

The Politics of Free Trade on Taiwan

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The Observation

- Taiwan is trailing way behind its major competitors, in particular South Korea, over expanding its network of free-trade agreements.
- Ma Ying-jeou' s agenda for speeding up the FTA negotiations with mainland China and neighboring countries has encountered many road blocks and moved at a frustratingly slow pace.
- It will be a tall order for Taiwan to conclude a high-quality FTA trade agreements such as TPP in the foreseeable future.

Taiwan vs. South Korea

- In 2010, when Taiwan signed the ECFA with mainland China, the Blue House convene an emergency meeting to map out the strategy to catch up.
- Since then, South Korea has wrapped up FTA with the United States and EU and its FTA talk with PRC proceeded in earnest. More than 35% of its export is enjoyiing zero tariff under FTA while only 5% of Taiwan' s export is covered by FTA.

The Diagnosis

- There is formidable social resistance to trade liberalization with a majority of Taiwanese people experiencing wage stagnation and inadequate social safety net.
- The government was not able to foster a cohesive pro-free-trade coalition, nor to placate the potential losers with material side-payments or moral persuasion.
- In a vacuum of steering leadership, the gravity of the decision-making power has shifted from the executive branch to the LY.
- The LY is infested with surrogates of single-issue interest groups. As a result, the decision-making process became very fragmented and there are too many veto players standing in the way.

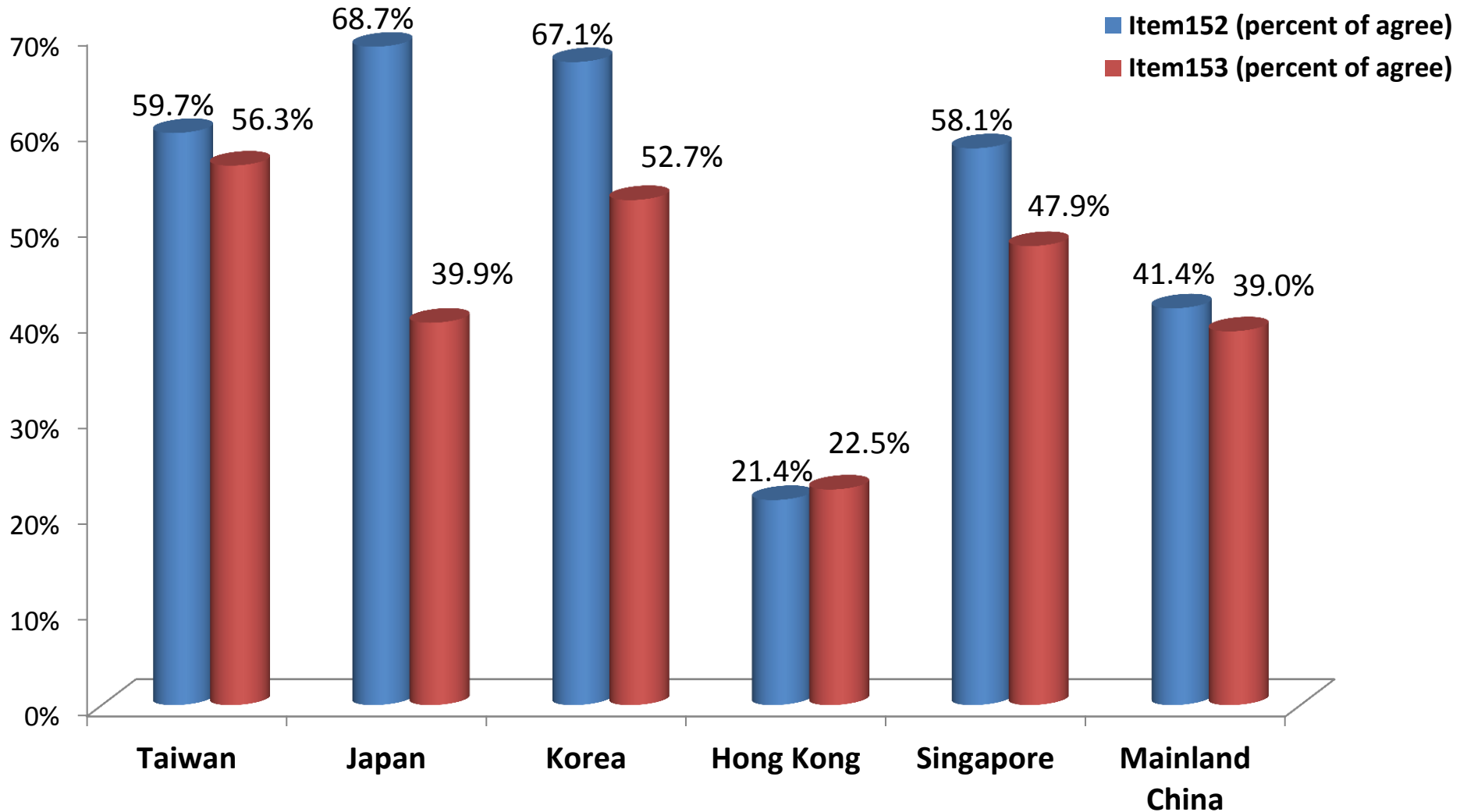
Figure 1. International Comparison

Source: Asian Barometer Survey Wave III

N=Taiwan(1592); Japan(1880); Korea(1207); Hong Kong(1207); Singapore(1000); Mainland China(3473)

Item152: We should protect our farmers and workers by limiting the import of foreign goods

Item153: Foreign goods are hurting the local community



Constituency of Protectionism

- A great majority of Taiwan's citizenry had a rather disparaging assessment of Taiwan's economic condition.
- Most people experienced years of income stagnation and widening gap between the rich and poor.
- Only urban residents with higher level of education or higher income support trade liberalization.
- The Green-camp followers are predominantly protectionists.

