

# Pros & Cons of Free Trade— Taiwan's Trade Agreement with China

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The Effects of  
Trade: An  
Example

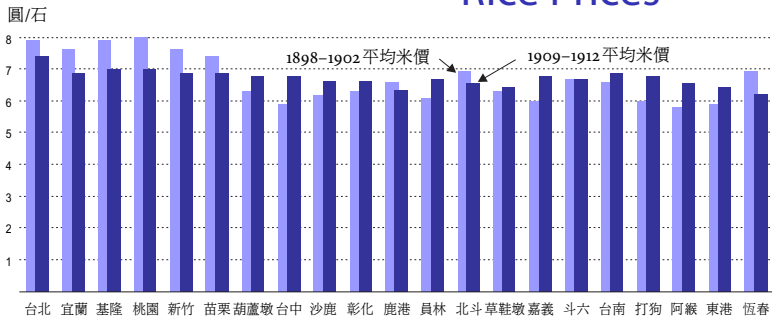
Trade and  
Sovereignty

Taiwan's Past  
Strategies

A Democratic  
China?

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## Rice Prices



- After railway was constructed in 1908, rice trade emerged
- Taipei's (north Taiwan) rice price became lower, Taichung (central Taiwan) higher
- Historically, technology was the main driving force for trade (lowering transportation cost)

# Benefits from Trade

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- Taipei's consumers and Taichung's rice farmers were benefited from rice trade
- However, the welfare of Taipei's rice farmers and Taichung's consumers was lower
- But the net benefit from trade increases

# Trade barriers

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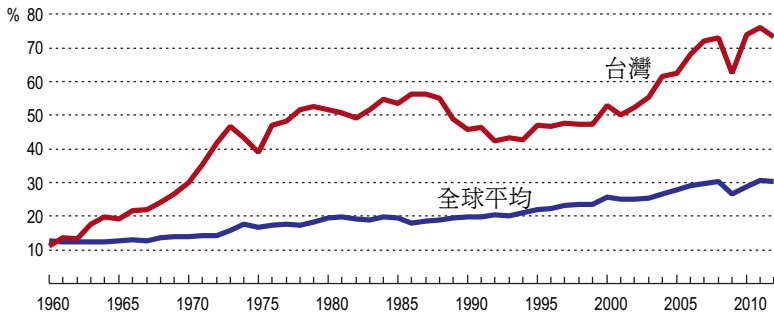
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- For international trade, there could be man-made trade barriers
- Trade agreement is to lower the man-made trade barriers
- Those sectors that suffered from free trade have to transform and evolve
- Government may provide supports
- This have been happening in all the countries all the time

# Export to GDP ratio



- Purely on economic grounds, there is little reason to oppose the trade agreement between Taiwan and China
- However, ...

# Trade agreement and sovereignty

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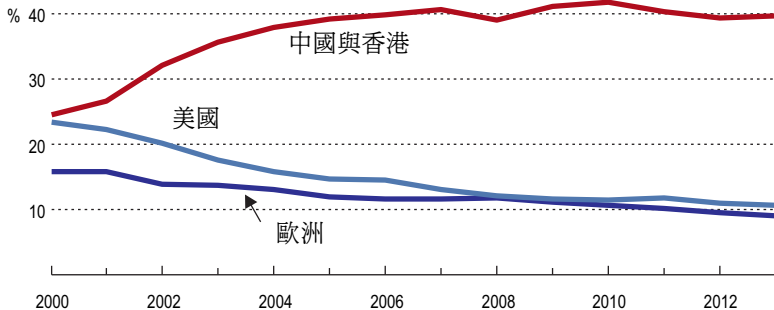
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- China **does not allow** Taiwan to sign trade agreements with other countries
- China uses trade agreement with Taiwan as a tool for unification

## Taiwan's Exports



- Exports to China increases and now becomes steady



# Taiwan's Past Strategies

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- President Lee: Tried to control Taiwan's direct foreign investment in China
- DPP (2000–2008): tried to sign free trade agreements (FTA) with the U.S.
- KMT (2008–2016): tries FTA with China
- All of the above were not successful

# Alternative Strategies

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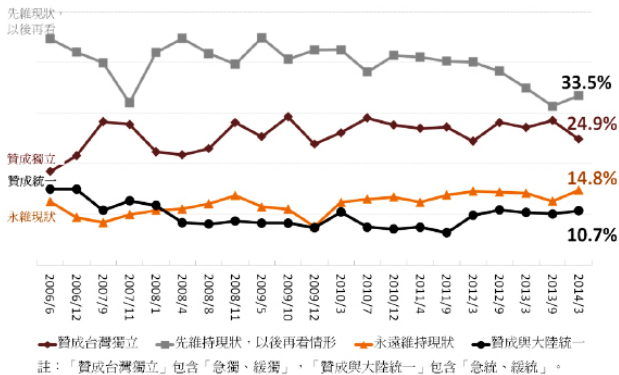
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- 2016–2024: ?
- More FTA's with other countries — Facing China's block
- Maintain the status quo — More Taiwanese firms will move out
- Domestic industries upgrade — Easily said than done

# China's Strategy Successful?



- A majority of Taiwanese prefer to keep the status quo. They want to “wait and see”
- Wait for what?

# Economic Growth

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- China's per capita GDP is only 25% of Taiwan, but **grows rapidly**
- Thirty years later, China's per capita GDP could be about 60–70% of Taiwan

# A Democratic China?

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- Taiwan is a partly democratic society, China is an authoritarian regime
- Across the whole world, GDP per capita is **highly correlated** with democracy
- If China is no exception, then 30 years later China **might become a democratic country**

- At that time, trade agreement between Taiwan and China might be a purely economic issue, **not a political one?**
- If so, what is the best strategy for Taiwan today?