

Taiwan's economic isolation, desperately seeking space

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Taipei

A free-trade deal is greeted by China with a surprising lack of fuss

Since his election five years ago, Taiwan's president, Ma Ying-jeou, has argued to a suspicious public that his policies for close business ties across the Taiwan Strait will not bring the democratic island under China's sway. Instead, he says, they will help to end Taiwan's exclusion from a burgeoning global network of free-trade agreements.

China usually presses other countries not to forge formal ties with Taiwan, which it has continued to claim since the two parted ways in 1949. Free-trade agreements have proliferated across Asia, but countries fearful of offending China have kept Taiwan out of them, though its economy is built upon exports. The only solution, **Mr Ma contended, was to sign a trade agreement with China, which Taiwan did in 2010. This, he hoped, would encourage other countries to follow China's example.**

Though he has faced much criticism at home, **Mr Ma's strategy may be working.** On July 10th Taiwan signed a trade pact with New Zealand, its first with a country that recognizes China. **Given that China did not frustrate the deal, and that New Zealand is a developed Western democracy, it is a notable diplomatic coup.** New Zealand, for its part, often gets in early with such pacts. It also sees Taiwan's market, its tenth-largest, as important, notably for milk and butter.

China offers business deals to Taiwan in the expectation that the island will become enmeshed in its enormous economy, leading eventually to reunification. **By not objecting to the New Zealand agreement, it now hopes to foster goodwill among Taiwanese sick of their country's diplomatic isolation. And Chinese policymakers would rather see support for Mr Ma's China-friendly Nationalist Party (KMT) than for the pro-independence opposition, the Democratic Progressive Party (DPP).** China also seems to have been reassured that New Zealand has already

struck trade agreements with Hong Kong and China. This probably made it easier to reassure Chinese hardliners that the deal was with the remaining part of China rather than between two independent states.

Meanwhile, in Wellington, New Zealand's capital, the signing ceremony bore the usual hallmarks of Taiwan's diplomatic limbo. Senior officials were absent. **In the agreement Taiwan was not described as the state it is, but as "the separate customs territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei).**

In Taiwan officials hope that the New Zealand deal and a similar one due with Singapore will persuade others, such as India, to do the same. Some policymakers even hope that Taiwan may one day join regional trade blocks, such as the growing Trans-Pacific Partnership.

Still, Mr Ma, whose popularity is falling, may struggle to convince all his compatriots that more open trade is good for Taiwan. The DPP and others are furious with the way he rammed through a services deal in June with China. And many fear that deregulation and liberalization such free-trade pacts can bring will destroy small Taiwanese businesses. **Mr Ma has much to do to prove that ending isolation can also bring prosperity.**

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