Figure 2. Assessing National Economic Condition/Support for Protectionism (A)

Source: 2010 ABS Taiwan Survey; N=1592

Item1: How would you rate the overall economic condition of our country today? Is it...

Item152: We should protect our farmers and workers by limiting the import of foreign goods

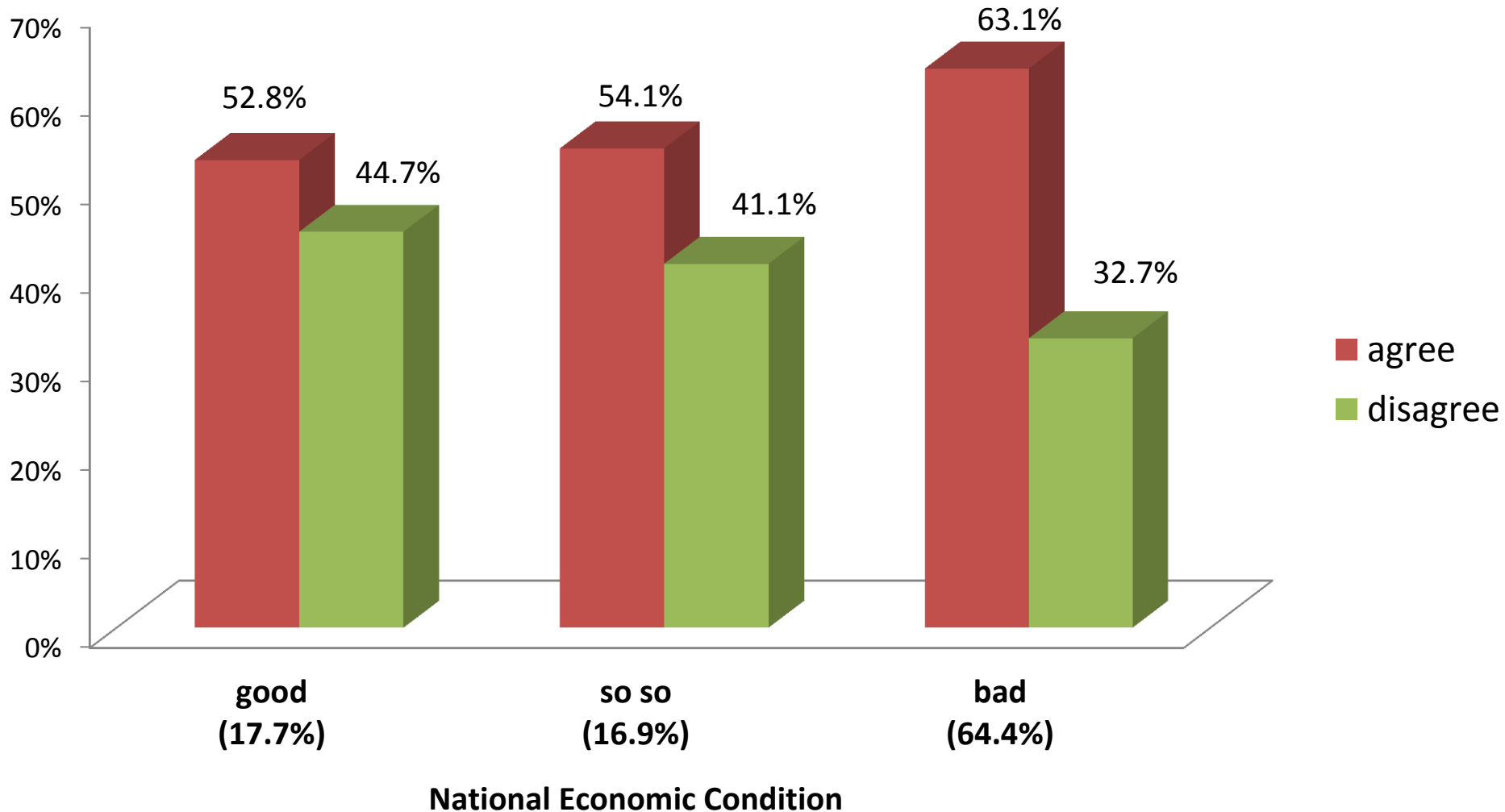


Figure 3. Assessing National Economic Condition/Support for Protectionism (B)

Source: 2010 ABS Taiwan Survey; N=1592

Item1: How would you rate the overall economic condition of our country today? Is it...

