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Trade Embargo by China on Singapore and Taiwan: An Economic War (A Hypothetical Situation)

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ABSTRACT

This article gives an idea about the trade relations between the Asian Dragon, People Republic of China and its two neighbors, Singapore and Taiwan (Republic of China). The article gives a gist about the development of the two nations and the involvement of China in the process. Focusing on the economic boom that the four Asian dragons had in the late twentieth century and the early two thousand, a research has been done on the trade with Asian Giant, China and the two countries, Singapore and Taiwan which are two of the four Asian dragons. There are tensions in the South China Sea for a very long time; the expansionist policy of China is bringing a threat to the peace in the South Asian region. China is not in good conditions with the two nations as it was earlier. The economic growth of the two nations is also very good from the past few years. But both the countries are heavily dependent on China for raw materials, labor etc., The two Asian dragons are taking decisions that are against China when it comes to territory issues and also in some other international matters, hence the question arises as to What if China imposes embargo on these two nations, and the answer is here in the article.

Keyword: People Republic of China, Taiwan, Singapore, Asian Dragons, Economic Development, South China Sea, Threat to Peace, Expansionist Policy, Dependent, Raw Materials, Decisions, International Matters, trade, Embargo.

1 INTRODUCTION

1.1 Singapore: The Island State

A small island city state in the south Asian region with a population of over 5 and a half million is one of the fastest growing economies in the world. Home to many cultures, people of many religion and ethnic groups, Singapore has always been a country with peace. In the last 40-50 years the country has turned out to be a global hub for business and it has been one of the very few countries to get AAA ratings in business. Being the 14th largest exporter and 15th largest importer on the planet, Singapore has been considered as one of the four Asian dragons who is playing a vital role in the growth of Asian economy.

1.2 Taiwan: Republic of China

Ethnic Han Chinese settlers who were primarily merchants settled in China in the seventeenth century. The island, now inhabited by a Han Chinese majority, many of whom identify as distinctly Taiwanese, is also home to indigenous peoples who account for around 2 percent of the population. The Republic of China (ROC), which had governed China for decades, fled to Taiwan after losing the civil war to the Communists in 1949. But the government continued to represent all Chinese people both on the island and the mainland. The local government governed the island from 1949 to 1987 under a single law. The Political dissent was harshly repressed and Taiwanese who had long inhabited the island before 1945 faced discrimination. Taiwan held its first free legislative elections in 1992. The political party formed a coalition with many other and got a notion in the government that the island should not be independent and it in an integral part of China. Therefore they called for an 'ONE CHINA' nation.

The KMT's rival, DPP was found in 1986 and became legal in 1989 after the opposition party's existence ban was lifted. Chief rival, the DPP, was founded in 1986 and became legal in 1989 after a ban on opposition parties was dropped. Shui-bian became the first president of the party in 2000, and supported the partition of Taiwan from PRC. There were many conflicts between many political leaders on this matter and the matter was very serious and finally, Taiwan was divided and became an independent nation. China has deployed missiles along the Taiwan region due to the increase in tensions in the South China Sea. Due to the threat from the PRC, Taiwan also has kept a huge amount of its military budget (Che) (Gao).

2. RESEARCH PROBLEM

The Problem which is significantly initiated is the causes and the effect take place when China imposes trade embargo towards Singapore and Taiwan. This also signifies the economic war taken by China by imposing Trade policies with the dependent countries like Singapore and Taiwan

- Why Singapore and Taiwan are dependent on China in terms of Trade and benefits?
- Why would China impose a trade Embargo with Singapore and Taiwan?
- What would be the cause and effect if china imposes Trade Embargo with China and Taiwan?
- What would be symptoms in the creation of an Economic war between China and Singapore and China and Taiwan?

