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Center for International Trade & Investment

The Trans-Pacific Partnership and Taiwan's Place in the Broader East-Asian Regionalism

Some Political-Economy and Strategic Considerations

December 2014

UPH Executive Education Center

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Table of Contents

Table of Abbreviations

ANZTEC	The Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation
APEC	Asian Pacific Economic Cooperation Forum
ASTEP	The Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership
ASEAN	Association of South East Asian Nations
CEP	Pacific Three Closer Economic Partnership
DPP	The Democratic Progressive Party (Taiwan)
ECFA	Cross-Strait Economic Cooperation Framework Agreement
EU	European Union
FTA	Free Trade Area or Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GPA	WTO Government Procurement Agreement
ICT	Information and Communications Technology
ITA	WTO Information Technology Agreement
KMT	The Kuomintang (political party in Taiwan)
KORUS	Free Trade Agreement between the United States of America and the Republic of Korea
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
P4	Pacific Four (Brunei Darussalam, Chile, Singapore, and New Zealand)
PPP	Purchasing Power Parity
PRC	Peoples' Republic of China
PTA	Preferential Trading Arrangements
RCEP	Regional Comprehensive Economic Partnership Agreement
ROOs	Rules of Origin
SPS	Sanitary and Phytosanitary
TBT	Technical Barrier to Trade
TPSEP	Trans-Pacific Economic Partnership Agreement
TPP	Trans-Pacific Partnership Agreement
TRIPS	WTO Agreement on Trade-Related Intellectual Property Rights
US	United States of America
USD	United States Dollars
WTO	World Trade Organization

Executive Summary

Unlike the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP) promises to be the harbinger of potentially significant trade and investment liberalization. Taiwanese policymakers have every reason to fear the implications of exclusion from this pact. This paper, the second and last in a series on Taiwan's Place in the Broader East Asian Regionalism, discusses the TPP, its likely outcomes, and Taiwan's options when engaging with this initiative and those behind it. Our first paper focused on RCEP and concluded that the economic costs to Taiwan of not being part of RCEP were likely to be minimal, given our view that RCEP was unlikely to be significantly trade liberalizing, and also might never actually culminate in a final trade deal at all.

In this paper, we conclude that the costs of exclusion from the TPP are potentially greater for Taiwan, but that the prospects of it ever being able to join the pact (despite the clearly manifested desires of Taiwanese policymakers to do so) are uncertain at best. Nevertheless, we posit that Taiwan could use a process of concluding bilateral economic partnership agreements with TPP economies as well as unilateral domestic regulatory reform to mitigate the downsides of exclusion from the TPP over the short to medium or even long term.

Taiwan, like many advanced industrialized countries, is facing a range of challenges such as an ageing population, rising income inequality, income stagnation, and growing uncertainty for young people seeking to enter the labour market. We discuss the implications of the recently held local elections on the process of moving towards closer economic integration with Mainland China, concluding that this process - already subject to setbacks - has been further cast into uncertainty. We conclude that what Taiwan needs now is to have a broader rethink of the kind of society it wants to be and what role - if any - closer economic integration with China and other economies in the region may play in moving it towards this vision.

Finally we ask the question what Taiwan has to offer the world, and we respond by affirming that Taiwan offers a unique and enlightened version of what it means to be a Chinese society, namely one that is democratic, free, governed by the rule of law, and politically pluralistic. In the Asian Century, Taiwan's version of China is uniquely important and infinitely welcome. We also discuss the importance of projecting soft power and how other countries in the region have blazed a trail in this regard, at least culturally. We also discuss the need to ensure that the benefits that ensue from trade and investment liberalization are reasonably and equally shared, so that the inherently distributive effects of these processes do not produce negative outcomes for those in import competing sectors that they cannot reasonably overcome.

I. The Trans-Pacific Partnership: A Review of the Rules under Negotiation

A. Brief History of the TPP and its Precursor

Negotiations towards the conclusion of what we now understand as the Trans-Pacific Partnership have officially been going on since the first round of talks in Melbourne, which took place in March 2010[1]. The TPP's historical pedigree lies in an earlier set of negotiations between Chile, New Zealand and Singapore, known as the Pacific Three Closer Economic Partnership (P3 or CEP), which took place across four rounds of talks between 2002 and 2005, before Brunei Darussalam (Brunei) joined the talks, transforming them into the Trans-Pacific Economic Partnership Agreement (TPSEP or P4).[2] The P4 came into force in 2006[3] and featured an accession clause (Art. 20.6), which is arguably the most important feature of the agreement given the events that have transpired since then (namely the TPP negotiations themselves, with up to 12 nations, representing over 40 percent of global GDP, now parties to these talks).

Very few people outside of the original four contracting parties took much notice of the P4 until the United States announced it would begin negotiations to join the agreement, which it did on 22 September 2008[4], seven days after Lehman Brothers had filed for bankruptcy, thus triggering the start of the Global Financial Crisis. Since then, there have been some 20 rounds of negotiations at the time of writing. In addition to the United States and the original four contracting parties to the P4, the following countries have now been admitted as full partners to these negotiations: Australia, Canada, Malaysia, Mexico, Peru, Vietnam, and Japan bringing the total to 12 countries. Once Japan joined the talks, the TPP could claim to include the world's largest and third largest economies, constituting "nearly 40 percent of global GDP and about one-third of all world trade".[5]

There was some speculation that Korea might join the TPP negotiations before their conclusion, since it has already held informal talks with the United States along these lines, and is arguably the most actively engaged country in the Asia Pacific region in terms of concluding FTAs with its trading partners.[6] However, these hopes seem to have been put on ice, and the door to admitting new partners closed until negotiations among the current 12 members have concluded.[7]

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[1] See, among many potential sources, the Reuters article "Talks start in Australia on Pacific trade deal" dated March 15, 2010, available at: http://uk.reuters.com/article/2010/03/15/us-trade-pacific-idUKTRE62E0IF20100315 (visited on April 23, 2013).
[2] Lim, Elms and Low (2012), at p. 21.
[3] Unless otherwise specified, we rely on the text of the agreement made available by the New Zealand Ministry of Foreign Affairs and Trade on their website: http://www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/Trans-Pacific/2-P4.php (visited on April 23, 2013).
[4] See "Schwab Statement on launch of the U.S. Negotiations to join the Trans-Pacific Strategic Economic Partnership Agreement", dated September 22, 2008, available on the USTR website: http://www.ustr.gov/schwab-statement-launch-us-negotiations-join-trans-pacific-strategic-economic-partnership-agreement (visited on April 23, 2013).
[5] Quoted from "Joint Statement of TPP Ministers" meeting on the margins of the Asia-Pacific Economic Cooperation (APEC) meeting of Ministers Responsible for Trade, in Surabaya Indonesia, dated April 20, 2013, available on the USTR website: http://www.ustr.gov/about-us/press-office/press-releases/2013/april/joint-statement-tpp-ministers (visited on April 23, 2013).
[6] See Taeho Bark, *The Republic of Korea's trade relations, its FTA policy and trade integration in the Asia-Pacific*, available at: http://aienetwork.org/blog/55/the-republic-of-koreas-trade-relations-its-fta-policy-and-trade-integration-in-the-asia-pacific (visited on 1 October 2014).
[7] See: USTR, "Statement by U.S. Trade Representative Michael Froman on Korea's Announcement Regarding the Trans- Pacific Partnership," press release, November 29, 2013, http://www.ustr.gov/about-us/press-office/press-releases/2013/November/Froman-statement-TPP-Korea.

