

Foreign Exchange by Joyce Fredman

Taiwan to buy U.S., cheap

If you thought the Japanese were aggressive buyers, get ready for serious bidding.

Taiwan recently made headlines by lifting martial law after 38 years, but another change, with even greater significance for the United States, took place recently. After nearly four decades, the government has lifted foreign exchange controls.

The lifting of martial law may be a sign of "democratic reform"—or who knows what—but there is no question what the lifting of foreign exchange controls will do. This move unleashes an investment fund in excess of \$62 billion, and that money will undoubtedly be heading for investments in the United States. Little Taipei is about to buy up whole chunks of the depressed U.S. economy.

The \$62 billion is the size of Taiwan's foreign exchange reserves, making it the third-richest reserves in the world, just behind Germany and Japan.

Taiwan's foreign-exchange reserves ballooned, starting in early 1986, as a result of speculative purchases of the "strong" Taiwan dollar, by investors fleeing the weak American dollar.

Taiwan concentrates on low-value-added consumer durables exports, of the kind which are most affected by price changes. Certain Japanese producers compensate for the pricing-problems stemming from the rising yen, by shipping parts to Taiwan for assembly, and allowing Taiwan to ship them to the United States, priced in cheaper Taiwan dollars.

Dollars are not the island's only resource. There was a time when only approximately 15% of the Taiwanese students who went to the United States

to study returned home to work. Now, the figure is up to 30%, putting into graphic relief the grim reality of the job market in the United States. Even the Taiwanese computer engineers who had launched successful careers in California are returning in droves, along with many producers of hard disk drives.

While most other developing countries have been shackled with overwhelming debt situations, Taiwan has managed to accumulate a \$62 billion surplus, the highest foreign exchange reserves per person in the world.

This is due to the fact that a large part of the Taiwanese economy functions as an assembly plant for Japan. A high proportion of Taiwan's \$15 billion annual trade surplus with the United States represents a form of disguised Japanese exports, as the U.S. government has complained.

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The Taiwan dollar has been the only one-way bet on the foreign exchange markets since late 1985, when it became obvious that the Taiwanese currency (linked to the U.S. dollar) could not continue to float downward against the Japanese yen indefinitely. Taiwan is highly integrated into the Japanese economy, for one, and the

U.S. Treasury would not stand for cheap pricing of Taiwanese exports, for another.

A breathtaking inflow of speculative capital made Taiwan the catch-basin for Asia's hot money. Officials have now noted that for the first half of this year, the flow of Hong Kong capital into Taiwan has increased more than 10 times. It is more than likely that much of the banking business that goes to Hong Kong now will be going to Taiwan.

Taiwan's emerging financial power will rankle the International Monetary Fund, which dropped the Republic of China's membership 10 years ago, when the People's Republic of China joined the world financial organization. Taiwan has not only had no policy input from the IMF, which controls the majority of developing-sector economies; it does not even have membership.

The United States became dependent on a handful of newly-industrialized countries for essential imports in the early 1980s, after the Volcker depression eliminated an entire tier of basic industry. The Asian economies operating in the Japanese sphere, particularly South Korea and Taiwan, have become irreplaceable suppliers of goods no longer produced in the U.S. home economy.

It is only a short step from the status of major supplier to major creditor. In a global market where more than \$2 trillion changes hands daily, the relative positions of the United States and the Republic of China have been pre-discounted, such that Taiwan built up a huge creditor position with respect to the United States almost overnight.

Now, Taiwan will take a relaxed vengeance upon a United States which denied it diplomatic relations, in favor of Henry Kissinger's "China Card," by purchasing whatever sections of the U.S. economy it pleases.