3. LITERATURE REVIEW

3.1 Singapore- The First Perspective

The author of the article wanted to know the effect of the Embargo imposed on Cuba by the US in 1960's. The author went to visit Cuba in 2016 and see the economic country by himself. He states that Castro wanted to make sure that there will be an equal distribution of wealth among the citizens of Cuba and snatched land and money from the rich Cubans who later fled to Miami. The US stopped all the military and economic assistance to Cuba and said that it won't trade with Cuba. Allies of the USA like Japan, Canada, France, and Pakistan followed the same. This was a huge blow for Cuban economy; their cigars and sugarcane were left in Cuba itself. The author later explained about the help of USSR during this period to Cuba and about the Cuban cigars becoming popular. The author tells about the current economic condition of Cuba. Even though the embargo was lifted by the US in 2014, it is not accepted by the congress. Very close allies of US like Canada and Australia still follow it. But the economic conditions of Cuba have become far better and the travelers from Cuba are given Visas to many countries.

'Effect of Cuban Embargo' – by Maurice Jourdan; Huff post, May 2016

The article stressed the importance of the China and Singapore ties not only in trade but also in connectivity and in OBOR road connectivity as well. The article explains about the direct railway link between Kuala Lumpur to Singapore that is sponsored by China in order to make the OBOR route easier for China and reach the rest of the world. It also mentioned about Chinese sponsored business park in Singapore and its importance. Later the article explained about the steps taken by the two governments to push free trade agreements among the nations.

'From trade to trains, China and Singapore boost their economic ties' – by Catherine Wong, South China Morning Post, Sept 2017

The research was based on the conflicts and relations of Singapore and China. The research concluded that Singapore, just like all the other ASEAN countries, is dealing with China assuming that it is an integral part of SE Asia, and the challenge is to find ways to live peacefully with it to develop areas of mutual benefit. Even though Singapore has had several conflicts with China right after its independence, it has tried to maintain good relations with China, both politically and economically. China is trying to insert greater diplomatic, political and economic influence in the SE Asian region and China is indirectly competing with the US in this as well. That too this is occurring at a time when the SE Asian countries lost hopes on the USA, after the Iraq war. Singapore is maintaining its basic engagement strategy to manage China's growth, but subtly adjusting its hedging policy by more greatly emphasizing the need for the US to develop greater influence in the region. Singapore policy makers are more optimistic about the prospects for a peaceful China that is a responsible regional player.

'Singapore's Reaction to rising China Institute of defense and strategic studies, Singapore (2004)

3.2 China Singapore Relations

Singapore has been a republic country since 1965. Since then, China has been one of the biggest investors in the nation. Even before this, Chinese migrants came to Singapore as laborers in order to escape poverty and war from the 16th century. Singapore was often called as the 'Third China' by many traders as the population of Chinese people was very high in Singapore.

Diplomatic relations between the two nations officially began in 1990. There were many visits by the PM of Singapore to China and the business ties between both the nations increased in the course of actions. The bilateral ties between the nations took a dive in the early 2000's due to political issues regarding Taiwan and also the incumbency of the new Prime Minister in Singapore. Singapore was the last country in Southeast Asia to formally recognize the People's Republic of China. Singapore still maintains unofficial relations with the Republic of China, including a military training and facilities agreement from 1975. The relations between the two countries improved as China and Singapore forged agreements in free trade, education, FDI, technology etc. The ties between both nations have become stronger due to the ASEAN.

Singapore has been interested in the territorial disputes of the South China Sea even if it is not a part of it. It is because of the fact that the outcome of these fights will influence the economy of Singapore. In 2016, Chinese media accused Singapore of supporting the Philippines over a dispute against China and stated that “Singapore will pay the price for seriously damaging China’s interests”. (Quest) (Pro Quest) .

3.3 Singapore - Trade

The bilateral trade between the two countries has been very active. Singapore has maintained the first position among the ASEAN nations in their trade with China. There has been a lot of FDI inflow and outflow from Singapore to China. Singapore has been the 9th largest trading partner and China is Singapore’s third.



The above table shows the exports of goods from Singapore to China in the past three years. There is a sudden downfall in the exports during early January 2016. This was due to the tough decisions taken by the Chinese when Singapore extended support to the Philippines instead of China during the issue.



As seen from the above graph, the Chinese exports to Singapore were very less before 2014, Chinese were mainly focused on exporting goods to the USA and South Korea. They completely ignored Singapore. Due to excess demand from Singapore allowance of Chinese exporters to trade easily with Singapore, the traders began to export to Singapore as well. There was a sudden decline in the exports in early 2015, following the decision of Singapore not to support China over the Philippines.

