Top News

Taiwan's response to the global economic turmoil

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(CNA)

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The debt crises in recent months involving the EU and the U.S., and the increased possibility of a double dip recession, triggered a global stock market sell-off Aug. 5. Taiwan was not spared, with the local bourse falling 5.58 percent. The next day ROC President Ma Ying-jeou urged the nation to have faith in Taiwan's economy, promising the government would do everything to soften the impact of recent events.

The turmoil in the global financial markets shows that the world economy never really recovered from the financial crisis of 2008. Following Keynesian economic theories, the EU and U.S. both tried to spur growth by massive infusions of funds. They did this by raising debts—and high debt levels are one of the distant causes of the recent global sell-off. Another is the U.S. Federal Reserve's Quantitative Easing II policy, which has resulted in global inflation and the formation of asset bubbles. But fundamentally the latest plunge in stock prices is a confidence crisis. Leading industrial nations will hold emergency meetings in the near future to come up with appropriate responses, and the situation is unlikely to get out of control.

Nevertheless, the latest events could present a more prolonged economic challenge than the 2008 financial crisis. There are four main reasons for this. First, efforts by the G-20 to rebalance the global economy after 2008 have been largely unsuccessful. Consequently, many industrialized economies are now faced with the real possibility of another recession, while developing economies have to contend with inflationary pressures and asset bubbles. Second, the tools to respond to a severe economic downturn have been exhausted. The debt crisis means that nations no longer have the resources to carry out expansionary monetary policies.

Third, the lowering of the U.S. credit rating could weaken the dollar. This will help American exports, but other economies would then depreciate their own currencies in an effort to protect economic growth. A currency war could break out, which would result in many years of currency instability. Fourth, mainland China has not lived up to the great expectations of many analysts. It is unlikely to be the savior of the global economy, as it was made out to be during the 2008 financial crisis. Many economists now feel pessimistic about the economy of mainland China, which in any case is fully occupied looking after its own affairs.

Taiwan's financial markets have been the first to experience the effects of the global stock market sell-off. The plunge in the local bourse has investors worried, and the government is right to try to address their concerns. But it would be foolhardy for the government to try to prop up stock prices using the National Stability Fund. With its limited resources, the NSF will be unable to keep local stock prices high when financial markets around the world are in free fall.

Taiwan's export industry, especially its information communications technology sector, could be the next affected. During the bursting of the high-tech bubble in 2000 and the financial crisis of 2008, Taiwan suffered the most among all Asian nations, mainly because its economy relies so heavily on ICT exports. If there is a second global recession, the ICT sector will again bear the brunt. To cushion the possible negative impact, the government should develop a set of responsive measures as soon as possible.

What is even more important is that the government must help restructure Taiwan's economy, even as the global economy itself is entering a phase of long-term readjustment. The government has to reduce the nation's reliance on exports by transforming the local economy into one that depends on both internal and external demand, that grows by creating jobs at home, and that increases the standard and quality of living for all. There is no other way for Taiwan to survive the crisis in the global economy. (HZW)

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