B. Structure and Scope of the Negotiations

The TPP is pursuing what has repeatedly been referred to as a "high-standard agreement". This has generally been interpreted to mean " a landmark, 21st-century trade agreement, setting a new standard for global trade and incorporating next-generation issues".[8] In this way, the TPP has remained true to the original P4, the stated objective of which was "to provide a high-quality vehicle for economic integration in the Asia-Pacific region". In terms of their substantive scope, the TPP negotiations envisage establishing binding disciplines on a whole range of issues that have long eluded any kind of consensus to even negotiate on them in Geneva, such as environment, labour, investment, government procurement and competition, do in any event go considerably beyond that hitherto covered or even currently contemplated under WTO rules.

The negotiations involve some twenty-nine chapters[9] taking place under the mantra of the "single undertaking".[10] As far as the more than 20 negotiating groups are concerned, it is possible to surmise, based merely on the public record, that these groups have been constituted in order to focus on the following issues: competition, cooperation and capacity building, cross-border services, customs, e-commerce, environment, financial services, government procurement, intellectual property, investment, labor, legal issues, market access for goods, rules of origin, sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), telecommunications, temporary entry, textiles and apparel, and trade remedies.[11]

Also important for gaining an understanding of the structure and scope of these negotiations are a number of so-called "key elements" that will inevitably impact the commitments that eventually emerge from this process. These include the notion of comprehensive market access; as well as the concept of "a fully regional agreement"; in addition to what are referred to as "cross-cutting issues" (these are regulatory coherence, competiveness and business facilitation, small and medium sized enterprises, and development); another "key element" involves new trade challenges (particularly rules on state owned enterprises); as well as, finally, the notion of a "living agreement".

C. Progress to Date

The TPP negotiations have progressed slowly, although given the divergence in terms of economic size and development of the now 12 negotiating parties, and given the complexity of many of the issues being discussed, this is not surprising. Some 20 rounds of negotiations have taken place at the time of writing. Progress has been further hampered by the lack of a negotiating mandate by the Obama Administration - an omission that will likely be rectified in early 2015. Once the US is able to negotiate with Fast Track or Trade Promotion Authority, other parties to the talks will be able to edge closer to their final-offer negotiating positions, allowing the handful of sensitive market access issues to be dealt with, which itself will pave the way for compromises in other difficult issues like investment, intellectual property, environment, labour, state-owned enterprises and other areas that involve tricky regulatory reform (these issue areas are discussed in more detail below).

[8] See "Outlines of the Trans-Pacific Partnership Agreement", dated November 12, 2011, available on the USTR website: http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/outlines-trans-pacific-partnership-agreement (visited on April 23, 2012).

[9] Congressional Research Service "The Trans-Pacific Partnership Negotiations and Issues for Congress", April 15, 2013, available at: http://www.fas.org/sgp/crs/row/R42694.pdf (last visited on April 29, 2013).

[10] Loc cit (footnote 7).

[11] This list taken from "Outlines of the Trans-Pacific Partnership Agreement" cited above.

D. Areas of Negotiation

Slightly more than 20 working groups have been convened and are already at a fairly advanced stage of wrapping up negotiating texts across most areas, including those that have long figured among any FTA negotiation such as market access (goods), rules of origin, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), textiles and apparel, and trade remedies. Where the TPP seeks to break some new ground, however, is in areas such as regulatory coherence, government procurement, state-owned enterprises, investment, competition policy, e-commerce, small and medium sized enterprises (SMEs), environment and labour. It is also seeking to push the envelope beyond what has been achieved at the multilateral level in a few areas like intellectual property and financial services.[12] Below we discuss each of these areas briefly with a view to identifying likely negotiating outcomes.

1. Market Access (Goods)

Talks on market access have diverged due to two distinctive approaches that have been taken by the United States and Peru on the one hand, who have only made market access offers to those countries they have not yet concluded an FTA with[13], and all the other negotiating parties on the other hand, who favour a single tariff schedule that would apply between all TPP Members.[14] This is an issue that until today has not been conclusively resolved. The US and Peruvian approach is surprising given that a single unified schedule would by far be more trade liberalizing and given the purportedly high ambitions the US claims to have for the TPP talks.

Market access negotiations in the TPP have faltered to date on the usual handful of politically sensitive commodities that tend to be the focus of carve-outs or exemptions under FTAs, such as dairy, sugar, rice and beef. Even though these negotiations are fairly advanced, there is still little clarity on the degree to which these commodities - which have long eluded liberalization under multilateral, bilateral or regional integration initiatives - will finally become more exposed to global market forces. Another source of contention is rules of origin, where some TPP partners would very much like to see the US's long-held yarn-forward rule for textiles and apparel finally consigned to the dustbin of history. This is likely to be resisted by the very well organised domestic lobby that represents what remains of America's now tiny onshore textile and footwear manufacturing industry, as well as by the much larger and politically influential cotton growers of America.[15]

2. Trade in Services

In the area of trade in services, the TPP is likely to reinforce the existing trend away from positive-list scheduling in favor of the negative-list approach, which has so far largely been resisted by developing countries that like the policy space and flexibility provided under positive list service schedules. In terms of new market access, the most likely sectors to see incremental liberalization include financial services,

[12] This list taken from "Outlines of the Trans-Pacific Partnership Agreement" cited above.
[13] See "Business Groups Seeking Tariff Cuts Criticize U.S. Market Access Strategy", in: "Inside U.S. Trade" - 24 May 2013.
[14] See Deborah K. Elms, *Chapter 6 Negotiations over market access in goods*, in: Lim, Elms and Low (2013), pp. 109 - 120, at p. 114.
[15] Cotton is grown in Alabama, Arkansas, Arizona, California, Florida, Georgia, Kansas, Louisiana, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas and Virginia; source: National Cotton Council website http://www.cotton.org/edu/faq/ (3 December 2014).

such as insurance and banking, as well as professional services, education services, telecommunications services, express delivery and e-commerce.

3. Investment

Although talks are fairly advanced under the investment chapter, to the extent where a draft text is reported to have been largely completed (and has already been leaked[16]), a number of contentious issues remain, the greatest of which is probably investor-state dispute settlement. The United States is still the most important champion of this instrument but is meeting resistance from almost all corners. One possible compromise that is envisaged is to allow investor-state dispute settlement but to carve certain areas of government policy making out of its scope, particularly public health.[17] Another area of contention is capital controls, which the US has consistently tried to ban or significantly constrain under its previous FTAs.

The leaked draft of the investment chapter seems to do little more than consolidate many of the rules that have already been agreed in previous bilateral FTAs with the US, such as on the right of establishment of foreign goods and services providers in the markets of FTA partners, non-discriminatory treatment of US investors and their investments, minimum guarantees of fair and equitable treatment, disciplines on expropriation, capital controls, exemptions for scheduled non-conforming measures, state-to-state and investor-to-state dispute settlement provisions, and a ban on imposing performance requirements on US investments, such as minimum export thresholds and local content requirements.[18]

The real action in the investment chapter of the TPP is going to be found in the lists of non-conforming measures that each party to the talks submits. In previous FTAs, particularly those with the United States, both the US and its FTA partners submitted lengthy lists of non-conforming measures covering numerous sectors.[19] The value of the TPP as an instrument of genuine and far-reaching investment liberalization (as it is claimed to aspire to) will be in the extent to which these lists of non-conforming measures are whittled down to a bare minimum of sectors that are either poorly disposed to foreign investment or are simply commercially unattractive for private economic operators.

4. Intellectual Property

A draft of the TPP text on intellectual property that was leaked at the end of 2013[20] shows that the main areas of contention in the IP chapter seems to be access to medicines and the digital environment. The areas where the US is pushing hard but seems to be doing so in isolation, include issues such as extending patents and inhibiting access to medicine, data exclusivity for biologics, extending patent

[16] Available for download here: http://tpplegal.wordpress.com/leaked-texts/ (visited on 29 November 2014).