At present, the trade between these two countries is worth \$550 bn. There was a decline in the exports of Chinese goods to Singapore in mid-2017; hence Singapore decided to sign the CHINA SINGAPORE FREE TRADE AGREEMENT deal (China Daily) (The Diplomat) (CNN) (Iye).

Top 10 Export Countries		Top 10 Import Countries	
Country	Export USD\$	Country	Import USD\$
China	\$42,858,714,181	China	\$40,414,282,974
Hong Kong	\$41,592,668,344	Malaysia	\$32,249,838,474
Malaysia	\$35,003,569,060	United States	\$30,718,019,959
Indonesia	\$25,785,545,528	Japan	\$19,864,202,599
United States	\$22,640,982,818	South Korea	\$16,995,983,043
Japan	\$14,568,383,829	Indonesia	\$13,458,725,937
South Korea	\$14,523,889,528	Germany	\$8,686,885,530
Thailand	\$12,988,614,127	France	\$8,557,852,608
Vietnam	\$11,359,250,653	Saudi Arabia	\$8,131,777,661
India	\$9,833,561,793	Thailand	\$6,847,975,230

Fig 1: Trading Partners of Singapore

Top 10 Export Countries		Top 10 Import Countries	
Country	Export USD\$	Country	Import USD\$
United States	\$385,677,759,424	South Korea	\$158,974,531,293
Hong Kong	\$287,251,662,044	Japan	\$145,670,688,473
Japan	\$129,268,487,384	United States	\$135,120,133,073
South Korea	\$93,707,103,461	Germany	\$86,109,029,796
Germany	\$65,214,030,647	Australia	\$70,895,012,700
Vietnam	\$61,094,096,781	Malaysia	\$49,269,636,528
India	\$58,397,760,569	Brazil	\$45,855,047,246
Netherlands	\$57,447,210,217	Switzerland	\$39,945,437,599
United Kingdom	\$55,664,076,103	Thailand	\$38,532,342,814
Singapore	\$44,495,953,063	Vietnam	\$37,171,603,826

Fig-2: Trading Partners of China

Source: (Worldtopten.com)

As it is seen from the above two tables, Singapore is highly dependent on China both for exports and also for imports. Nearly \$85 billion is traded by Singapore in the last year. The major exports by Singapore were Integrated Circuits, Refined Petroleum, Computers, and Semi-Conductors. Singapore’s major imports from China were Gas Turbines, FMCG products, textiles and agricultural products from China.

China is not that dependent on Singapore. Even though Singapore is the 10th largest importer from China, China is not worried about exports to Singapore.

3.4 Taiwan – The Second Perspective

The content focuses on the growth of the economy of the small nation, Taiwan and the growth of the investments in the Taiwanese economy, especially in the stock exchange market. It also tells that Taiwan’s security market is heavily dependent on the back up of China and the growth of Taiwan Stock Exchange (TWSE) is because of Chinese investment only.

In the mid 2000’s Taiwan’s securities markets grown rapidly. The Cayman Islands company make up the majority of the foreign companies listed in the TWSE, these companies also got a huge amount of investment. In 2011, there were more than 10 Cayman Islands listed in the TWSE.

After the liberalization of the Taiwan economy, the government took initiatives to control inflation and the growth of external demand and had a very impressive monetary policy. The content also focused on the agreements between the government of China and Taiwan like the 1992 consensus and the DPP made the Taiwanese economy grow faster. The TWSE also increased by a huge value after the inflows of FDI and FPI. The Economic Cooperation Framework Agreement (EFCA) has contributed to the success of Taiwan.

3.5 China Taiwan Tug Of War in the WTO Wui Wan Sept 2005

The article told about the diplomatic war between China and Taiwan. The article explains the reason for all these matters. The first being that the Taiwanese companies are going back to Taiwan to raise funds due to the bad performance of US and European Markets. The TWSE not only attracted global Taiwan based companies but also the companies based in the nearby regions and mainly from China. Taiwan attained global attention during this time. This created panic in China whose stance in the WTO showed that China has not softened its stand towards Taiwan. Taiwan, on the other hand, tried to attain its goal of interacting with China face to face, this never happened. China claims that Taiwan is just acting in WTO and Taiwan is interfacing in Chinese internal matters and also the military.

