

Strategic Considerations About Taiwan's TPP Accession

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Presently 12 countries have joined negotiations on the Trans-Pacific Partnership Agreement (TPP), which will be the first regional trade pact among Pacific Rim nations. The GDP of the prospective TPP member states accounts for 38 percent of world GDP while their combined volume of trade amounts to 33 percent of global trade. TPP will be the largest regional economic organization within the global economy. The economies of the future members of the proposed Regional Comprehensive Economic Partnership (RCEP) account for 29.34 percent of global output, making it the second largest regional economic organization worldwide. The government of President Ma Ying-jeou has decided to overcome difficulties to aggressively seek membership in both RCEP and TPP. This policy has gained broad public support and surely counts among the few major policies with a consensus between the ruling and opposition parties.

The criteria for TPP admission are very high since its members are advanced market economies such as the United States. RCEP, for its part, is led by China, thus mainly grouping developing nations with a lower level of economic opening. Given China's current level of economic development and market opening, and particularly the high share of state-run enterprises in its economy, government interference in the market is ubiquitous. In China's one party autocracy, government decisions amount to black box operations. Non-trade barriers abound in trade activities so that it seems virtually

impossible for China to meet conditions for TPP accession in the short term.

While joining the China-led RCEP seems out of the question for Taiwan, the island stands a chance of acceding to the U.S.-led TPP. Officials, chambers of commerce and think tank experts from the United States have already stated that Taiwan is welcome to join. Industry, government and academia in Taiwan fully understand that Taiwan will have to pay the price of further market opening if it wants to become part of the 33 percent of the global market that TPP represents. The government must propose complementary measures to assist and compensate industries and workers that will be negatively affected. Taiwan already has numerous products that are competitive in the global market. However, the government must assist less competitive small and medium enterprises instead of leaving such companies to fend for themselves. At the same time, the government should refer to the series of economic stimulus measures, such as strengthening the manufacturing industry and promoting reindustrialization, U.S. President Barack Obama adopted after assuming office in 2009, to upgrade Taiwan's industrial constitution, create jobs and bring down the unemployment rate.

When worldwide market liberalization and internationalization caused the New Taiwan Dollar to appreciate more than 60 percent in the 1980s Taiwanese entrepreneurs reacted by investing in China on a massive scale. Taking

advantage of China's cheap and abundant labor, they were able to process goods for export at low cost, which allowed them to stay internationally competitive without having to upgrade technologically. After several decades of economic and trade contacts, Taiwanese companies have not only invested hundreds of billion U.S. dollars in China, these investments have also led to massive exports of raw materials, intermediate products and machinery from Taiwan to China. Currently the Chinese market accounts for more than 40 percent of Taiwanese exports and more than 1 million Taiwanese businesspeople reside in China. However, after 20 years of economic development, Chinese labor is no longer inexpensive, and the investment environment no longer favors processing for export. The government must encourage Taiwanese investors to diversify their markets, strengthen trade relations with Europe, Japan and the United States, and join TPP to assist companies in channeling their investments and exports to other countries.

By joining the TPP Taiwan can not only gain mutual tariff concessions, benefit from the opening of the service industry, strengthen supply chain linkages across the Asia-Pacific region and secure a level playing field for Taiwanese enterprises. Most importantly, Taiwan, already an internationally important trade partner, could thereby prevent its exclusion from economic integration in the Asia-Pacific region.

With a trade volume of US\$575.3 billion Taiwan ranked 18th worldwide and 7th in Asia in 2013. Yet as virtually all Asia-Pacific countries have signed mutual free trade agreements (FTAs), Taiwan's trade partners – with the exception of Singapore and New Zealand - do not dare to sign FTAs with Taiwan due to Chinese sabotage. The

Economic Cooperation Framework Agreement (ECFA) between Taiwan and China constitutes a FTA within a one China framework. It is not at all a trade agreement that falls under World Trade Organization (WTO) rules. Ideally, Taiwan and China, both WTO members, should sign a FTA to lower trade barriers given the enormous amount of bilateral trade. However, China refuses to treat Taiwan as a member on equal footing and will not sign an FTA under the WTO framework. Moreover, Taiwan must take precautions against Chinese saber rattling by imposing trade and investment restrictions on China.

Aside from weighing economic advantages and disadvantages of TPP accession, Taiwan must also take into account strategic considerations. Given the abnormal or even hostile state of cross-strait affairs, Taiwan must consider the national security threat that China poses for the island and take necessary defense measures. With reckless disregard of the national security risk, the Ma administration has been promoting cross-strait opening by signing 21 agreements including ECFA and agreements on trade in goods and trade in services. This will only further tilt the Taiwanese economy toward China and provoke public misgivings that the government is pushing for unification. After all, the Ma administration's drastic pro-China policy triggered the Sunflower student movement in March 2014.

Taiwan must reduce its dependence on China for economic and national security considerations. Presently, the most important economic and trade strategy is a speedy push for TPP accession. **BT**

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