

Trump could cure 'China disease'

Written by Huang Tien-lin 黃天麟
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At one of his campaign stump speeches during the US presidential election, US president-elect Donald Trump directly accused China of manipulating the exchange rate in its favor and threatened to slap a 45 percent tariff on Chinese imports to the US should he be elected.

Much of the pro-China media in Taiwan were critical of his words. In fact, if Trump does follow through on this promise, it will likely be good for Taiwan in the short and long term.

First, China has suppressed the yuan's exchange rate for strategic reasons and has gained huge benefits from trade as a result. In the 1980s, when China abandoned Communist tenets and adopted a market economy, its first task was to devalue the yuan. At the time, the average exchange rate was 1.5 yuan per US dollar. By 1993, and in the absence of hostilities or inflation, the Chinese currency had been further depreciated to 8.68 yuan per dollar. This made the cost of land and labor in China among the lowest in the world, triggering the great migration of Taiwanese companies to China. The US and Japan also suffered as a result of this devaluation.

Last year, China's trade surplus totaled US\$593 billion, but the yuan has not been adjusted to reflect China's accumulation of capital or the advancements made in production technologies there. In recent days it has once again devalued its currency, which now stands at between 6.8 and 6.9 yuan to the dollar. It is engaging the rest of the world in unfair competition, using the suppression of the exchange rate to obtain trade benefits, armed with state capitalism and the "autocratic dividend." Trump calling out China on this issue is far more preferable to the pandering approach preferred by US President Barack Obama and Trump's rival, former US secretary of state Hillary Rodham Clinton.

Second, it has become apparent that Taiwan is never going to cure itself of the "China disease." Taiwan is not a normalized country. The Republic of China's national anthem still speaks of the "aims of our party" (黨綱) — that is, the Chinese Nationalist Party (KMT) — after 70 years, and this is not going to change. This is not the symbol of a normalized country. However, the biggest obstacle to Taiwan becoming normalized is economic. China openly articulates its willingness to use military force against Taiwan, and yet — to use a Chinese metaphor — Taiwanese are happy to venture into Tiger Mountain, even though they know there are tigers in those hills.

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Accumulated Taiwanese investment in China has reached US\$500 billion, and 60 percent of Taiwan's production capacity is there. Local industry has been gutted raw, suppressing wages, consumption and investment, and yet Taiwanese still talk of a "peace dividend" (和平紅利) from their interactions with China.

In January, a conventional government finally kicked out the decidedly unconventional KMT regime of former president Ma Ying-jeou (馬英九). However, since the administration of President Tsai Ing-wen (蔡英文) started its term in May, it has been made obvious that it is just another group of people locked into the same old KMT mindset. In their hands, the "five plus two" industrial policy — developing an "Asian silicon valley," biotechnology, sustainable energy, "smart" machines and the aerospace and defense industries, plus "new farming" and a "circular economy" — immediately took on a tint of blue as soon as it took power.

Over the past six months since the Democratic Progressive Party (DPP) took power, Taiwan has witnessed one Chinese bank after the other set up in Taiwan; HTC establish a 10 billion yuan (US\$1.5 billion) virtual-reality research institute in China; AU Optronics build a NT\$50 billion (US\$1.6 billion) plant in Kunshan, China; and the start of construction for a new NT\$99 billion Taiwan Semiconductor Manufacturing Co plant in Nanjing, China.

What happened to major investment in Taiwan? Not a trace of it. Clearly, Taiwan is never going to cure itself of the China disease. Taiwan will need help from the outside on that one.

There are two possible sources of this aid to cure Taiwan of the China disease. Beijing could do it. In the words of Chinese President Xi Jinping (習近平), if the DPP government does not clear up the so-called "1992 consensus" issue soon, "the earth will move and the mountains will shake." While that does not sound exactly like an edifying prospect, it will not happen. Unlike Ma, Beijing has never been described as a "bumbler" by overseas commentators.

The other possibility is Trump. It is entirely possible that he will slap that tariff on China, and then it is only a matter of time before a trade war erupts between the US and China. This will, of course, affect the entire world, with China, the US and Asia feeling the brunt. However, nothing of consequence started with eating a salad, and a new order comes only when the old one is destroyed. If China loses its status as the factory of the world, Taiwanese businesses would be forced to pull out. When the dust settles, Taiwan might be able to return to the more normal situation it enjoyed in the past.

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Taiwan will only become a normal country if it has a normal economy. It is possible that the advent of President Trump will be what it needs to make that happen.

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Translated by Paul Cooper

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