The article stated that the the tug of war would continue. Even though Taiwan's exports are increasing, the dependency of Taiwan on China for this increase did not reduce. The article states that China was a bit right in not talking to Taiwan face to face in the WTO because all the non-WTO talks should be talked during the bilateral meetings and not during the multilateral meetings. China's unilateral actions have the effect of avoiding acquiescence in Taiwan's independent legal standing in the WTO, but these actions will in no way affect Taiwan's member status in WTO. However, for Taiwan to preserve its legal rights, it must protest each time China intentionally distorts its designation. Taiwan should be worried about China as it has a strong hold in WTO and request bilateral consultation on Taiwan's import restrictions on Chinese products. The article mentioned much statement from both the government and said that China's refusal to discuss bilateral WTO issues in multilateral meetings has hurt Taiwan's interests. The author also tells that these talks are necessary for the two nations and also to maintain peace in the South China Sea. China and Taiwan must compromise on each other stand and should negotiate in the trade agreements that they made before in order to benefit both the economies.

Scarborough Shoal Dispute, China's Assertiveness, and Taiwan's South China Sea Policy, Kao Shawn, 2014The article explain about the dispute in the Scarborough Shoal region between China and Taiwan. The disputed area, even though has just a 46 perimeter area and no people living in the region, Three countries- China, Taiwan, and Philippines claim the territory. The article explains about the dispute between People's Republic of China (PRC) and Republic of China (Taiwan). Both of them agree to the fact that the area was discovered the shoal centuries ago and that there is a long history of Chinese Fishing Activity in the area. The article also shows about the friendship shown by the two nations when it came to keeping Philippines in the United Nations Convention on the Law of the Sea (UNCLOS). The article then talks about the history of this dispute and explains that in 1935, China, as the Republic of China (ROC) regarded the shoal as a part of the Zhongsha Islands. The positions were given to both the ROC, which now governs Taiwan and PRC.

Things were good until 1992 when China claimed the sovereignty over the Islands according to the Law of the territorial sea and the Contiguous Zone. According to PRC, the entire reef, islands, and shoals within a U shaped line in the South China Sea and it is causing trouble even for the Taiwanese fishermen who enter the disputed area. The article also explains about how Taiwan is also trying to claim that the territory belongs to it as it was a governing body of China and it also has the right to claim the authority over the region at least for their citizens to do fishing. The article concludes by stating that the dispute can be settled very easily, but both the nations are not showing interests in this or to stay in peace in the South China Sea region.