[17] Specific language that would carve out public health measures from challenge has in fact been tabled, as has other product-specific language relating to tobacco, so this might very well portend the quid pro quo that is being contemplated to allow Australia to concede to investor-state dispute settlement under the TPP, a very important objective for the US given the existence of a number of developing countries among the negotiating partners with less than optimally functioning domestic legal systems.

[18] This summary paraphrased from that provided by Ferguson *et al* for the Congressional Research Service (2013), at p. 41.

[19] For example, in the KORUS, the US tabled non-conforming measures in in e.g. the atomic energy sector, in the mining and pipeline transportation sector, and for specialty air services.

[20] Available at http://wikileaks.org/tpp/static/pdf/Wikileaks-secret-TPP-treaty-IP-chapter.pdf (14 December 2013).

protection to plants, animals, and medical procedures. What is likely to emerge are rules that represent some degree of TRIPS +, without erecting further barriers to affordable access to essential medicines. Also when it comes to rules on the digital environment, although the US position favors extending copyright and criminalizing an ever wider range of online copyright infringing activities, this is likely to be resisted by countries such as New Zealand and other developing country parties to the talks (Vietnam, Malaysia).

5. Regulatory Coherence

Rules on regulatory coherence are being negotiated as part of both a stand-alone chapter, as well as in the context of different working groups such as those discussing SPS and TBT.[21] The 2011 Outlines document presented by APEC leaders, provides an indication of what specific objectives are being pursued under this heading:

> "*... we have agreed to work to improve regulatory practices, eliminate unnecessary barriers, reduce regional divergence in standards, promote transparency, conduct our regulatory processes in a more trade-facilitative manner, eliminate redundancies in testing and certification, and promote cooperation on specific regulatory issues.*"[22]

Regulatory Coherence is thus clearly intended to address the broad range of non-tariff measures and behind-the-border policies that impact international trade in goods and investment flows, such as testing requirements and procedures, technical regulations, food safety standards, regulatory restrictions and interventions in different services sectors to name just a few.[23]

A 2010 leaked draft text on regulatory coherence[24] seems to contain little more than a set of best-endeavour obligations mandating the establishment of a "body, process or mechanism" to "facilitate central coordination and review of certain regulatory measures"[25] The leaked draft text also sets out provisions "encouraging" the national coordinating body, process or mechanism to conduct regulatory impact assessments (RIAs). The leaked draft text also contains provisions mandating that covered regulatory measures be drafted in such a away that they can be easily understood, and be publicly accessible. In fact, the lack of any binding commitments in the area of regulatory coherence would probably reduce the TPP to little more than just another best practices club like APEC or the OECD.

6. State-Owned Enterprises

The TPP is expected to usher in a new generation of binding international treaty commitments addressing the issue of state-owned enterprises that will be directed at mitigating some of the more competitively distorting practices of these market actors. From the public record of stakeholder consultations and congressional hearings it is apparent what the US position on this issue is shaping up

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21 Ian F. Fergusson *et al*, *The Trans-Pacific Partnership Negotiations and Issues for Congress*, Congressional Research Service, 21 August 2013, available at: http://www.fas.org/sgp/crs/row/R42694.pdf (14 December 2013), at p. 46.

22 See "Trans-Pacific Partnership (TPP) Trade Ministers' Report to Leaders", dated November 12, 2011, available on the USTR website: : http://www.ustr.gov/about-us/press-office/press-releases/2011/november/trans-pacific-partnership-tpp-trade-ministers'-re (14 December 2013).

23 See *C. An inventory of non-tariff measures and services measures*, in: "World Trade Report 2012", World Trade Organization, available at: https://www.wto.org/english/res_e/booksp_e/anrep_e/wtr12-2c_e.pdf (14 December 2013.

24 See www.citizenstrade.org/ctc/wp.../10/TransPacific (14 December 2013).

25 Leaked draft text, Art. X.2 (1).

to be.[26] The intellectual work done by the OECD under the rubric of competitive neutrality[27] has also played a key role in shaping US views on this issue. Based on some of the proposals that US industry groups have submitted to date a number of commitments are likely to be sought by USTR in the context of these negotiations, including, transparency and notification obligations, non-subsidization commitments, language requiring that SOEs refrain from conduct that would nullify and impair any benefits accorded under the agreement, or from unfairly exploiting any monopoly assets or market positions (i.e. observing the principles of fair competition), to name just a few.[28]

These proposals have received mix reactions from other TPP negotiating parties, with countries like Vietnam, Malaysia, Brunei and Singapore with the largest state owned sectors and thus the most likely to feel the need to push back. Whereas in Singapore, the state owned sector has long been subjected to the disciplines imposed by market forces, this is certainly not the case for example with Malaysia or Vietnam, with Malaysia in particular not showing any appetite to embark on major reforms of its state owned sector. Vietnam might be another matter entirely, however, with some commentators noting that reformers within the Vietnamese political establishment are seeking to use the TPP talks and any emerging disciplines on SOEs to tame the country's bloated public sector and thereby give a boost to the economy's competitiveness.[29]

7. Government Procurement

It is generally true that Asia has only engaged very reluctantly in the liberalization of its government procurement markets, so that among those Asian economies negotiating the TPP, only Japan, Singapore, Korea, Australia and New Zealand have made any steps in this direction either in the context of the WTO Government Procurement Agreement or in the context of bilateral FTAs.[30] ASEAN has so far completely overlooked such disciplines in the context of its own regional integration initiatives.[31] In the past, this has proven a particularly difficult hurdle for Malaysia, but even the US - once the cheerleader of this form of liberalization - seems to have lost much of its initial enthusiasm, with Congress unwilling to move away from Buy American provisions and with State governments becoming increasingly resistant to subjecting themselves to government procurement provisions in FTAs since NAFTA.

What does seem clear is that the provisions on government procurement that are adopted will incorporate the 2011 changes made to the WTO Procurement Agreement such as on national treatment and non-discrimination, tendering procedures, selection procedures, and challenge procedures.[32] This is

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[26] See for example the submission filed by the Coalition of Services Industries & US Chamber of Commerce's Global Regulatory Cooperation Project State-Owned Enterprises: Correcting a 21st Century Market Distortion, 20 July 2011, available at: http://www.thecityuk.com/assets/Trade/CSI-paper.pdf. (14 December 2013); see also *Brown, Kyl Urge Disciplines On SOE U.S. Investments As Part Of TPP Deal*, 17 August 2011, at World Trade Online.

[27] See OECD, *Competitive Neutrality: Maintaining a level playing field between public and private business*, 2012, available at: http://www.oecd.org/competition/competitiveneutralitymaintainingalevelplayingfieldbetweenpublicandprivatebusiness.htm (visited on 29 November 2014).

[28] See CSI and USCOC 2011, at pp. 10 - 11.

[29] See *State capitalism in Vietnam, Blowing in the trade winds*, published in: "The Economist", 19 October 2013, available at: http://www.economist.com/news/asia/21588143-will-american-led-trade-deal-aid-vietnamese-reformers-blowing-trade-winds (visited on 29 November 2014).

[30] See Locknie Hsu, *Government Procurement: A View from Asia*, in: "Asian Journal of WTO & International Health Law and Policy", Vol. 1, No. 2, pp. 379-400, September 2006.

[31] Dawar and Evenett (2011), at p. 375.