Item153: Foreign goods are hurting the local community

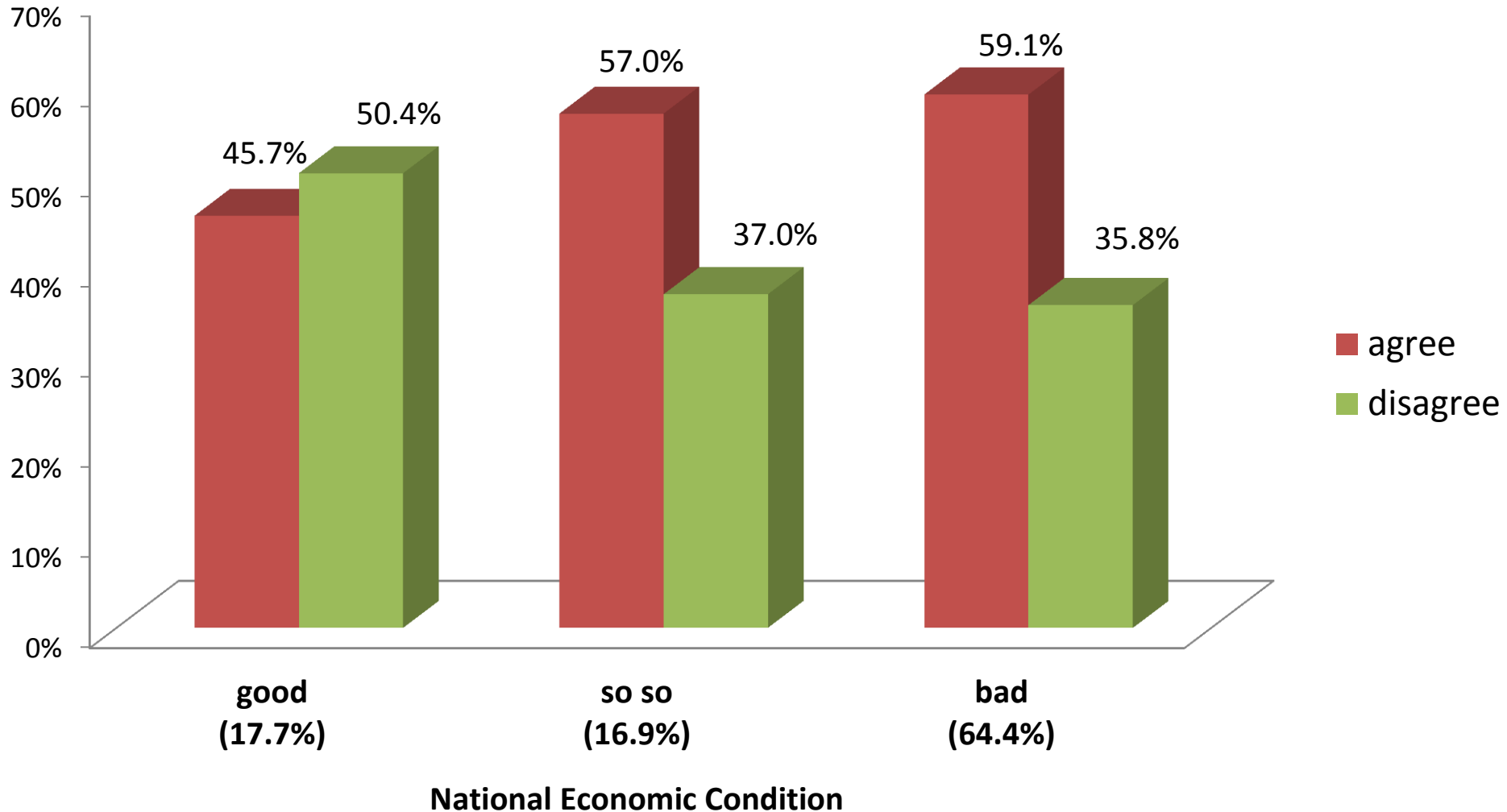


Figure 4. Education/Support for Protectionism (A)

Source: 2010 ABS Taiwan Survey; N=1592

Item152: We should protect our farmers and workers by limiting the import of foreign goods

