



The Tiger that Dances with the Dragon: Taiwan's Economic Integration Strategy with China and the Asia Pacific

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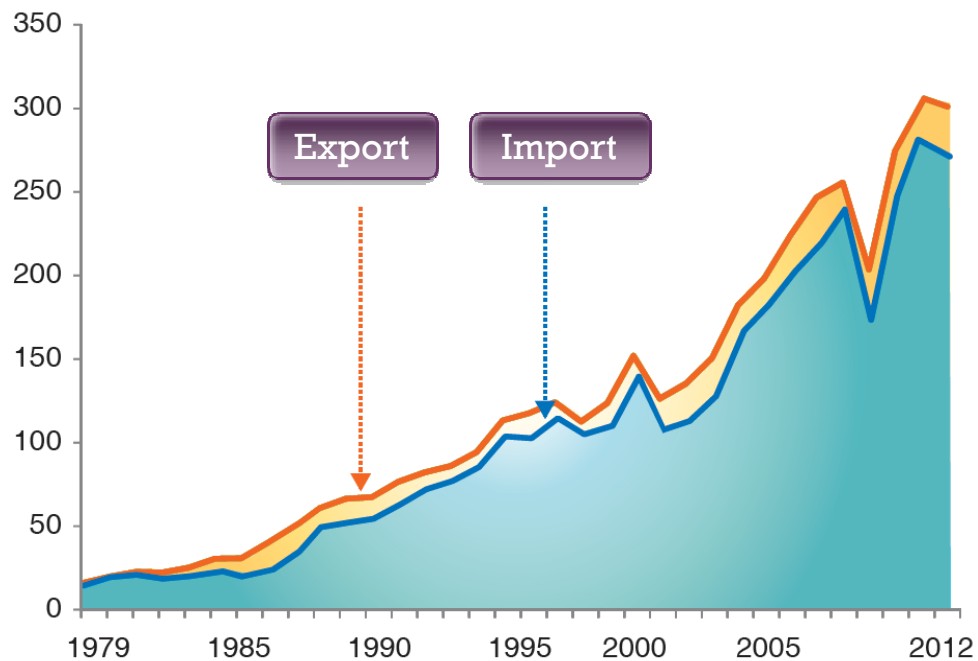
Roy Chun Lee