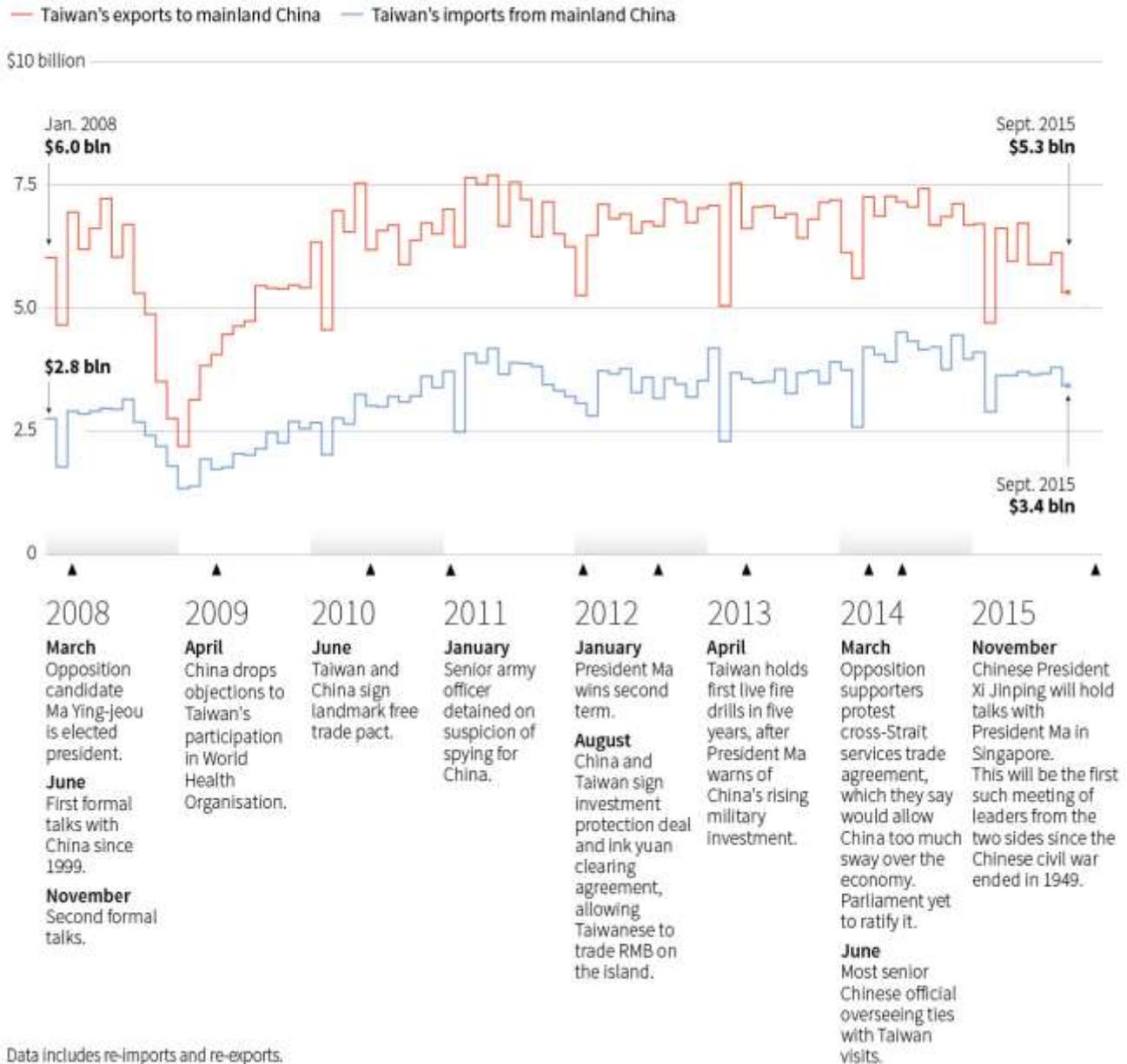
3.6 Taiwan - Trade

Taiwan, an island nation off the southern coast of China has a population of more than 23 million. It has been governed independently since 1949. But the People's Republic of China (PRC) still looks at the island as one of its province, while in Taiwan, there is a territory with its own democratically elected government—leading political voices to have differing views on the island's status and relations with the mainland China. The economic condition of the country was not that great for Taiwan after it was away from the mainland. Later due to the increase in the FDI and FPI, Taiwan grew massively in the past twenty years. China has been the major investor in the TWSE, many people from the mainland China found many business opportunities and started manufacturing in Taiwan.

The following chart shows the relation between the two nations not only in the trade but also in terms of the army in a timeline.

Taiwan-China trade

Since 2008, Taiwan's China-friendly President Ma Ying-jeou has signed a series of landmark trade and economic agreements with Beijing, but both sides have showed little desire for political dialogues.



Staff, C. Inton, 04/11/2015

REUTERS

Chart-1: Timeline of Taiwan- China Trade

After the fall of the KMT government which argued that Taiwan belongs to mainland China and everyone is a Chinese, people had mixed feelings about their identity after the government fell. The recent respondents have told that they would prefer other people calling them Taiwanese but not Chinese. The trend in this statement is as shown below.