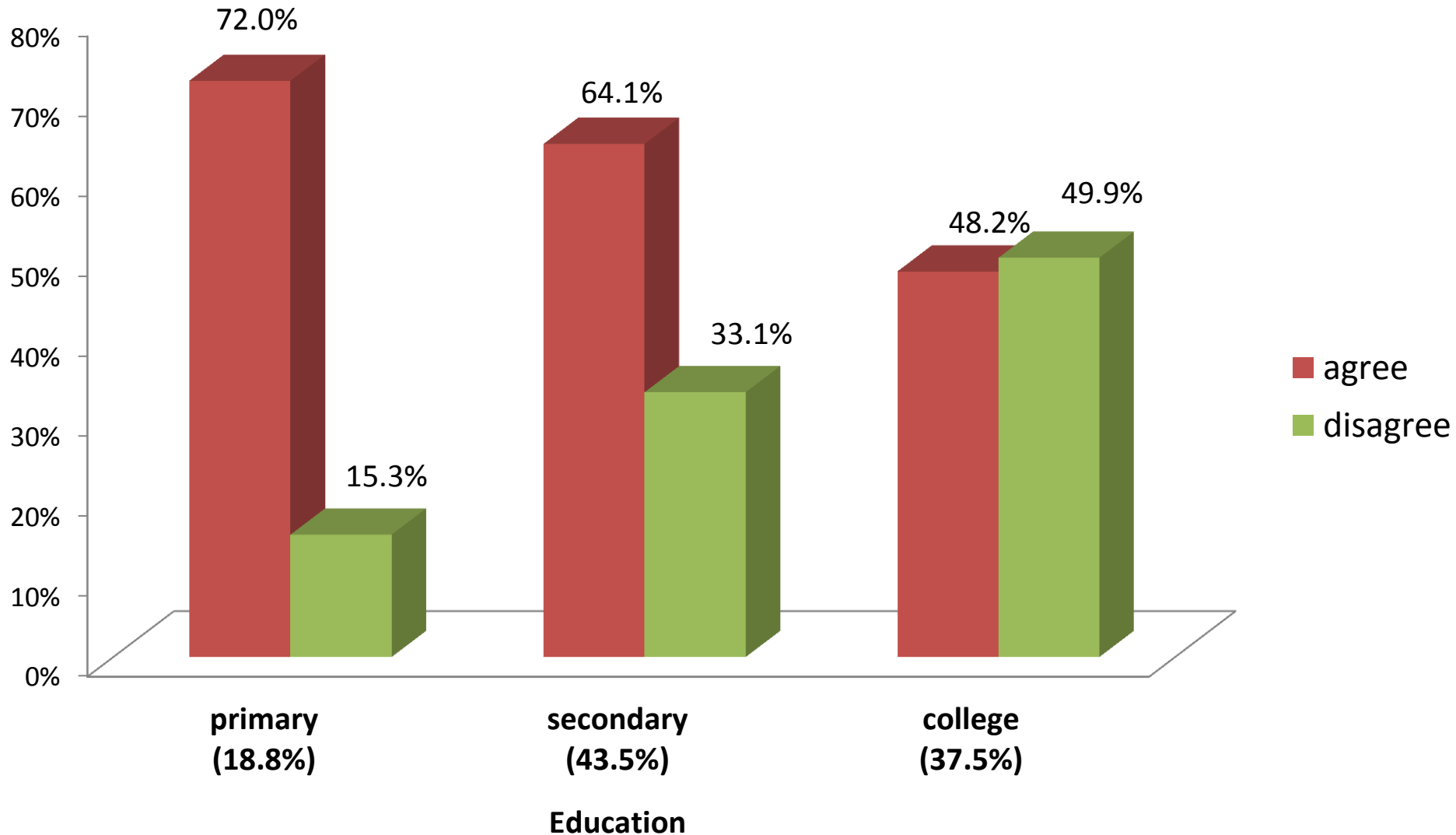


Figure 5. Education/Support for Protectionism (B)

Source: 2010 ABS Taiwan Survey; N=1592

Item153: Foreign goods are hurting the local community

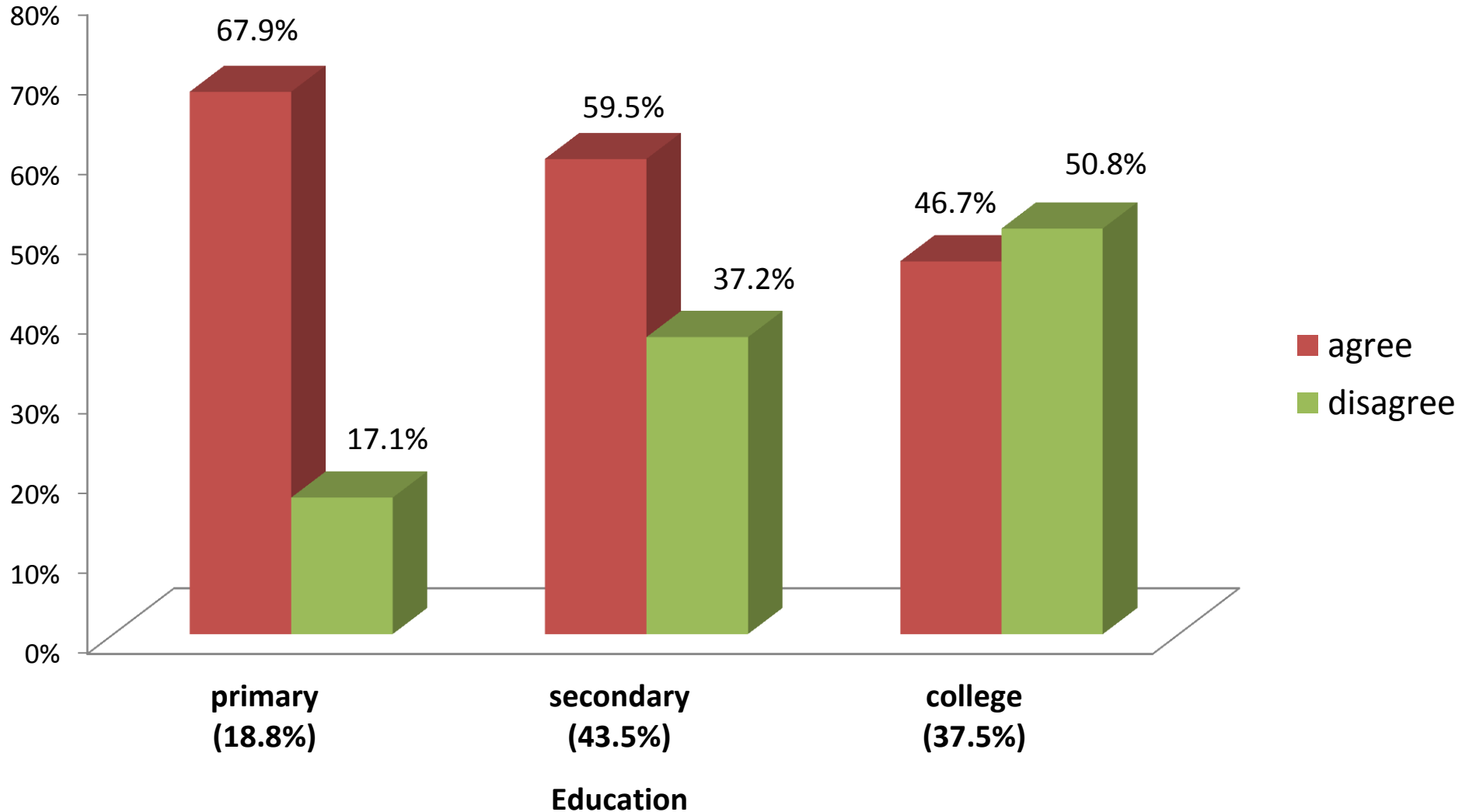


Figure 7. Partisanship/Support for Protectionism (B)