[32] For more detail on the updated WTO Government Procurement Agreement see Sue Arrowsmith and Robert Anderson (eds), *The WTO Regime on Government Procurement: Challenge and Reform*, Cambridge University Press, 2013.

what already occurred under KORUS and there is no reason to believe this will be any different under the TPP. In fact, even if the TPP does not make significant inroads into opening public procurement markets among its members, it will nevertheless be a way to indirectly bring a large number of countries under WTO government procurement disciplines without them having to formally negotiate accession to the Agreement at the WTO itself.

8. Competition Policy

The November 2011 framework published on the sidelines of the Honolulu APEC Leaders' Meeting describes the objective of the TPP chapter on competition policy as being "to promote a competitive business environment, protect consumers and ensure a level playing field for TPP companies." The commitments reportedly being envisaged are those on the enactment and enforcement of competition laws and relevant institutional frameworks, due process provisions in the enforcement of competition laws, transparency obligations, consumer protection, affording standing to private parties to initiate legal action under competition laws (known as private right of action) and technical cooperation for the benefit of developing country partners who have not yet or only recently enacted legislation in the area of competition policy.[33]Very little is known about the draft TPP text on competition, although some commentators have speculated that the provisions in the US FTAs with Korea and possibly Singapore will set the tone at the TPP too.[34]

9. E-Commerce

The objectives being pursed in these negotiations are no secret given the proposals that have long been put forward by the US in the WTO[35] and which have been included in FTAs it has already concluded with partners such as Korea[36] and Australia.[37] In addition, US-based industry groups such as the Business Software Alliance[38] and the Coalition of Services Industries[39] have been very open about the kind of protectionist practices they wish to see addressed in the TPP negotiations. The 2011 outline document states that "[the] e-commerce text will enhance the viability of the digital economy by ensuring that impediments to both consumer and businesses embracing this medium of trade are addressed. Negotiators have made encouraging progress, including on provisions addressing customs duties in the

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[33] See Ferguson *et al* for the Congressional Research Service (2013), at p. 42.

[34] See Alice Pham, The TPP Agreement: Chapter on Competition Policy, CUTS International, Hanoi Resource Centre, May 2013 available at: http://www.cuts-hrc.org/images/stories/doc/tpp_competition_chapter.pdf (14 December 2013).

[35] See para. 34 of the Doha Ministerial Declaration (WT/MIN(01)/DEC/1) adopted on 14 November 2001, available at: http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm#electronic (14 December 2014), as well as the many proposals tabled by various countries currently negotiating the TPP, like Australia (IP/C/W/233), the United States (IP/C/W/149).

[36] For the text of this chapter in the KORUS FTA see the USTR website at: http://www.ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file816_12714.pdf (14 December 2013).

[37] For the text of this chapter in the AUSUS FTA see the USTR website at: http://www.ustr.gov/sites/default/files/uploads/agreements/fta/australia/asset_upload_file508_5156.pdf (14 December 2013).

[38] See Business Software Alliance , *Lockout: How a New Wave of Trade Protectionism Is Spreading through the World's Fastest-Growing IT Markets — and What to Do about It*, December 2012, available at: http://www.bsa.org/~/media/Files/Policy/Trade/BSA_MarketAccess_Report_FINAL_WEB_062012.pdf (14 December 2013). (Business Software Alliance 2012)

[39] See CSI Releases Paper On The Importance of Cross-Border Information Flows In TPP, press release dated 18 May 2012, available at: https://servicescoalition.org/images/files/2012-05-22%20TPP%20Data%20Flows%20presser.pdf (14 December 2013).

digital environment, authentication of electronic transactions, and consumer protection. Additional proposals on information flows and treatment of digital products are also under discussion".[40]

10. Environment

Given the very different degrees of importance that various TPP countries place on including or excluding environmental provisions in their FTAs, and given the very different approaches TPP countries take to enacting and enforcing environmental protection legislation in their own domestic legal systems, these negotiations were always going to be characterized by vast differences in perceived interests and desired outcomes. The US has included distinct texts on environment in all of its bilateral FTAs with other TPP negotiating partners, whereas Chile, New Zealand, Singapore and Malaysia have limited themselves to only including environmental provisions in side agreements to their FTAs.[41] Vietnam has so far refrained from including environmental provisions in any of its FTAs as has Australia, with the exception of its FTA with the US.[42]

Most other TPP parties beside the United States are reported as rejecting the notion that environmental provisions should be subject to the same dispute settlement procedures as commercial commitments, whereby this issue is equally reported as being a so-called "red line" for the US, with Congress unlikely to accept anything less than full enforceability of these commitments.[43] The stand-off over the degree to which environmental provisions are to be subject to binding dispute settlement is something that is only likely to be resolved at the highest political levels and in the closing days of the talks as key trade-offs between different countries' most sensitive political-economy red lines emerge.

11. Labour

In the course of the TPP negotiations, USTR has reportedly tabled two proposals on labour[44] with Canada also taking an active part in submitting proposals on enforcement of these obligations.[45] The US proposals reportedly require countries to enact labour laws stipulating minimum wage requirements, working hours, and occupational health and safety.[46] In the face of opposition to its proposals (see below), the US position seems to have softened somewhat - to the dismay of unions and labour organizations in the United States[47] - and may start to pivot towards "improving the labor-related capacity building provisions in past trade agreements".[48] Whether or not the US position does eventually gravitate away from the incorporation of harder treaty obligations on core labour standards towards softer commitments on technical assistance and capacity building in this area, the fact that organized

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[40] See http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/outlines-trans-pacific-partnership-agreement (14 December 2013).

[41] See Jeffrey J. Schott and Julia Muir, *Chapter 12 Environmental issues in the TPP*, in: Lim Elms and Low (2013), as cited above, pp. 187 - 199, at p. 189.

[42] Ibid.

[43] See *U.S. Faces Opposition On Enforceability Of TPP Environmental Chapter*, in: "Inside US Trade", 24 May 2012.

[44] See Kimberly Ann Elliot, *Chapter 13 Labour standards and the TPP*, in: Lim Elms and Low (2013), as cited above, pp. 200 - 210, at p. 200.

[45] See *Canada Pushes Alternative Enforcement For TPP Labor Rights Obligations*, in: "Inside US Trade", 13 December 2012.

[46] Uncorroborated reports cited in Ferguson *et al* for the Congressional Research Service (2013), at p. 44.

[47] See Unions Outline Substantive, Transparency Objections To TPP In Wake Of Auckland Round, in: "Inside US Trade", 17 December 2012.

[48] This was at least the approach advocated by key US lawmakers in a joint letter to former USTR Ron Kirk in December 2011, as reported in Ferguson *et al* for the Congressional Research Service (2013), at p. 44

labour on the one hand and business interests on the other are at such odds over this issue is likely to ensure that the US will be unable to escape the reality that their negotiating partners in the TPP are equally ambiguous about the utility of incorporating hard disciplines on these issues in the trade rules that ultimately emerge from this process. This is something that both representatives in Congress and Obama Administration officials have come to realize after several years of tough negotiations on these issues.

E. Concluding the TPP and its Likely Impact

There has been much speculation as to when these talks are actually likely to culminate in a finished agreement and when such an agreement may ultimately enter into force. We, along with many other commentators, predict that talks are likely to be concluded at some point in 2015, both as a result of a change in control of the United States Senate to the Republic Party (always more favorable to trade and investment liberalization) and because President Obama will use his remaining time in office to round out his historical legacy of achievements as America's first African American President. There are few areas that look as ripe for bipartisan collaboration than the TPP.