Taiwan WTO & RTA Center, CIER

+ The importance of trade and investment for Taiwan

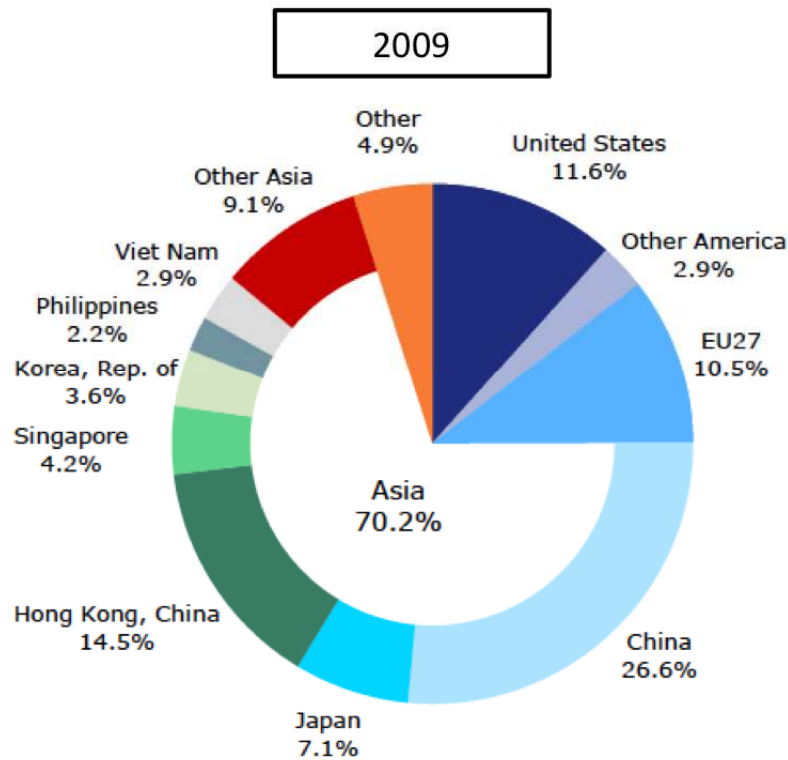


Unit: US\$ billions

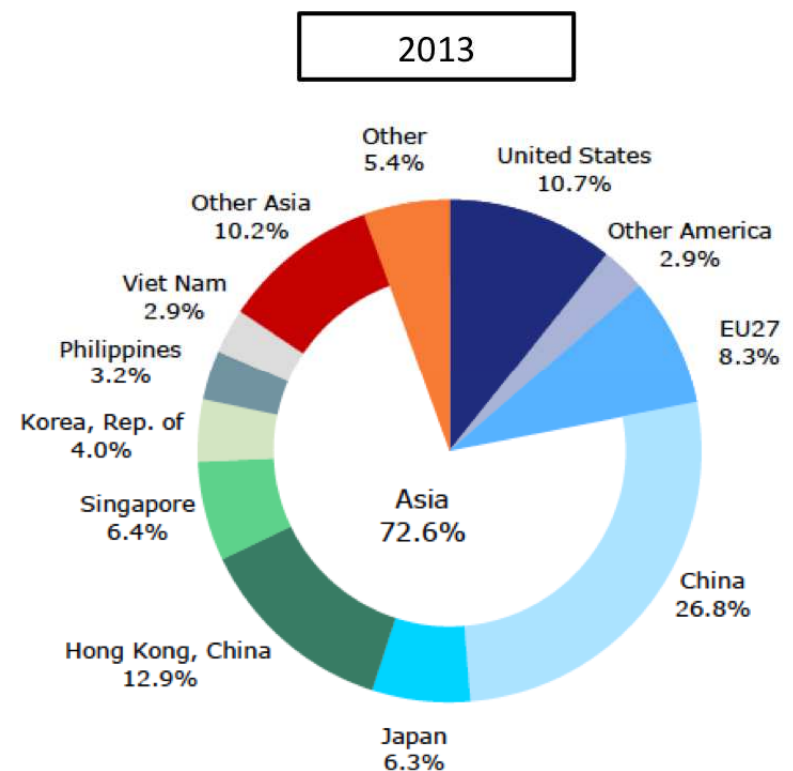


- Trade dependency=136% (2013)
- Current account surplus=11% of GDP
 - (US\$ 71 B with China, 34 B overall)
- No. 5 Outward investor in Asia