Source: 2010 ABS Taiwan Survey; N=1592
Item153: Foreign goods are hurting the local community

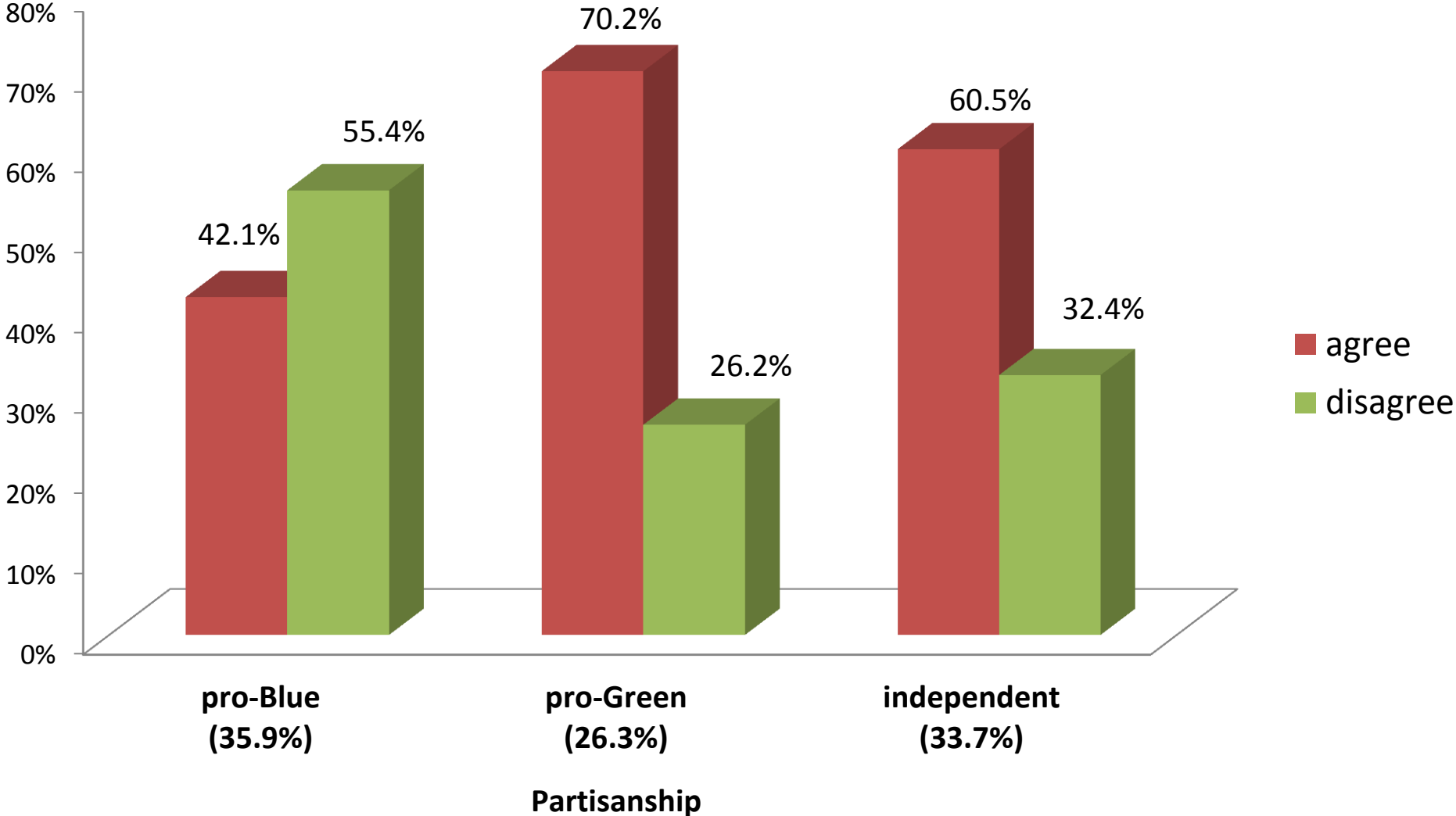


Figure 8. Income/Support for Protectionism (A)