The likely impact of the TPP depends on the extent of tariff liberalization it ultimately achieves and whether or not persistently problematic commodities (discussed above under Market Access) continue to be exempted or sheltered from tariff elimination. Other areas where the TPP promises to be particularly trade liberalizing include rules on competition, state-owned enterprises and e-commerce. We thus predict the impact of the TPP to be substantial, and to usher in a new era of trade and investment openness across the Asia-Pacific region that will presage similar efforts across the Atlantic in under the auspices of the Trans-Atlantic Trade and Investment Partnership (TTIP). The multilateral trading system will then be left in a position where it can either catch up or slip further into irrelevance as a forum for achieving closer economic integration.

II. The TPP's Place in Taiwan's Regional Economic Integration Aspirations

A. Background

Taiwan has been a part of the multilateral trading system since 1 January 2002. The World Trade Organization (WTO) is an international organization which provides a multilateral forum for its Members to negotiate rules of international trade. The slow progress of the Doha Round, however, has spawned the proliferation of bilateral and plurilateral trade agreements (FTAs). Many have argued that these FTAs have largely excluded Taiwan, mostly for political reasons. This has raised concerns that Taiwan's economy, particularly those industries that are highly dependent on foreign trade, would be marginalized and less globally competitive if Taiwan continues to be excluded from these different regional integration initiatives.[49] At the same time, South Korea – a major competitor of Taiwan's export industries – has concluded FTAs with its key trading partners such as the US, ASEAN, EU, Chile, Singapore and India. Consequently, there is a growing fear that the continued exclusion of Taiwan from these initiatives would undermine its future economic competitiveness and growth prospects.

The TPP aims to create a regional free trade agreement involving (so far) 12 countries in the Asia Pacific and is expected to be a platform for wider regional economic integration.[50] TPP membership is significant for Taiwan because it is a key for market access opportunities and an impetus to update Taiwan's trade and economic policies. Similarly, economic integration in the Asia Pacific region would ultimately be incomplete without Taiwan's participation in the TPP. Taiwan, despite its unique international status, has become an Asian economic success story. Many refer to this phenomenon as Taiwan's economic miracle. Taiwan also provides an essential link in global supply chains. It can be said therefore that Taiwan's membership in the TPP would be a mutual benefit to both Taiwan and members of the TPP.

This chapter evaluates the significance of Taiwan being included in the TPP and the importance of TPP in Taiwan's regional economic integration aspirations.

B. Why Taiwan Matters?

1. Taiwan's Economy

Despite its relative diplomatic isolation, Taiwan has grown from humble beginnings to become one of Asia's major economies. It is the 6th richest country in Asia and 28th in the world.[51] In 2013, Taiwan was ranked 21st in the world by GDP at purchasing power parity and 28th at per capita GDP (PPP).[52] International trade contributes substantially to Taiwan's economy and has been the engine of Taiwan's economic growth trajectory. Taiwan's exports of goods and services constituted about 73 percent of GDP in 2013.[53] Taiwan's exports increased year-on-year by 2% to reach US$ 153.4 billion during the first

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[49] http://fas.org/sgp/crs/row/R41952.pdf.
[50] http://mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/Trans-Pacific/index.php
[51] Joshua Meltzer "Taiwan's Economic Opportunities and Challenges and the Importance of TPP", Brookings Institution: Center for East Asia Policy Studies at p. 1.
[52] https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html
[53] http://fas.org/sgp/crs/row/R41952.pdf, p. 38

six month of 2014.[54] Since the 1990s, the industrial sector particularly electronic components has been the main contributor to Taiwan's goods exports while agricultural goods comprise only around 2%.[55] Due to its scarcity of land and natural resources, Taiwan's major imports are raw materials and agricultural products. Taiwan's primary export partners are China (27.1%), Hong Kong (13.2%), the United States (10.3%), Japan (6.4%) and Singapore (4.4%). Meanwhile Japan (17.6%), China (16.1%) and the US (9.5%) are its largest import partners.[56]

Taiwan's advanced electronic and IT industries provide a significant contribution to its strong economy and grants it the status of an indispensable partner in global value chains for the IT industry. They also put Taiwan on the map of global economic competitiveness. By admitting Taiwan to the TPP, other TPP parties could have better access to these products and attract Taiwanese investment to their countries.

2. Taiwan's Position in the Global Value Chains

A value chain is a full range of activities to bring a product to the market, from conception to final use.[57] Economies have become increasingly interconnected within global value chains. More than half of the world's manufacturing imports and 70 percent of the world's services imports are intermediate goods and services. In other words, most goods and a share of services are "made in the world" today. This phenomenon is also known as the fragmentation of production chains.[58]

Taiwan has been highly integrated in global and regional value chains. This is evidenced by Taiwan's export structure. Over 70 percent of Taiwan's exports are intermediate goods and over 50 percent of Taiwan's export orders are produced overseas, mostly in the Asia Pacific region. Computer and component technologies are two primary sectors of Taiwan's economy. Around 94 percent of motherboards and notebook PCs in the world are produced by Taiwanese companies. In the area of ICT, up to 85 percent of Taiwan's exports are produced overseas.[59] Taiwanese multinational electronics contract manufacturing company, Hon Hai Precision Industry Ltd - the parent company of Foxconn - is renowned for producing notable products such as iPhone and iPad in China and exporting them to the US and other global markets. This is an example of trade and investment synergies between Taiwan, China and United States. The products are assembled in China by a Taiwanese company; but, the final products are owned by a US firm.[60]

The structure of each country's value-added exported and imported products demonstrates the variation of how countries participate in global value chains.[61] Advanced economies such as the US and Japan, generally engage upstream within global value chains (producing the raw materials or the knowledge such as design and research), meanwhile emerging economies (e.g. China, Mexico) are more likely to be involved downstream within global value chains, meaning in assembling processed products

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[54] http://china-trade-research.hktdc.com/business-news/article/Fast-Facts/Taiwan-Market-Profile/ff/en/1/1X000000/1X06BVSN.htm
[55] "Taiwan's Economic Opportunities and Challenges and the Importance of TPP", p. 1.
[56] https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html
[57] OECD "Interconnected Economies: Benefiting from Global Value Chains", available online: http://www.oecd.org/mcm/C-MIN%282013%2915-ENG.pdf, p. 6.
[58] OECD "Interconnected Economies: Benefiting from Global Value Chains", p. 6
[59] "Taiwan's Economic Opportunities and Challenges and the Importance of TPP", p. 2.
[60] "Taiwan's Economic Opportunities and Challenges and the Importance of TPP", p. 4.
[61] http://www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/Dai_awp_15%281%29.pdf, p. 33.

or concentrated in customer services.[62] Taiwan appears to be deeply embedded within global value chains since it exports most of its value-added in intermediates.[63] This structure reflects the interconnectedness of production. Taiwan's position in the value chains and its TPP membership would generate a more efficient, higher-quality and higher-value of trade and investment which would further optimize economic integration in the region.

3. Taiwan's Robust Trade and Economic Relations with the TPP Negotiating Parties

Taiwan and the US have enjoyed a robust trade and economic relationship for decades. The US is Taiwan's largest foreign investor and Taiwan is the US's 11th largest trading partner.[64] This relationship makes Taiwan one of the US's key allies in support of the latter's renewed economic interests in the Asia Pacific region. The TPP is generally considered to be a 'central component of America's rebalance in Asia'.[65] Taiwan's vibrant democracy as well as policies and actions that support American's foreign policy interests and engagement in Asia can be one of the modalities for Taiwan in bidding for TPP membership.[66] Including Taiwan in the TPP is also in line with the US's policy goals in Asia.