+ Taiwan's major trading partners



Total: US\$203.5 billion

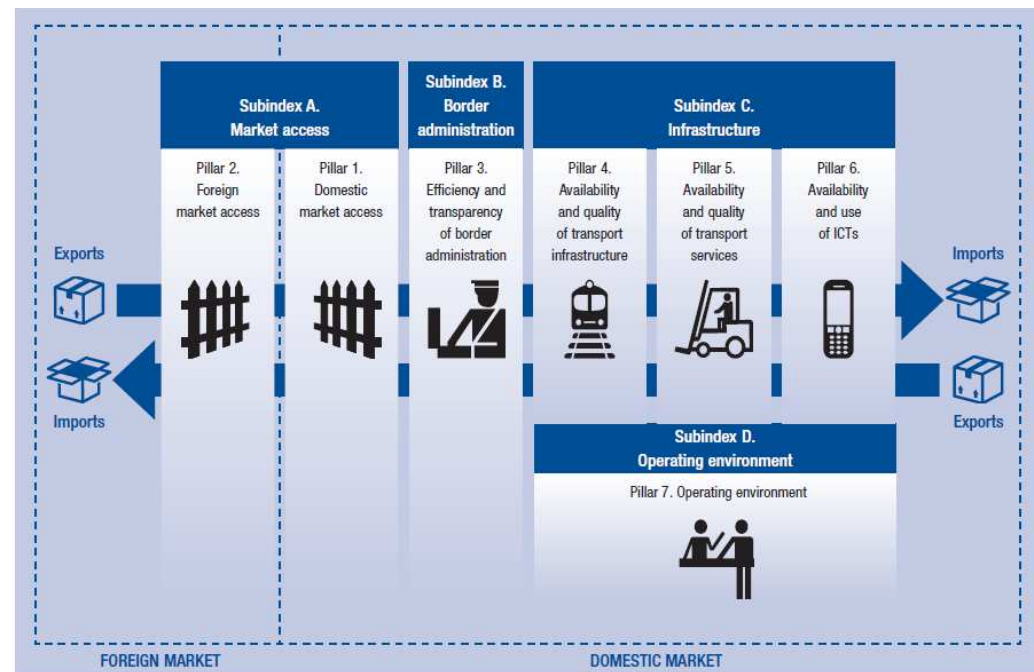


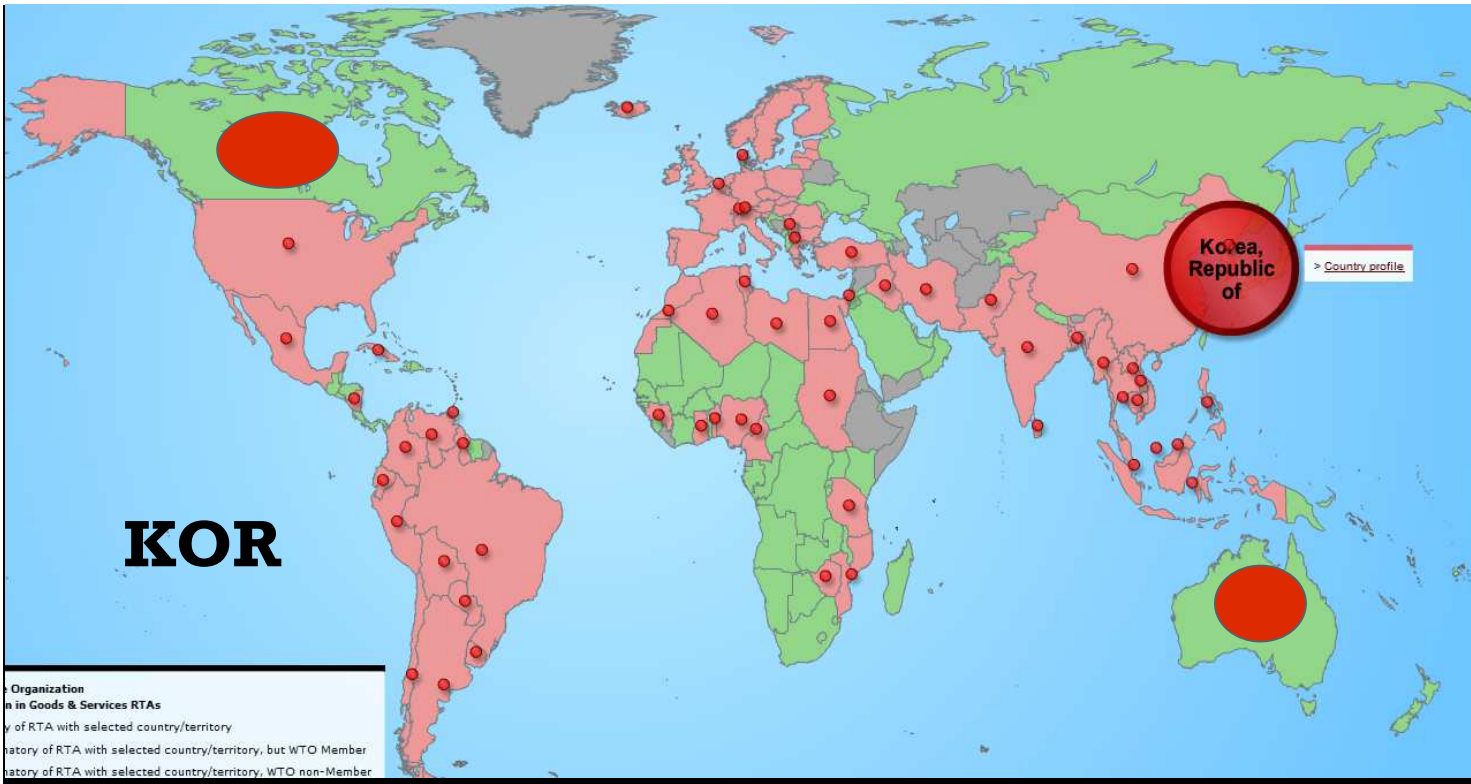
Total: US\$305.4 billion

+ Despite WTO membership, barriers remain high for Taiwan

- Overall ranking: **24/138**
- Foreign market access ranking:

