day signed, embracing South Korea and Japan.

Economic benefits, political costs

A think-tank commissioned by the government said the proposed pact could increase Taiwanese GDP by 1.65-1.72%—more if services and investment were included. In addition, it argued, the pact could increase foreign direct investment by \$8.9 billion in seven years and create around 260,000 jobs (though other economists said this was too high). The president wants an outline agreement in place before ASEAN+1 comes into force, with the details worked out and implemented bit by bit after that. An incremental approach, officials say, is needed because an immediate FTA would be too disruptive to Taiwan's economy.

Disruptive is right, but not perhaps mainly to the economy. China still asserts that Taiwan is an integral part of the People's Republic. Many Taiwanese, including the pro-independence

opposition party, fear that the proposed accord is really a ploy by China to bring about unification by stealth. They also argue that once the pact is signed, there is no guarantee that China will not lean on members of other FTAs to keep Taiwan out anyway. In contrast, Mr Ma insists that the proposed pact would make it easier for Taiwan to sign free-trade accords with third parties.

"It is a suicidal policy that makes Taiwan locked into China," says Huang Kun-huei, the chairman of the pro-independence Taiwan Solidarity Union. In a sign of the popular unease raised by the pact, the opposition Democratic Progressive Party, which has virtually no parliamentary clout, still managed to collect over 120,000 signatories to a petition asking the government for a referendum on it (though Taiwan's high threshold for referendum participation means that such a thing may not get off the ground).

In fact, dramatic political shifts seem unlikely in the short term. Mr Ma has promised that when the deal is negotiated, the wording will not compromise the island's political stance. And China-watchers think the increasingly sophisticated government in Beijing is not likely to make heavy-handed political demands in case this rebounds on Mr Ma and he is voted out of office in 2012 (the Chinese much prefer him to the independence-minded opposition). Nevertheless, in the long run China hopes that economic interdependency and goodwill will eventually encourage the island to return to the fold. The trade pact will be a test of whether that hope can be fulfilled.

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