Taiwan is an important economic partner for both Australia and New Zealand. Taiwan is Australia's tenth biggest trading partner, and seventh biggest export market.[67] Likewise, Taiwan is New Zealand's twelfth largest export market, fifteenth largest source of imports and a significant source of tourists and investment.[68] New Zealand is one step ahead of Australia in terms of cementing economic ties with Taiwan. In 2013, both countries concluded an Economic Cooperation Agreement (ANZTEC). ANZTEC can be seen as an entry point into the TPP since New Zealand is a founding member of the negotiated Agreement.[69] Taiwan has also signed an Economic Cooperation Agreement with Singapore (ASTEP), another founding member of the TPP.

Japan and Taiwan have maintained robust two-way trade exchanges for decades. Japan is Taiwan's second largest trading partner and fourth leading source of investment. Meanwhile Taiwan is the fourth largest trading partner of Japan.[70] Japanese Prime Minister Shinzo Abe even expressed his support for Taiwan's inclusion in the TPP on the sidelines of the APEC economic leaders' summit in 2013.[71] Taiwan and Viet Nam economic ties are also close. Taiwan is Viet Nam's third largest foreign investor and the largest foreign employer of Vietnamese workers within Viet Nam.[72] TPP membership for Viet Nam would bring market access opportunities for its textile and apparel industries to the US. However, Viet

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[62] These positions may change over time. For example, China tends to shift away their focus on assembly work and try to produce and export more intermediates. OECD "Interconnected Economies: Benefiting from Global Value Chains", p. 11.
[63] http://www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/Dai_awp_15%281%29.pdf, p. 34.
[64] http://www.state.gov/r/pa/ei/bgn/35855.htm
[65] Remarks by Ambassador Michael Froman at the U.S. Chamber of Commerce and Center for Strategic and International Studies Symposium on the TPP http://www.ustr.gov/about-us/press-office/speeches/2014/September/Remarks-by-Ambassador-Froman-at-US-Chamber-CSIS-TPP-Event
[66] http://www.us-taiwan.org/reports/2011_june16_why_taiwan_matters_testimony_to_house_committee_on_foreign_affairs.pdf
[67] https://www.dfat.gov.au/geo/taiwan/taiwan_brief.html
[68] http://www.mfat.govt.nz/Countries-and-Territories/Taiwan.php
[69] http://www.aei.org/files/2014/05/28/-chambersscissorsbeyondbilateralagreementstaiwanusjapantrilateral_155041875693.pdf, p. 5.
[70] http://www.roc-taiwan.org/public/Attachment/731918345371.pdf
[71] http://www.chinapost.com.tw/taiwan/foreign-affairs/2013/10/09/390838/Japanese-PM.htm
[72] http://www.roc-taiwan.org/public/Attachment/731918345371.pdf

Nam still depends on imports of material from South Korea and Taiwan. As discussed above, the US is clinging doggedly to its 'yarn forward' which would require other TPP members to use yarn in textile produced in the TPP in order to obtain duty-free access.[73] This rule may hamper Viet Nam to take full advantage of the TPP, thus it would also be of interest to Viet Nam to include Taiwan in the TPP thereby bringing more weight to bear against the yarn forward rule. Although Taiwan's trade and economic ties with other TPP members such as Brunei, Canada, Chile, Malaysia, Mexico and Peru are not as close as its relations with the US and Japan, Taiwan has progressively developed stronger and more active trade relations with each of these economies.

C. TPP – Why It Matters for Taiwan?

Taiwan's policy objectives, according to its 2014 Trade Policy Review, focus on "its further integration to the global economy through its active participation in the WTO and, increasingly, the negotiation of free-trade agreements and economic-cooperation agreements".[74] In other words, pursing regional integration is one of Taiwan's policy goals. This is why regional trade agreements and the TPP in particular, matter for Taiwan.

1. TPP Fits Taiwan's Economic Aspirations and Needs

Taiwan has a high standard approaches to trade, investment, environment and labor policies. It has a strong tradition of continual economic reforms and transformation.[75] Taiwan's desire to join the TPP demonstrates its awareness that Taiwan faces and deals with 21st century issues. The TPP aims to liberalize trade amongst the economies of the Asia-Pacific region and addresses 21st century issues in the global economy. According to Baldwin, 21st century trade is about "made-everywhere-sold-there" goods.[76] It involves "20th century trade, *plus* complex cross-border flows related to international production networks".[77] It covers trade in intermediate goods, services, know-how, the movement of people and capital. Regional trade agreements that address 21st century trade issues are the agreements that fit Taiwan's deeper regional economic integration aspirations. The TPP aims to create a durable and modern set of rules that reflect the new reality of IT-enabled global value chains.[78] The high-standard regional trade agreement that includes new disciplines related to digital trade such as TPP aligns with the objective and needs of Taiwan.

2. TPP Participation Will Help Taiwan Keep Pace with its Regional Competitors

Due to its unique international status, Taiwan has been largely absent from the proliferation of Asian FTAs which includes Taiwan's regional competitors. South Korea, for example, has an FTA with ASEAN, Chile, Singapore, EU, US, India, and is currently negotiating RCEP and other bilateral FTAs with China, Japan, Mexico, Canada, Australia, New Zealand and so forth. Joining the TPP will put Taiwan back on the map of regional competitiveness and integration.

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[73] http://www.amchamvietnam.com/4591/tpp-rules-of-origin-for-textiles-and-apparel-yarn-forward/
[74] http://www.wto.org/english/tratop_e/tpr_e/s302_e.pdf
[75] Likewise, joining TPP can be a driving force for Taiwan to keep (or even fast) its pace on economic reforms.
[76] Richard Baldwin "Multilateralising 21st Century Regionalism", Global Forum on Trade, p. 6.
[77] "Multilateralising 21st Century Regionalism".
[78] http://csis.org/files/publication/131113_Conversation2_TTP.pdf.

3. Driving Force to Speed Up Taiwan's Pace on Domestic Economic Reforms

As noted previously, TPP is a "high standards" trade agreement. These standards would require domestic economic reforms that aim to improve the quality of economic institutions and governance to boost efficiency, transparency and economic growth. The TPP includes a number of new disciplines such as competition policy, state-own enterprises, trade and environment, and labor as well as covering "WTO-plus" provisions related to (for example) IPRs and services. Other new rules on e-commerce and ICT related to services and the cross-border transfer of data are also included. It can be expected that these new disciplines and provisions would impose binding constraints on specific policies – often favored by politicians – that protect domestic industries and restrict import competition.[79]

Recognizing the benefits of joining (and the potentially prohibitive cost of not joining) the TPP, Taiwan has taken several approaches and initial steps to meet the TPP's high standards. This has been praised. Despite its good record on economic reforms and trade liberalization, Taiwan's major trading partners who are also TPP negotiating parties, still point out Taiwan's domestic measures affecting international trade particularly those related to import protection and domestic support on agricultural products.[80] Additionally, domestic political tensions between the opposition DPP, who is known for its position in opposing closer economic integration with China and the ruling KMT that wants closer relations with China, are another domestic challenge for Taiwan's regional economic integration ambitions. The recent local elections in which DPP won 13 of the 22 seats might be seen as a popular vote of no confidence in the ruling party's China strategy, and thus a step back in terms of Taiwan's relations with China.[81]

Joining the TPP also means that Taiwan has to refine the transparency and international compatibility of many of its administrative and rule-making procedures. Reforms in these areas, however, often prove to be more difficult and problematic than tariff elimination. Domestic opposition and the entrenched inertia and conservatism of bureaucratic institutions may very well torpedo this process. It is therefore important for Taiwan to demonstrate its high level of commitment to push domestic reforms in order to win the support from the US and other TPP Members. Failing to do so, Taiwan might lose its own momentum in striving to achieve the ultimate policy objective of deeper regional economic integration.