137/138





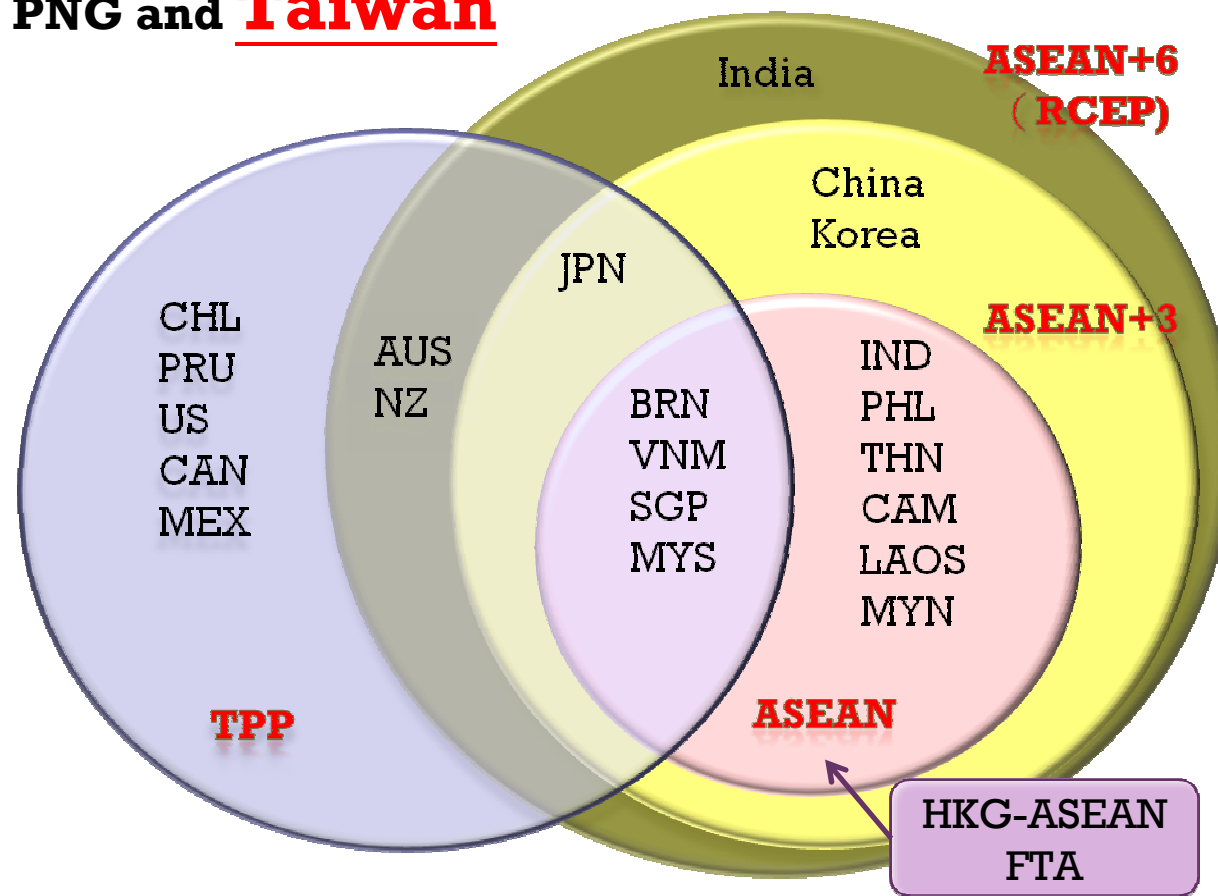
FTA World Map KOR vs TWN



Source: WTO RTA Database

+ The threat of marginalization