Source: 2010 ABS Taiwan Survey; N=1592

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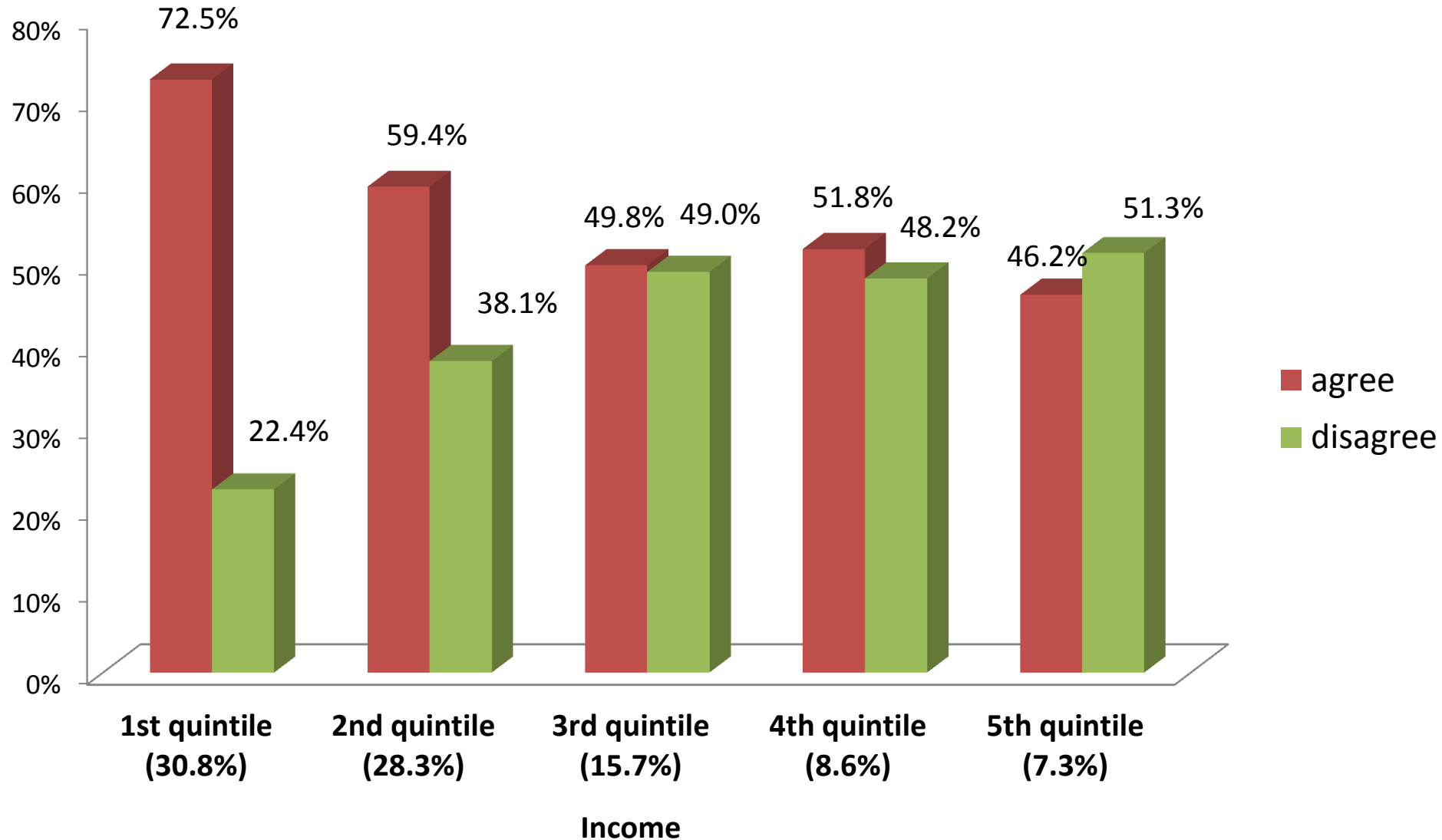


Figure 9. Income/Support for Protectionism (B)

