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

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The importance of trade and investment for Taiwan

- 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

- **2009**
  - Asia: 70.2%
  - United States: 11.6%
  - China: 26.6%
  - Hong Kong, China: 14.5%
  - Japan: 7.1%
  - Other Asia: 9.1%
  - Viet Nam: 2.9%
  - Philippines: 2.2%
  - Korca, Rep. of: 3.6%
  - Singapore: 4.2%
  - Other America: 2.9%
  - EU27: 10.5%
  - Other: 4.9%

- **2013**
  - Asia: 72.6%
  - United States: 10.7%
  - China: 26.8%
  - Hong Kong, China: 12.9%
  - Japan: 6.3%
  - Other Asia: 5.4%
  - Viet Nam: 2.9%
  - Philippines: 3.2%
  - Korea, Rep. of: 4.0%
  - Singapore: 6.4%
  - Other America: 2.9%
  - EU27: 8.3%
  - Other: 5.4%

**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

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<td>Market share of KOR</td>
<td>2.15%</td>
<td>2.44%</td>
<td>2.60%</td>
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<td>Market share of TWN</td>
<td>1.27%</td>
<td>1.34%</td>
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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