is real and presence

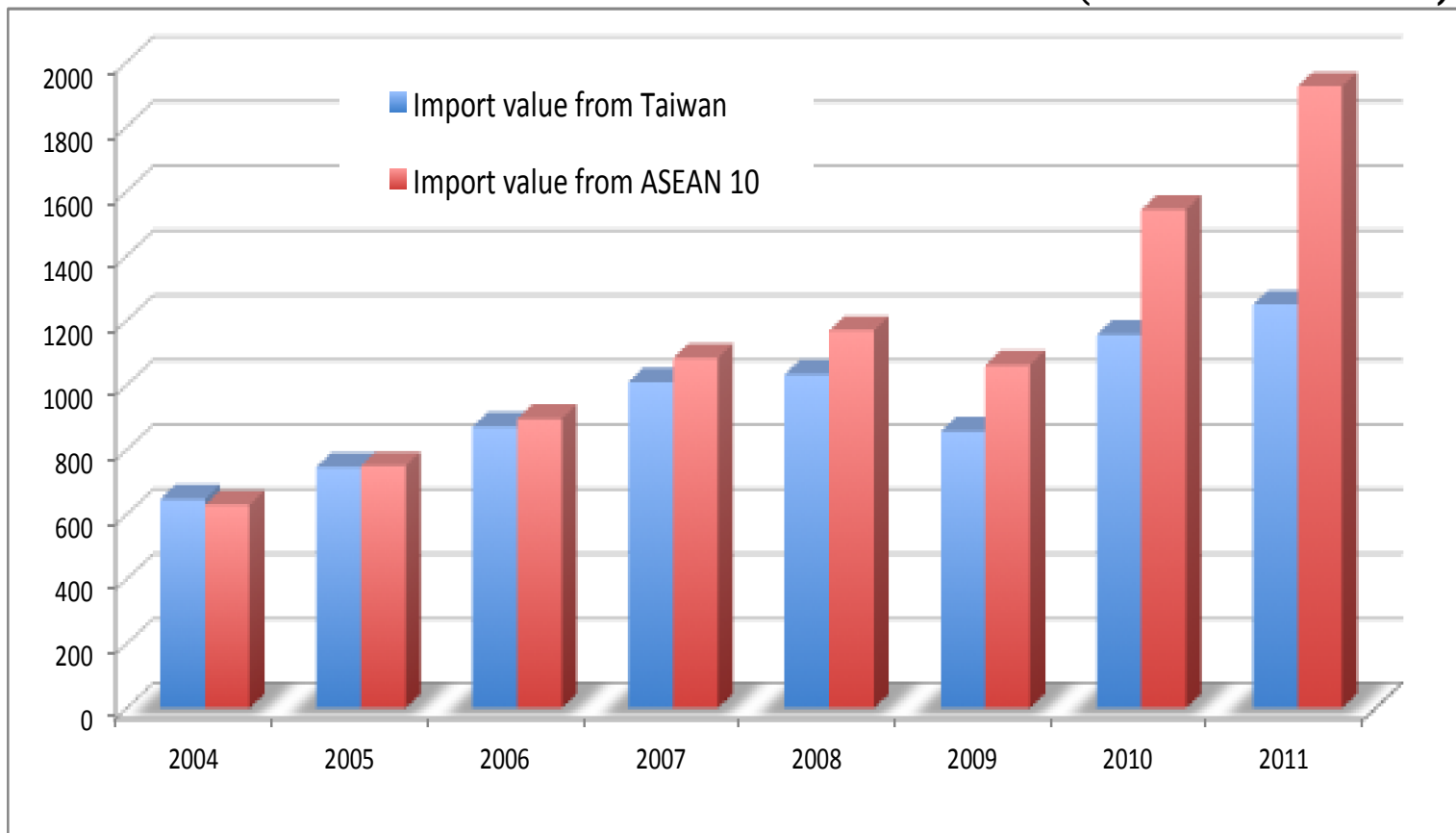
The only 3 APEC Economies missing are: Russia, PNG and **Taiwan**



