

Beyond Recrimination: Perspectives on U.S. - Taiwan Trade Tensions, by Jimmy W. Wheeler

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BEYOND RECRIMINATION — PERSPECTIVES ON U.S.-TAIWAN TRADE TENSIONS, By Jimmy W. Wheeler with contributions by Maurice C. Ernst and Merit E. Janow. Indianapolis, Indiana: Hudson Institute, Inc., 1987, 218 pp.

Beyond Recrimination — Perspectives on U.S.-Taiwan Trade Tensions combines a well-crafted analysis of the economics and politics of U.S.-Taiwan trade with pragmatic proposals to diffuse tension in the short term and to enhance the bilateral relationship structurally over the long term. Wheeler and Wood have thus done a singular service for the U.S.-Taiwan trade community on the hopes that, as the U.S. Congress lurches toward trade law reform, works of this caliber may leave some mark on U.S. legislation and policy.

Author Jimmy Wheeler is Director of Economic Studies at Hudson Institute and author or co-author of several books on the U.S. economy and international competition. Co-author Perry L. Wood, a Research Fellow at Hudson Institute, is a political scientist specializing in comparative and developmental political analysis, East Asia, international trade, and private international law. Together, they have crafted a masterful analysis of the issues affecting the U.S.-Taiwan trade relationship.

The structure of *Beyond Recrimination* provides a comprehensive framework for analyzing U.S.-Taiwan trade tensions. The authors begin by setting forth the context, describing the evolution of U.S. trade with Japan, Korea and Taiwan (Part I). They then describe the development strategies of Japan, Korea and Taiwan (Part II) moving on to analyze the sources of and outlook for U.S.-Japan tensions (Part III). In Part IV, they describe U.S.-Korea trade patterns and tensions, including a discussion of the interaction of Korea-Japan trade with U.S.-Korea trade. Part V is the core of the book, in which the authors dissect Taiwan's trade and investment patterns vis-a-vis the United States and Japan. Finally, in Part VI, the focus is on policy issues in U.S.-Taiwan economic relations, including proposals to ameliorate tensions.

From this brief outline, several of the strengths of *Beyond Recrimination* are apparent. Taiwan's economy has strong linkages not only to the United States, but also to Japan, and it is a measure of Wheeler and Wood's thoroughness that they take account of the Taiwan-Japan linkage in their policy analysis. Second, Wheeler and Wood acknowledge the parity argument, namely, that U.S.-Taiwan economic relations should be conducted so as to avoid placing Taiwan at a disadvantage vis-a-vis Korea. Third, the clarity and pragmatism of their policy proposals (discussed in specific detail below) make this work a valuable

study not just for the many academicians in development economics and trade policy but also for policy-makers themselves.

To establish the context within which U.S. policy is made, the authors review the causes of the U.S. trade deficit. First among these causes, Wheeler and Wood cite the "severe imbalance of U.S. macroeconomic policy relative to that of its major trade partners . . . reflected in the massive U.S. fiscal deficit and the severe appreciation of the U.S. dollar between 1981 and 1985."¹ As further causes they cite the relatively slow growth of U.S. labor productivity, the relative openness of the U.S. economy to imports, and the de facto adoption of the U.S. dollar as a world currency standard.

Aptly, however, Wheeler and Wood recognize that "the real causes of America's trade problems have become politically irrelevant."² Because America's trade policies have moved so close to center stage in the arena of political debate, realism demands that any policy proposal recognize the now essentially political nature of the national debate on trade. Thus, policies that may be economically appropriate — such as reducing the U.S. fiscal deficit — must also pass the test of political appeal. The authors' recognition of this fact is what lifts *Beyond Recrimination* above the level of mere theorizing.

Moreover, Wheeler and Wood explicitly recognize another hard fact of Taiwan's position: "In general, in dealing with the United States, Japan and South Korea are in a better political position than Taiwan."³ The decline of Taiwan's political-strategic significance does, indeed, color and limit Taiwan's negotiating options. Conversely, the fact that Taiwan's reliance on the U.S. market is greater than Korea's makes it even more imperative that Taiwan ameliorate the tensions in its trade relationship with the United States.

From this framework, Wheeler and Wood then compare the economic structures and development strategies of Japan, Korea and Taiwan.⁴ Among the factors that must be considered in choosing among

1. J. WHEELER AND P. WOOD, *BEYOND RECRIMINATION - PERSPECTIVES ON U.S.-TAIWAN TRADE TENSIONS* 6 (1987).

2. *Id.* at 10.