Source: 2010 ABS Taiwan Survey; N=1592

Item153: Foreign goods are hurting the local community

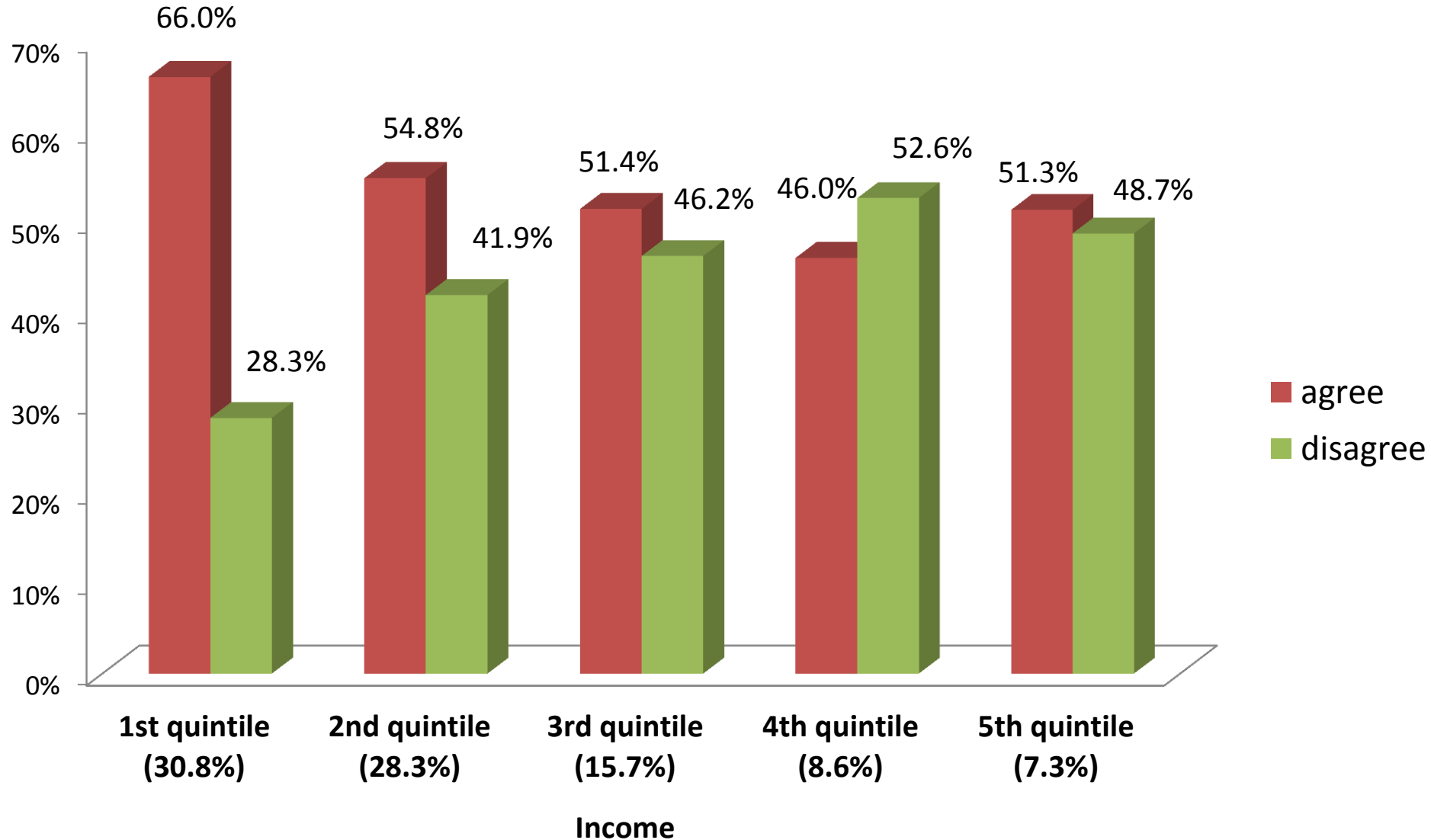


Figure 10. Urbanization/Support for Protectionism (A)

Source: 2010 ABS Taiwan Survey; N=1592

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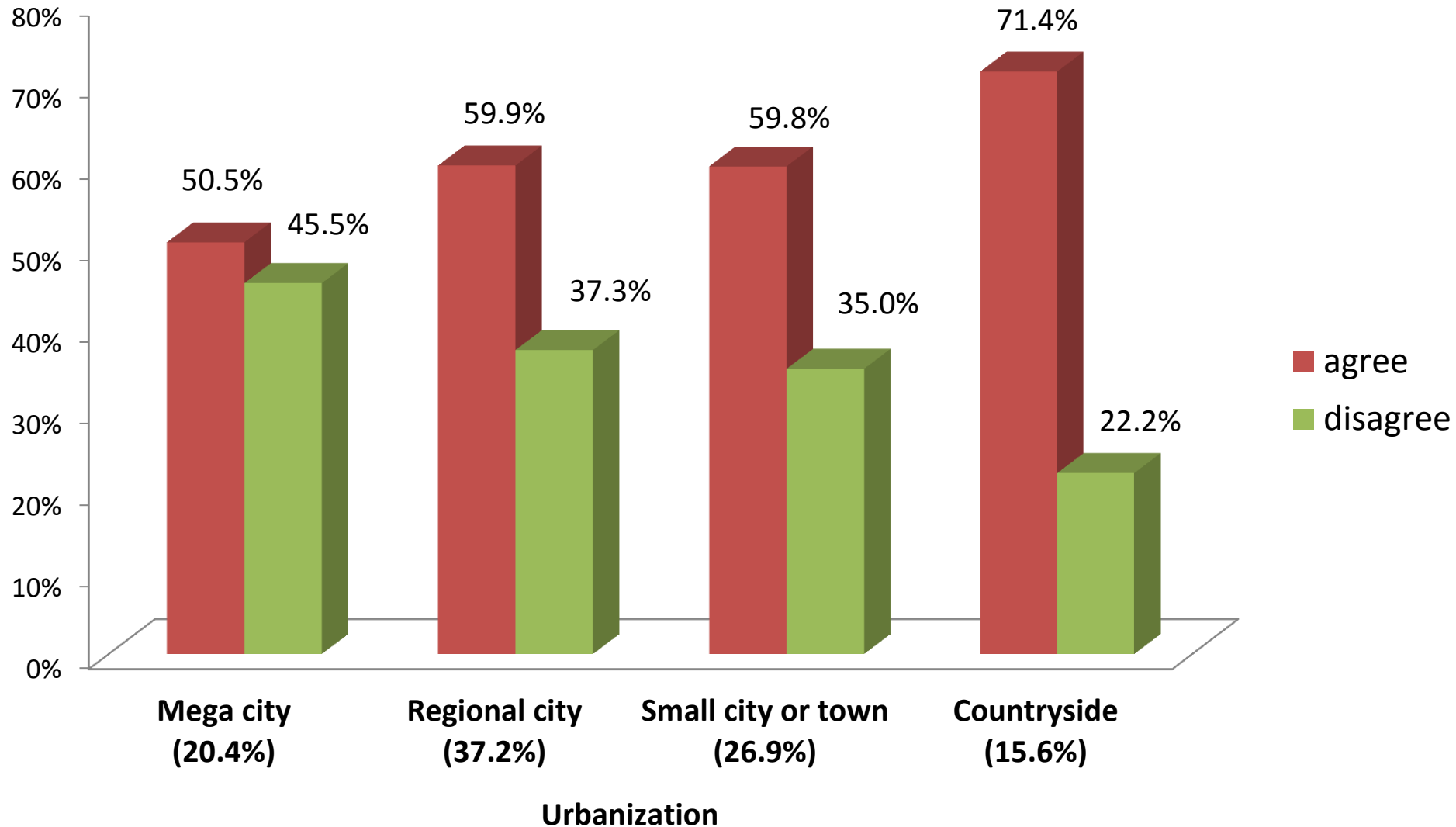
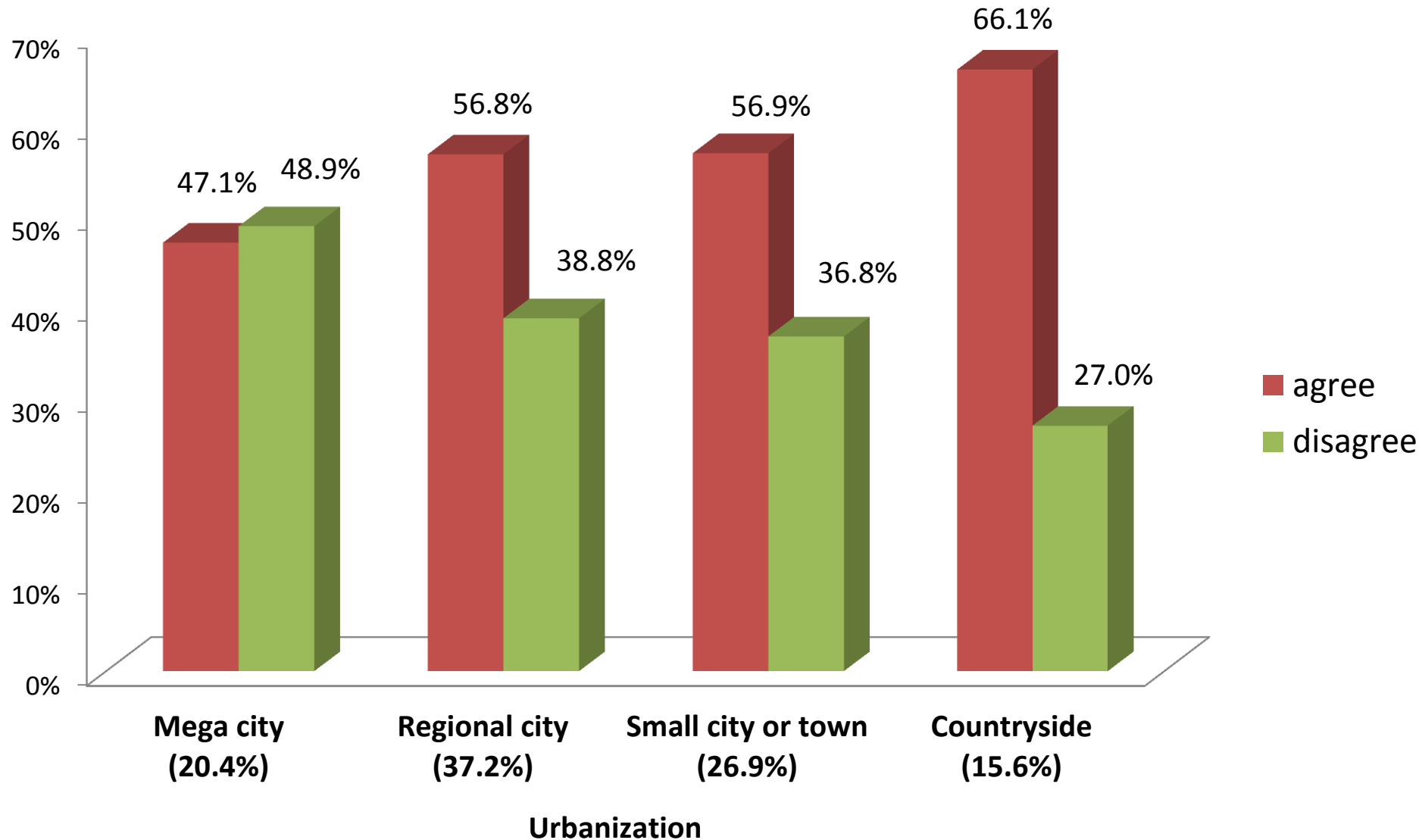