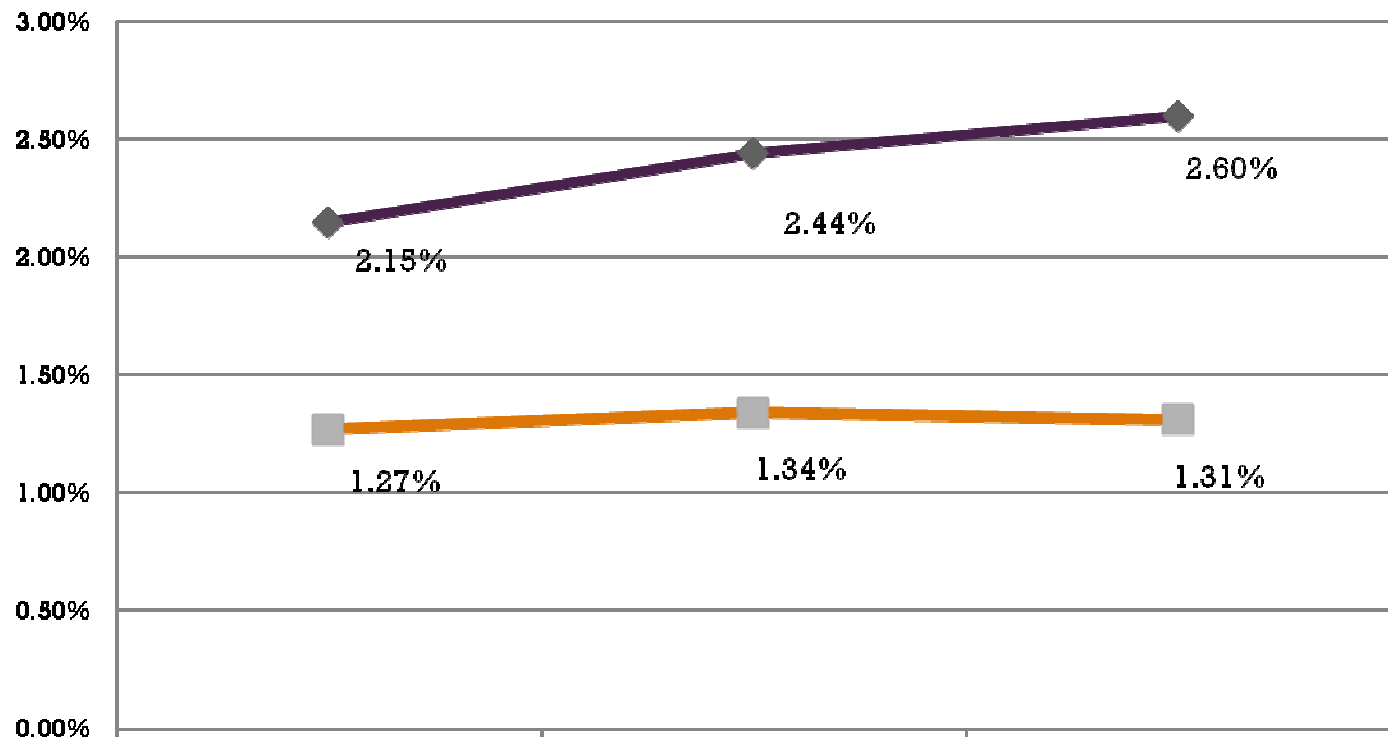
+ The economic impact of exclusion

Change in China's import from ASEAN and Taiwan between 2004-2011

(Unit: USD 100 million)



+ Change in market share between Korea and Taiwan for products benefiting from KORUS FTA



◆ Market share of KOR
■ Market share of TWN

Before FTA (2011-Feb. 2012)

1st year (2012-2013)

2nd year (2013-Feb. 2014)

2.15%

2.44%

2.60%

1.27%

1.34%

1.31%

+ PTAs (e.g TPP) as an impetus for domestic reform for Taiwan

- TPP deals with WTO-extra disciplines on harmonization and reduction of regulation
- Transparency and participation of regulatory rule-making process is the key area
 - 40-day public consultation (vis-à-vis 7 days in TW)
 - Respond to comments
 - Publication of meeting minutes
- Harmonization of regulations (e.g. SDoC, Telecom and Financial)
- Structure reform agenda:
 - Regulatory Impact Assessment (RIA)
 - Postal services
 - SOE governance
- **Lock-in effect provides external pressure for domestic reform**

