

Over the past several days, the administration of President Ma Ying-jeou (馬英九) has rolled out the propaganda machine to alarm the public about the impact on Taiwan that a free-trade agreement (FTA) between China and South Korea would have. The question is, will the China-South Korea pact actually threaten Taiwan in any way?

Taiwan should actually welcome a successful completion of trade negotiations between China and South Korea, and the more liberal the agreement the better for Taiwan it will be. There are several reasons for this.

First, South Korea is neither Singapore nor Hong Kong. Singapore and Hong Kong are both city economies and, as such, welcome deregulation as they do not have to worry about industry in the periphery. South Korea and Taiwan, on the other hand, have to consider their agriculture sectors, upon which their populations rely, and their manufacturing sectors, on which other industries rely to develop. For these medium-sized economies, with their land and populations, FTAs have advantages and disadvantages, and for them it is not a case of the more FTAs signed the better.

Second, the Ma administration likes to use South Korea's FTAs with other countries as a cover for its own failures. Do not be taken in. South Korea's FTA agreements with the EU and the US did not come into force until 2011 and 2012 respectively. South Korea surpassed Taiwan's exports some time ago and proceeded to pull even further ahead.

South Korea was outstripping Taiwan in terms of both exports and GDP before it adopted its current policy of signing FTAs. Its success dates back to the time it decided to invest in its domestic economy, the same period of "economic unification" across the Taiwan Strait in which Taiwan was so anxious to align its economy with that of China. In other words, the predominant reason South Korea was able to outperform Taiwan prior to 2011 was that the South Korean government was investing in improving the country's industrial base, while the government in Taiwan was pushing liberalization and actively deregulating investment in China. During this period, South Korean investment in China was less than a 10th of what Taiwan was investing there.

Third, the FTA China and South Korea are negotiating is entirely different from those it has already signed with the EU and the US. South Korea and China are neighbors and China's

extensive territory, population of 1.3 billion and large market exert a huge pull on surrounding economies. No matter how self-sufficient or patriotic South Korea is, China would still have a considerable magnetic effect.

Whatever shape or form the China-South Korea FTA takes when signed, the higher the degree of liberalization, the stronger this attraction is to become. This may be great for financial groups in South Korea, but it does not bode well for the long-term development of the country as a whole. The detrimental effect it is to have may not be felt as quickly as it has been in Taiwan, but it cannot be ignored. South Korea will almost certainly follow in the footsteps of Taiwan, ending up as little more than another Chinese outpost.

Fourth, the idea that FTAs contribute to economic growth is something of a myth propagated by capitalists. The Ma administration has repeatedly said that the Economic Cooperation Framework Agreement and the cross-strait service trade and trade in goods agreements will bolster growth of GDP to entice the public to support these policies. However, the facts have shown these assurances to be little more than lies.

South Korea serves as another example. The country has not exactly taken off after it started pushing the signing of FTAs in 2011; indeed, this was the date that signaled the setting of its sun. In 2010 its GDP grew by 6.5 percent, but in 2011 this figure fell to 3.63 percent, and then 2.29 percent in 2012. Last year GDP only grew by 2.97 percent. The heady days of the “Miracle on the Han River,” where the country commonly posted growth rates of 5 or 6 percent, are long gone.

What goes around comes around. If China and South Korea sign their FTA this year, Taiwan need not worry. The proposed China-South Korea pact should be seen as an opportunity, not a threat to Taiwan. So long as we give up harmful policies such as the service trade and trade in goods agreements and the free economic pilot zones, and consolidate the economy at home as a base from which to engage with the global market, we will be back on the right path. Indeed, we are already seeing an economic recovery in the wake of the Sunflower movement.

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Translated by Paul Cooper

## Beijing-Seoul FTA suits Taiwan

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