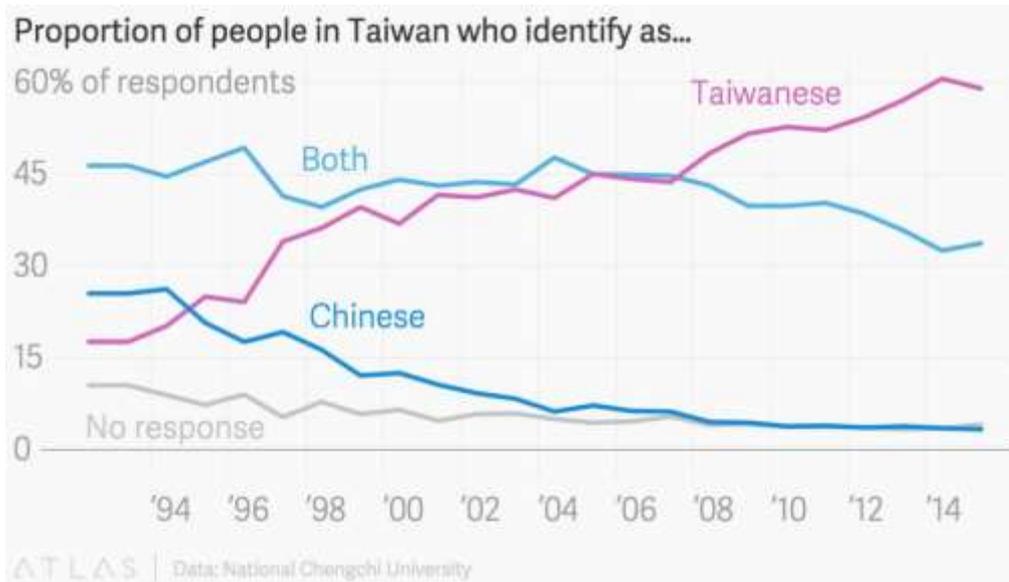


Chart-2: Proportion of people in Taiwan who identify as Chinese or Taiwanese over the years (cfr) (QZ.com).



Fig-3: Chinese Exports to Taiwan



Fig-4: Taiwan Exports to China

The Above tables show the trade between the two countries. Taiwan is in the trade deficit with China, imports being more than the exports. Currently, Taiwan has a trade deficit of about \$1.5 bn with China. The trade between the two nations reduced when the tensions between the two countries rose when it came to political issues and WTO stances.

The main imports of Taiwan from China were:

- Electrical machinery, equipment: (25.3% of total imports)
- Machinery including computers: (14.5%)
- Mineral fuels including oil (13.8%)
- Optical, technical, medical apparatus :(4.4%)
- Organic chemicals: (3.2%)
- Vehicles: (3.2%)

The main exports of Taiwan to China were:

- Electrical machinery, equipment: (44.3% of total exports)
- Machinery including computers: (10.8%)
- Plastics, plastic articles: (6.3%)
- Optical, technical, medical apparatus: (5.3%)
- Mineral fuels including oil: (3.5%)
- Vehicles: (3.3%)
- Organic chemicals: (2.8%)

Table-1: Top Ten Exporting Countries of Taiwan

Position	Country	Percentage of overall exports
1	China	26.2
2	Hong Kong	13.6
3	The United States	11.1
4	Singapore	6.5
5	Japan	6.3
6	South Korea	4
7	Vietnam	3.2
8	The Philippines	3
9	Malaysia	2.7
10	Germany	2

Table-2: Top Ten Importing Countries of Taiwan

Position	Country	% of overall exports
1	China	17.5
2	Japan	15.2
3	US	10.1
4	South Korea	5.4
5	Saudi Arabia	5
6	Germany	3.4
7	Malaysia	3.2
8	Singapore	3.1
9	Indonesia	2.7
10	Australia	2.7

The two tables show the dependency of Taiwan on China. Even though Taiwan’s main exports are machinery, computers etc. Taiwan is highly dependent on China for Steel, Aluminum, and manpower to manufacture all these products. The location of Taiwan is such that it has to export only with the help of China. Even though countries like India and Australia are willing to export raw

materials at a cheaper rate to Taiwan, because of the pressure and treaties of Taiwan with China, they are helplessly dependent on China for its economic dependence.

4. RESEARCH GAP

- The literature Review in the article would have focused on determining the country relations between China and Singapore and between China and Taiwan. Singapore and Taiwan trade encounters such as Imports, Exports and Foreign Direct Investments with China.
- The literature review also focuses on determining the timeline in relations between the countries. The dependency level of the countries is also been identified through literature review.
- The major difference between a Literature review and the article encrypts are the identification of effect caused when china imposes Trade Embargo with Singapore Taiwan, this article focuses on the impact that would cause when a trade Embargo is being imposed and what are the reasons for imposing a Trade Embargo.