+ **Dancing with the Dragon: The Cross-Strait ECFA as a stepping stone (?)**

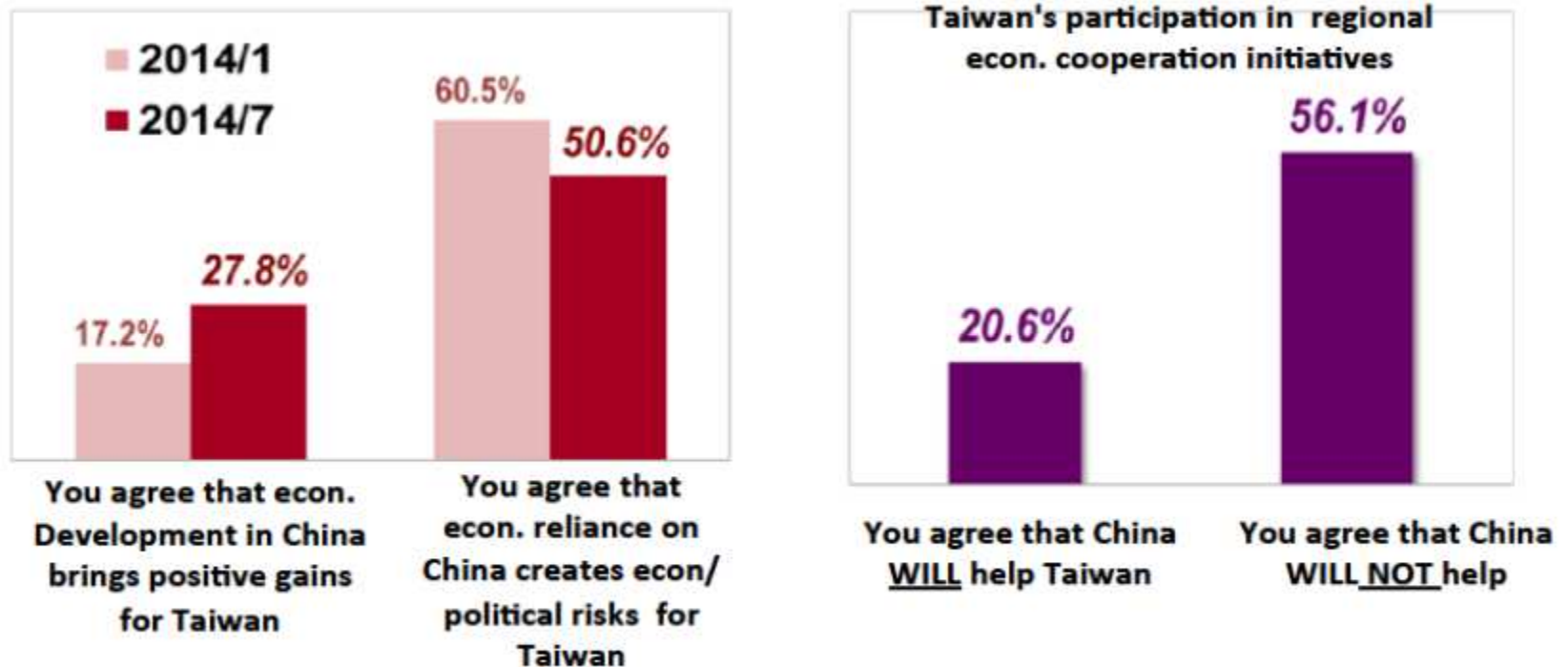
- China's explicit opposition remains unchanged
- Trade and investment between Taiwan and China remains distorted
- Normalization a key policy for President Ma, with the ECFA and 4 Mini-FTAs the underpinning pillars
 - Institutionalize dialogue under the ECC to enhance understanding and confidence
 - To ensure equal footing with Korea, ASEAN and Japan
 - To create possible political leeway for PTA participation
- PATs signed with New Zealand and Singapore in 2013

+ **Dancing with the Dragon: Stepping stone becomes stumbling stone**

- The Sunflower student movement against the Services Trade Agreement with China
 - The secretive “Black Box” style negotiation and lack of participation by the public and the Legislative Yuan
 - Security is the main concern
 - Fears that most if not all investments from are likely to be politically motivated
 - Whether economic integration with China will be paving the way for political integration.
 - Lack of commitment from China on PTAs participation
- Consequence:
 - The services agreement is put on hold until the LY passes a new legislation regulating the reporting, monitoring and due process mechanism of any agreements between Taiwan and China.
 - The negotiation of the Cross-Strait Goods Agreement was also informally suspended for 11 months before resuming in September 2014.