[79] Jeffrey J Schott and Cathleen Ciimino "Should Korea Join the Trans-Pacific Partnership?" Policy Brief Number PB14-22 Peterson Institute for International Economics, September 2014 at 7.
[80] http://www.dfat.gov.au/geo/taiwan/taiwan_brief.html
[81] http://online.wsj.com/articles/taiwan-election-results-set-to-complicate-relations-with-china-1417366150?mod=e2fb

III. Some Reflections on Achieving Closer Regional Economic Integration outside of the TPP

This chapter will discuss the possible scenarios for Taiwan in achieving closer regional economic integration as it waits for a chance to join the TPP. Various other fora and options present themselves as a way for Taiwan to participate in the many regional integration initiatives currently ongoing or being contemplated.

A. RCEP

In a previous paper we discussed the possibilities and even the desirability of Taiwan joining RCEP. We found that given the only limited trade liberalizing effects that RCEP is likely to effectively exert, and the fact that Taiwan is procedurally barred from participating in these talks (because it is not an ASEAN FTA partner), Taiwan should not focus too much of its energies contemplating the costs and benefits of acceding to RCEP or strategies for doing so. Instead we advocate a strategy where Taiwan pursues RCEP-equivalent outcomes by concluding bilateral PTAs[82] with RCEP member economies. In fact, we advocate the same strategy vis-à-vis TPP members as a way to neutralize any perceived downsides for Taiwan from not being included in those talks at present.

The truth is that RCEP as an endeavor has only limited ambitions, which are themselves further tempered by the presence of India at the negotiating table and a current leadership deficit being exuded by the biggest economy and market in these talks, namely Mainland China. The greatest promise RCEP holds is in fact cutting through the noodle bowl, which is an outcome that Taiwan (and other regional economies not participating in RCEP) can replicate by harmonizing their own rule of origin nomenclatures to bring them into line with whatever rules eventually emerge from the RCEP process. This, combined with bilateral agreements with as many RCEP partners as possible, would offset any negative consequences of Taiwan not being an RCEP member itself.

B. Entering into Bilateral Agreements with Trading Partners

We discussed this strategy at some length in our previous paper on RCEP. The arguments made there also hold up with regard to the TPP. Taiwan has already begun a process of obtaining bilateral economic cooperation agreements with regional trading partners and TPP (and RCEP) members, the first two being New Zealand and Singapore. This process needs to continue and needs to be as replicative as possible of likely TPP outcomes, which means they should contain chapters on newer issues such as competition policy, environment, labour, e-commerce, state-owned enterprises etc. Although this kind of unilateral liberalization may seem slightly self-defeating in terms of forfeiting potential future negotiating concessions (negotiating coin), it achieves the dual objective of increasing efficiency and competitiveness on the one hand, and creating compatibility of trade regimes with partners on the other. It also makes accession to TPP that much easier when the day finally comes.

[82] A note on terminology: We have generally favored use of the generic term "PTA" (preferential trading arrangement) over other variants such as "EPA" (economic partnership agreement), "EIA" (economic integration agreement) or "ECA" (economic cooperation agreement). Where this paper uses the more common "FTA" (free trade agreement), it generally refers to an agreement that includes this wording in its title. Although some scholars may hold differing views on this point, there is essentially little substantive difference between these different terms in practice.

In our previous paper we discussed the most obvious potential PTA partners, such as Australia and South Korea, both of which are currently negotiating RCEP. Add to this the United States, who is Taiwan's most strategically important backer geopolitically, as well as the other regional behemoth Japan, and one could quickly have the makings of a very dynamic regional integration strategy that could be so effective as to make accession to the TPP either a foregone conclusion or completely superfluous. There are other smaller Pacific economies such as Chile and Peru who could represent fairly "low-hanging fruit" in terms of potential PTA partners, albeit with strong psychological benefits, since they are both TPP partners, with Chile having also been part of the original P4 (together with Singapore, New Zealand and Brunei Darussalam). In fact this raises the issue of what is to stop Taiwan from actually acceding to the P4? Although the P4 has been overtaken by the TPP, the P4 is nevertheless an existing agreement with an open accession clause, which in theory can be acceded to following the successful completion of accession talks with the original four signatories. Although this might be a more symbolic victory than anything else, the psychological impact in terms of showcasing Taiwan as firmly embedded in the region as a preferential trading partner could be very strong indeed.

C. Be a Major Force in Global Trading World

Taiwan dominated global markets in several high-tech sectors, such as semiconductors, optical disks, portable navigation devices and display panels in the 1980s to 1990s.[83] Based on the Market Intelligence and Consulting Institute of Taiwan, 89 % of the world's laptop computers, as well as 46 % of desktop PCs are produced by Taiwanese firms, but are being manufactured abroad, mostly in China where production costs are lower.[84] Consequently, Taiwan became a global leader in customized ICT components, semiconductor and notebook production both through its economic policies and the flexibility of its industrial model.[85]

Nowadays, Taiwan's industrial sector is being challenged and faces many competitors abroad, like companies in South Korea, China and South East Asia, where such countries participate in bilateral or regional trade agreements with Taiwan's major importing countries.[86] Therefore, Taiwan should focus more on immediate and domestic reforms so as to better its position in global trade.

In short, Taiwan needs to reorient its economy away from domestic constituencies and towards comparative advantage.[87] Taiwan should exploit and promote "what it's actually good at."[88] This includes environmental goods, urban planning, education and finance.[89] Ultimately, Taiwan should make itself more valuable to other countries by changing itself through diversification and concentrating on what is under its own control, not on what the U.S. or China does.[90] In turn, by liberalizing its own internal market, Taiwan can attract multinational corporations to establish operational headquarters in

[83] See "Marika ARMANOVICA, Taiwan: The risk of marginalization - Economic situation and trade relations with the EU, Directorate-General For External Policies ,European Union, 2013, page 8"
[84] Ibid.
[85] Ibid.
[86] Ibid.
[87] See "Taiwan and Asia Pacific Economic Integration: ECFA, TPP, and Beyond, Sigur Center Asia Report, Issue No. 14, May 2012"
[88] Ibid
[89] Ibid.
[90] Ibid.

Taiwan, thus Taiwan would be the best portal for enterprises worldwide to access the Asia-Pacific market.[91]

This is the situation where Taiwan must play its own game without relying on other factors, such as aligning with certain neighboring countries.[92] The only thing Taiwan can and should do to avoid being marginalized is to build its own value, to form a more sustainable and substantial strategy; a survival strategy built from within, not from the outside.[93] However, this strategy would require a domestic consensus on political and economic goals, which Taiwan has lacked for some time.[94]

D. Pushing WTO Liberalization Rounds

Taiwan has benefited enormously from its WTO membership, not least of all from the 2007 Information Technology Agreement (ITA), which allows 75% of all Taiwanese products shipped to the US to enter duty-free, with the corresponding figure for the EU being 57%.[95] Its accession to the WTO also opened the door for Taiwan, as a separate customs territory having autonomy in its foreign economic relations, to enter into preferential trading arrangements with its two ECA partners New Zealand and Singapore in 2013, as well as to conclude a Cross-Straight Economic Framework Agreement with its biggest trading partner, fellow WTO Member China. Taiwan should thus profile itself as one of the most ardent supporters of the Doha Round, and of the various other liberalization initiatives currently ongoing at the WTO, including adoption and ratification of the Bali Trade Facilitation Agreement, and the plurilateral TISA (Trade in Services Agreement). Taiwan could also join others in calling for long-term thinking and strategizing on how to go about multilateralizing many of the trade liberalizing outcomes that have emerged in bilateral and regional FTAs and that are taking place in mega-regional agreements such as the TPP and TTIP.[96] This would bring the massive increases in preferential trade liberalization that have occurred over the last decade and a half back within the multilateral trading system for the benefit of all WTO Members.