5. RESEARCH METHODOLOGY

- This research involves completely dependent on the secondary data, where it has completely involved articles from the ProQuest, J-Stor and the government authorized sites and the official sites of ASEAN, Singapore-External Affairs.
- This research did not involve any primary source of data and be dependent on secondary sources of Data.

6. DISSCUSSION

6.1 Why would China impose an embargo on Singapore?

- China is not impressed by the move of Singapore when it supported Indonesia on the claims to the South China Sea in the final document of the summit of the Non-Aligned Movement in Venezuela in October 2016. The Chinese defense adviser openly gave a statement that Singapore will 'pay the price for this move'.
- Trouble for Chinese migrants in Singapore for over a century. Increase in the manufacturing units in Singapore is also encouraging the Chinese to immigrate to Singapore causing trouble to the native Singapore people.
- Increase in the export of Machinery, electronic equipment, telecommunication products from Singapore to many other countries like USA, India and African countries is the main cause in the decrease in the demand for the 'China Made' goods from the past five years.
- Support of Singapore to India in making it the giant in the South Asian region replacing China, positive development of bilateral relation with other enemy countries.
- Expansionist policy imposed by China would lead to superiority complex of power.

6.2 Impact of the Embargo

- China is currently a major military aid sponsor for the city state, Singapore. After the embargo is imposed, one can easily tell that the Chinese government would stop financial aid and military assistance to Singapore. This will end Singapore in trouble as it is heavily dependent on China for its security. Singapore may go for bilateral talks with China to handle all the disputes at once.
- Chinese Migrants in Singapore are not only working for cheap labor, many MNC s in Singapore have Chinese at their top level management. If China imposes an embargo and asks all these people not to cooperate with the MNC s and finally the native Singaporeans will have to sleep hungry.
- Singapore exports only components required for the assembly. But the complete product is assembled in China itself. Moreover, most of the steel, copper, aluminum is exported to Singapore by China. Hence, Singapore will have to struggle to manufacture the small components also. If China stops its exports, Singapore won't receive 60% of the finished electronic goods.
- Not only Good allied nations of China like Pakistan, Russia; but some countries like Vietnam, Laos, and Chile who are either completely dependent or scared of China would also stop trading with Singapore for good relationship with the Asian Giant.
- After manufacturing, the next income for Singapore comes from tourism. A ban on this for Chinese people would reduce a lot of profit for the Singapore tourism industry. The threat from the Asian giant might create panic among the travelers and also reduce the revenue from tourism to the city state.
- The country could end up in a bad state, no revenue generation from the manufacturing, no income from tourism, no armed forces and no self-confidence. This may lead to huge unemployment problems and people might even think of leaving the country.

6.3 Why would China impose an embargo on Taiwan?

- Problems in the South China Sea, especially the issue of Scarborough Shoal
- Taiwan backing up Japan in UN
- Taiwan allowing India to station the Brahmos missile pointing towards China.
- Manufacturers looking at Taiwan to manufacture instead of China due to easy corporate laws.
- Anti-Chinese government.
- Taiwan people rejecting to be called as Chinese.
- Taiwan not ready to come into mainland China again.

6.4 Impact of embargo on Taiwan

- Trade will be very less as China is the best trading partner.
- The economy may run into deficit because 26% of its total exports to China.
- If China stops exporting raw materials to manufacture goods which they export to other countries, the country cannot manufacture at all
- And hence, the GDP will grow negatively. Currently, it is at 2.1%
- It should depend on India and Australia to get raw materials who may charge more to Taiwan taking advantage of their situation.
- It may take two or more decades for the country to build itself again. Or after a huge loss or deficit, the only way left would be to join mainland China.

7. CONCLUSION

From all the above research, analysis it can be concluded that both the two Asian dragons Singapore and Taiwan are heavily dependent on China for even raw materials. Due to the tensions in the border and the bilateral relationship between China and both nations, China may impose an embargo on them at any time; Economies of both the countries will become a chaos. It is better that these countries stretch friendly hands to as many countries as possible in order to sustain in the present economy. Even though Singapore and Taiwan have a good relationship with mineral rich nations like India, Australia, and South Africa; they need to push themselves and make more treaties with these countries in order to reduce the dependency on China and try to be economically independent.

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