FIGURE 4 Poll results of Taiwan-China economic relationship in Taiwan (July 2014)



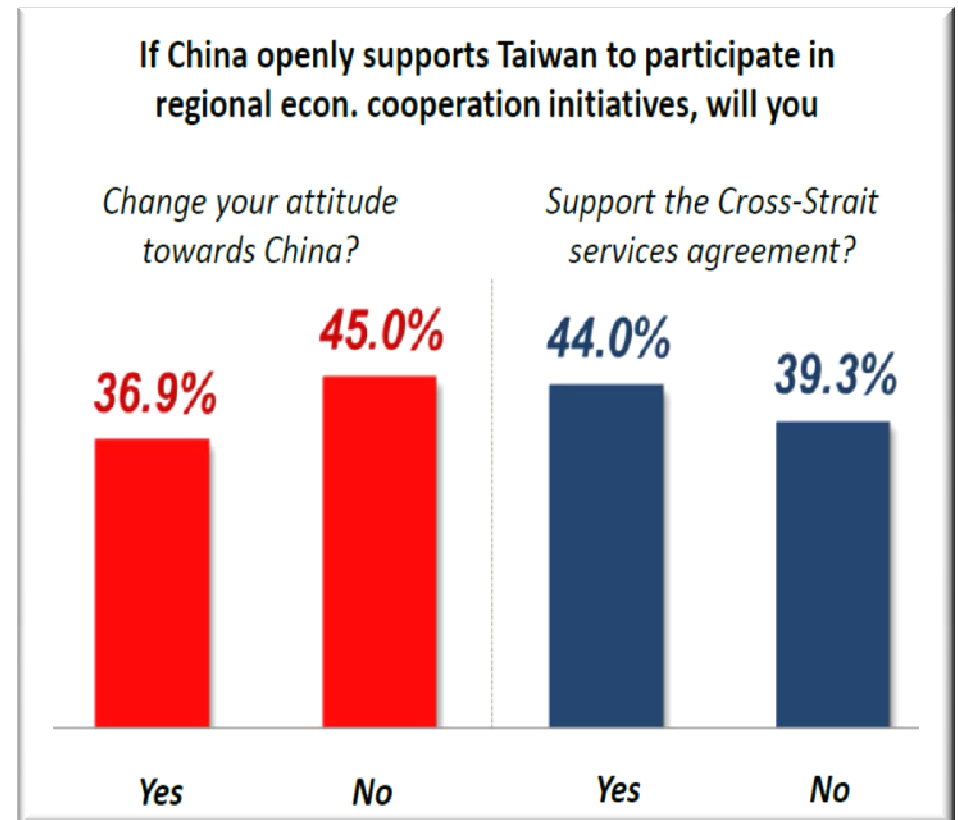
Source: Taiwan Indicators Survey Research (TISR), July 2014.

+ Taiwan's "catch-22" Dilemma

- China has put forward a sequential approach framework
 - 1) Complete the ECFA Agreements; 2) Based on ECFA, mutual discussion on the possible way for Taiwan to be connected with PTAs
- The catch-22 situation Taiwan is facing: **Taiwan can only avoid being captured economically by China through taking the risk of being captured first.**
- Dialogue would be politically: might be interpreted as Taiwan is seeking prior approval from Beijing.
- Without intervention, the most likely scenario seems to be that there will be neither Cross-Strait agreements nor TPP or RCEP for Taiwan.

+ The way forward: Breaking the Catch-22 situation through dialogue with China

- Adjustment for China's sequential approach: China's assurance in Taiwan's participation BEFORE the ECFAs are completed
- Provides new impetus for Cross-Strait economic integration.
- Requires dialogue with China
- Requires confidence inside Taiwan



+ **The way forward: Building trust within and outside Taiwan**

- Accelerate the new legislation on the reporting, monitoring and due process mechanism of any agreements between Taiwan and China
- Introducing a comprehensive impact assessment on both economic and non-economic impacts of Cross-Strait agreements
- Improve communications and transparency
- Continued domestic reform and addressing trade/investment concerns
- **Support from the U.S. is critical**



Thank you