E. Closer Relationship with China

This is something that Taiwanese society is deeply divided about, but the truth is that closer economic integration with China is an inevitable reality. The only issue to be resolved is the degree to which economic cooperation can be divorced from political assimilation, so that Taiwan can continue to enjoy the benefits that accrue to it and its citizens as an independent democratic, free and pluralistic polity. It is certainly true that the risks inherent to the ceding of regulatory sovereignty that implementation of the ECFA agreements entails can be offset by concluding complementary economic integration initiatives with other regional trading partners as Taiwan has chosen to do in the form of its Look South policy. But further economic integration initiatives with partners that are not China will inevitably be

[91] See "Progress in launching and signing of FTAs between Taiwan and its primary trading partners (the United States, Singapore, the European Union, the ASEAN, Japan, New Zealand, India, and Australia)", Ministry of Economic Affairs Report, 7 January 2013
[92] See "Taiwan: Operating in a Confined International Space - Building consensus at home will serve Taiwan better than alliances abroad", available at: http://thediplomat.com/2014/08/taiwan-operating-in-a-confined-international-space/
[93] Ibid.
[94] Ibid.
[95] Taiwan has WTO membership: Why talk about TPP, RCEP?, http://www.wantchinatimes.com/news-subclass cnt.aspx?id=20140212000106&cid=1701
[96] See Richard Baldwin and Patrick Low (Eds) *Multilateralizing Regionalism, Challenges for the Global Trading System*, Cambridge University Press, 2009.

contingent on maintaining cordial relations with China itself, so that it views the conclusion of future PTAs with magnanimity and not hostility. This is an issue we discussed in some detail in our previous paper on RCEP.

With recent local elections casting a great deal of uncertainty over the future of the ruling KMT party's policies on closer economic integration with China, efforts will have to be made to address other economic concerns of the Taiwanese people, which include stagnant wage growth, growing income inequality, gloomy employment prospects for young people, school-leavers and tertiary graduates and many of the other malaise that seem to have gripped other advanced industrialized economies across the world lately. The global economy seems to be at something of a turning point as China moves away from breakneck growth towards more sustainable growth levels, and Europe continues to struggle under the burdens it inflicted upon itself in the form of its sovereign debt crisis. Taiwan, like many other developed countries, must do some soul searching on the kind of prosperous society it wants to be and what the best way forward is for achieving this vision. Economic integration initiatives, whether with China or Taiwan's more southerly neighbors will inevitably have to be part of this conversation.

IV. Taiwan's Place in the Region and the World

A. What Taiwan Offers the World

One obvious question with a series of less obvious answers is what does Taiwan offer the region and the world? Another way of asking this is what is the value of having Taiwan? Why do we need Taiwan? What, if anything, does the world gain by having Taiwan amidst its ranks? These questions, all subtle variations on the same theme, are unlikely to be asked by any Taiwanese citizen, who feels absolutely no compunction to justify his or her existence in this world to others. But it's a fair enough question for outsiders, who may be somewhat confused at the existence of Taiwan as a separate polity to Mainland China and as an entity which seems to cause its own fair share of consternation to political leaders both within China and the rest of the region. What is the big fuss about such a small nation? For anyone who has spent any length of time in Taiwan, Mainland China, and other predominantly Chinese societies (like Singapore) the answer is that Taiwan offers a competing and infinitely more democratic, predictable and pluralistic vision of Chinese society than any other place on Earth. Why does this matter? This matters because this is the Asian Century, and as such, the significance of Chinese language and culture will only continue to grow over the next few decades. We all have an interest therefore, in seeing various and competing visions of what it means to be Chinese and to have the choice of which vision best suits our own personal needs and desires.

B. Projecting Soft Power

Because of its limited size and population (which like most of the industrialized world is rapidly aging) Taiwan faces manifold constraints on how it can project its interests and vision of its place in the region beyond its own shores. Certainly it would have to rely on others (primarily the United States) for the hard job of defending its own territorial integrity if this were ever called for. But Taiwan remains as free and as autonomous as any other nation to deploy the tools of soft power to increase its importance and presence in the region and the world. This is something that Taiwan has not attempted or achieved to any noticeable degree at the cultural level, so that in terms of reaching global audiences, first Japan and then Korea have each blazed different but impressive trails in attracting growing fan bases for their respective national pop-culture icons. Here Taiwan must take a page out of either Japan's or Korea's book.

C. Trade and Investment Liberalization and Social Justice

There is arguably a lot Taiwan could still do to increase its attractiveness as a place to do business and as a conduit for regional capital and investment flows. A few economies have paved the way on how this can be done, including Ireland and Singapore, but there is still a lot of room left for Taiwan to reinvent itself in a similar mold. This sort of strategic rethink requires some creativity on the part of domestic policymakers as well as broad-based buy-in from the electorate, with a good dose of political will to implement the policy and regulatory reforms that such a course of action entails. More than anything, this is about breaking the grip of vested interests over various parts of the economy, over-coming bureaucratic resistance to change, revitalizing and transforming the education system to meet the rapidly changing needs of the 21st century, empowering all demographics - young, old and those in between - to make the lifestyle choices they desire, and creating a society with equality of opportunity, social inclusiveness and fairness in economic outcomes for all. This is less a matter of whether or not to engage in deeper economic integration and with whom, but how to maximize enjoyment of the upsides of the increased competition that results from trade and investment liberalization, while at the same time mitigating the downsides for the inevitable losers (those in import competing sectors), by facilitating their transition to more productive and lucrative sectors of the economy.

Concluding Remarks

Taiwan is a mid-sized island nation strategically located off the coast of China and in the middle of one of the world's fastest growing regions. It straddles the border of a vast ocean opening up to the Americas and looks south towards the economically and demographically promising nations of South East Asia. It is not a bad vantage point from which to engage with the region and the world. Taiwan is also a rich and democratic industrialized economy with an educated (albeit shrinking) workforce. Due to an accident of history and the vagaries of domestic Chinese politics, Taiwan finds itself in a situation of relative diplomatic isolation, although it enjoys the widely recognized autonomy to conduct its foreign economic relations in almost any manner it sees fit.

One of several important and arguably existential issues facing Taiwan at present is how to avoid exclusion from the dynamic process of regional economic integration taking place on its doorstep, particularly in the form of the RCEP and TPP negotiations. In a set of two working papers, we have discussed this dilemma and explored the challenges and opportunities it presents for Taiwan, as well as suggesting ways for Taiwan to work around the obvious constraints posed by its relative diplomatic isolation. We have emerged from the process of writing these papers with a renewed sense of optimism that Taiwan is up to the formidable task of overcoming these constraints and seizing the opportunities that regional economic integration offers it. The current state of domestic political uncertainty produced by recent local elections should be harnessed by leaders across the political spectrum to engage in a constructive and reasoned debate on the kind of prosperous society Taiwan wishes to become and how best to go about realizing this vision.

Whether or not Taiwan should engage more closely with Mainland China and/or pursue closer economic integration with its other trading partners in the region will undoubtedly form part of this conversation. The point to remember is not to engage in trade and investment liberalization merely for the sake of doing so, but as part of a longer-term strategy for ensuring greater economic competiveness, enhanced national productivity, and ultimately, a higher standard of living for all of Taiwan's citizens. We hope that our research and findings will make their own contribution to this conversation and help policymakers in Taiwan in their own decision-making processes.

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