3. *Id.*

4. Other recent books in the field include the following: *THE POLITICAL ECONOMY OF THE NEW ASIAN INDUSTRIALISM* (F. Days ed. 1987), (eight essays on the role of political and social institutions in the development of South Korea and Taiwan); T. GOLD, *STATE AND SOCIETY IN THE TAIWAN MIRACLE* (1986) (reviewing Taiwan's economic history from the period of Japanese colonization and, indeed, before, and discusses the role of political institutions in Taiwan's economic and social developments); B. BALASSA AND J. WILLIAMSON, *ADJUSTING TO SUCCESS: BALANCE OF PAYMENTS POLICY IN THE EAST ASIAN NICs*, (1987) (reviewing the BOP policies of Taiwan, Korea,

Taiwan's policy options are that Taiwan is more trade-dependent than either Korea or Japan (partly because its population is too small to provide a sufficient market for efficiently scaled production of many goods); that Taiwan's economy is dominated by small businesses to a greater degree than is Japan's or Korea's; and that liberalization of Taiwan's import regulations on a most-favored-nation basis tends to benefit Japan more than the United States, even though the United States may be the intended beneficiary. Wheeler and Wood also point out an often-overlooked difference between the American and the Japanese approach to investment in Taiwan. The Japanese tend to build facilities in Taiwan to launch sales into third countries and not back into the Japanese home market, while American investors build capacity in Taiwan to produce goods for the U.S. market.

A significant difference between Korea and Taiwan is the degree to which Korea has framed its development through foreign loans, leaving Korea with substantial foreign debt that must be repaid. Taiwan, by contrast, has maintained an embarrassingly high level of foreign exchange and has encouraged direct equity investment by foreign entities.

Wheeler and Wood bring these, and more, considerations to bear on their policy proposals. Here, they recognize that "short-term actions to diffuse tensions have become a critical priority. All participants must seek to buy time while other policies are pursued to correct the more basic macroeconomic and structural sources of the trade imbalances."⁵ First, there is a set of proposals that "Taiwan might usefully pursue that would not substantially reduce its trade surplus with the United States, but would be well-received politically in the U.S. and would have positive effects on the Taiwanese economy."⁶ These include:

1. Reduction of Taiwanese import barriers in areas where the United States enjoys a large comparative advantage and also in those areas where Taiwanese producers have a large cost advantage. The first part of this proposal would liberalize imports where third countries, notably Japan, cannot out-perform the United States, while the second part is largely cosmetic. Targets for liberalization would include services, and especially advertising, insurance leasing services, fast foods, and distribution — all areas in which the United States tends to excel.

2. Publication of a formal schedule for liberalizing sectors of the economy. Wheeler and Wood cite publication of Korean liberalization

Singapore and Hong Kong; for Taiwan, the authors propose elimination of ROC import restrictions, additional tariff reduction, and abolition of export incentives, together with a further real appreciation of the NT dollar by 15 to 25 percent).

5. J. WHEELER AND P. WOOD, *supra* note 1, at 169.

6. *Id.* at 171.

plans as diffusing some U.S.-Korea trade tensions.

3. Adoption of a short-term explicit "Buy American" program for some government projects.

4. Encouragement of Taiwanese investment abroad. Investment in the United States, this measure would not only reduce trade tensions but also recycle the dollar overhang.

Concerning the U.S., Wheeler and Wood assert that the United States should sustain and improve its competitiveness by: developing and taking advantage of technological advance, enhancing the efficiency of domestic markets, reducing the fiscal deficit and maintaining proper monetary policy, and maintaining low inflation and realistic exchange rates. Businesses of the United States should also recognize Taiwan's internal market as sufficiently large and wealthy to attract U.S. consumer goods and should appreciate Taiwan's ability to serve as a staging point of reentering the Southeast Asia market. Regarding protectionism, the authors state, "it is not in the national interest of the United States to undermine Taiwan's economy through protectionist measures that in any case, cannot achieve their objective on significantly improving the U.S. trade balance."⁷

Wheeler and Wood also propose longer-term measures that could benefit the U.S.-Taiwan trade relationship. These include:

1. Basing the exchange rate of the New Taiwan dollar on a market basket of foreign currencies in order to bolster export diversification away from the U.S. market.⁸

2. Linking the currencies of the East Asia Newly Industrialized Countries ("NICs") to avoid exchange rate imbalances. This would be achieved through "informal multilateral discussions on regional economic concerns involving the United States, Japan, Taiwan, and Taiwan's regional competitors."⁹

3. Increasing the rate of domestic investment within Taiwan, and reducing the level of domestic savings. Infrastructure development is needed and according to the authors, would absorb excess liquidity while enhancing the domestic economy.

4. Encouraging new domestic patterns of consumption, such as increased mortgage financing and consumer credit.

5. Opening bidding for ROC large projects to foreign groups.

7. *Id.* at 173.

8. See B. BALASSA AND J. WILLIAMSON, *supra* note 4, at 72 ("All four of the east Asian NICs got into their present position of currency undervaluation by focusing their exchange rate policy too much on the U.S. dollar. This suggests they should consider pegging to some unit much closer to their own effective exchange rates.")

9. J. WHEELER AND P. WOOD, *supra* note 1, at 170.

Wheeler and Wood's recommendations are all thoughtful; several have been implemented, at least in part, by the ROC government, and movement is being made on others. To this reviewer, the most interesting proposal is for a multilateral understanding on exchange rates. Such an undertaking would be a clear measure of economic maturity that would bring Taiwan a measure of comfort not only on the economic front but also on the diplomatic front.

In sum, this is an excellent work whose proposals are well supported by clear exposition and abundant statistics.

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