Figure 11. Urbanization/Support for Protectionism (B)

Source: 2010 ABS Taiwan Survey; N=1592
Item153: Foreign goods are hurting the local community



A Leadership Vacuum

- Over the last decade, one witnessed the steady ascendance of the legislative power over the executive branch. It feeds on individual lawmakers' growing appetite for propelling their own legislative agenda and extorting various government agencies for meeting their private demand.
- This created a fertile soil for the mushrooming of fat cat donors, rent-seeking lobbyists and single-issue interest groups.
- Business tycoons and trade associations have been keen in "adopting" their own LY members through political donation to safeguard their interest and peddle through tailor-made free riders.

Business as Free-riders

- The business elite has been the staunch supporters of free trade and urged the government to accelerate the FTA negotiation.
- At the same, they refused to share the fiscal burden for beefing up the social safety net. On the contrary, they always lobbied for more tax cut and generous deduction over depreciation, R&D. In the end, the government's total tax revenue amounts to only 13% of the GDP, the lowest among all newly industrializing countries.
- They don't spend a penny on public outreaching for advancing the free trade agenda.

A Fragmented Decision-making Process

- The DPP employed all kinds of disruptive tactics to slow down cross-Strait TFA ratification.
- The recent decision by LY to ratify the service trade agreement with mainland China not in its entirety but subordinated it to item-by-item scrutiny and roll-call just opened a flood gate.
- This implies that that Taiwan's politics of free trade is infested with veto-players.
- The executive branch becomes highly susceptible and vulnerable to the various (and oftentimes conflicting) demands from all sorts of sector-based interest groups and their surrogates in the LY.

The Lowest Denominator

- In the end, the government can only settle for low-quality free trade agreements that cover only a limited range of sectors which are not well-organized or represented in the political process.
- This seeking-the-lowest-denominator approach has so far allowed Taiwan to pick up the low-hanging fruits such as the FTA negotiation with mainland China, which is willing to make unilateral concession out of political calculation, or Singapore and New Zealand, which pose little threat to most Taiwanese producers.
- But this approach will certainly not get Taiwan through the much tougher negotiation under TPP or with much more demanding trading partners such as India, Indonesia, Australia or Malaysia.