The world is a victim of China's trade policy

Written by Huang Tien-lin [] [] Sunday, 03 December 2017 05:53

On Nov. 10, US President Donald Trump ended his visit to China. He might have received a big "gift" of US\$253.5 billion there, but as soon as he arrived in Da Nang, Vietnam, he said that the US would no longer tolerate dumping, currency manipulation, government subsidies and other chronic trade abuses, and that it is necessary to restore fair competition to distorted markets.

Trump is the first global leader to question globalization. Before the 1980s, nations had an unshakable belief in globalization. Trade volumes grew and poorer nations could also share in the wealth, thanks to investments by developed nations.

When China joined the free market, this belief in globalization as a trading system that would benefit the entire world began to falter, because China is an autocracy that used all of its might in the pursuit of global economic dominance.

The effectiveness of free trade, barter and division of labor can only come to fruition if global trade is in a general state of equilibrium.

Japan also experienced a gigantic trade surplus, but it still was not more than US\$40 billion to US\$50 billion, and following global condemnation, it allowed the yen to appreciate.

China's approach has been different: To be able to enjoy the benefits of globalization, Beijing depreciated the yuan from 1.5 yuan to the US dollar in 1980 to 8.5 yuan in 1995, and it did so without experiencing coups, upheavals or inflation.

The move suppressed labor costs to levels between one-20th and one-40th of the cost in developed nations and China used that to attract foreign capital, steal technology and build its position as the world's factory.

China's trade surplus stands at US\$500 billion annually, 10 times the size of Japan's highest surplus. Can the global trade system really withstand the effects of a trade deficit of US\$500

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billion with China every year?

China's exchange-rate manipulation and dumping have given it a foreign-exchange reserve of more than US\$4 trillion. It uses this surplus to buy up advanced technology companies and concentrate the power of global economic growth in its hands, maintaining annual economic growth of 7 percent.

This is the result of sacrificing other nations' economic growth.

Taiwan is the biggest victim of China's policy. Taiwanese businesses are moving to China in droves, causing Chinese incomes and economic growth to rise, while Taiwanese incomes have dropped and economic growth has fallen to between 1 and 2 percent.

Japan and the US have also sacrificed growth. In the US, this has caused a backlash among blue-collar workers, resulting in Trump's election as president.

Bizarrely, some academics and media outlets in Taiwan still see China as Taiwan's savior and think of China's US\$30 billion trade deficit with Taiwan [Ministry of Finance data showed a trade deficit of US\$63.03 billion for the first 10 months of the year] as a sign of goodwill.

However, this deficit is the result of Taiwanese businesses relocating their production to China, which is benefiting China and negatively affecting Taiwan.

Taking a pragmatic look at the situation, it is difficult to see businesses that have moved nearly all their production — perhaps about 80 percent — to China as Taiwanese businesses. From a fiscal and management point of view, the government should treat these "Taiwanese" businesses differently to bring operations for companies grounded in Taiwan back to reasonable levels.

At least Trump keeps saying that he will put the US first and restore fair competition to the

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distorted market.

Could Taiwan do the same? It is just a matter of determination.

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Translated by Perry Svensson

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