

## TPP Accession as Economic Development Strategy for Taiwan

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As the Asia-Pacific region moves toward greater economic integration, Taiwan is deliberately excluded from bilateral free trade agreements (FTAs) and regional trade initiatives due to Chinese intransigence against Taiwan's inclusion and the resulting hesitation on other countries' part. Not only do Taiwanese companies therefore face an unlevel playing field abroad, the entire nation runs a huge risk of gradual marginalization. Consequently, Taiwan is losing maneuvering space and bargaining chips in external negotiations, including cross-strait ones, on all fronts.

With its current "cross-strait first, international later" strategy, Taiwan's FTA negotiations have run into a bottleneck. Although Taiwan signed the Economic Cooperation Framework Agreement (ECFA) with China already in 2010, it has not been able to sign FTAs with other important trading partners so far, mainly because Beijing believes that FTA negotiations have "an official character" and therefore opposes in principle that other nations sign FTAs with Taiwan, only making exceptions for smaller countries such as Singapore and New Zealand, which had first concluded an FTA with China.

In its external trade relations, Taiwan consequently becomes further estranged from the international system and increasingly confined in the cross-strait straitjacket. These concerns are the fundamental reason why ECFA follow-up negotiations ran into difficulties. They also made Taiwan place great expectations on its admission

to regional FTAs in the Asia-Pacific area, in particular the two major regional trade pacts Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP).

### I. Regional FTAs are Key to Preventing Marginalization

The crux of Taiwan's marginalization lies in whether regional FTAs will materialize and whether Taiwan will be able to join. Presently, Taiwan's greatest threat of marginalization comes from South Korea, which fiercely competes with the island in the global market in the same product groups. Taiwan faces decisive moments as the TPP and RCEP gradually take shape in the coming two years. Should Taiwan still be unable to participate in these trade agreements when the time comes, its predicament will be far more serious than now.

### II. Why is the TPP Imperative for Washington?

Washington has demonstrated strong political will to push for the TPP, its calculations including trade interests, regional balance of power, as well as its intent to design the international trade order (in the role of the hegemon) and to secure its advantage in setting trade norms and mechanisms.

- In the wake of the financial crisis that swept the global economy in 2008-2009, the U.S. economy weakened while the Chinese economy gained strength. In terms of economic interests, the U.S. therefore faces a much stronger need to utilize regionalism as a tool for forging trade alliances than before.

- As China increasingly demonstrates its intention to transform its economic ascent into regional political supremacy, the U.S. has to rebalance its strategic focus to the Asia-Pacific in a bid to retain its influence in East Asia.
- On a global scale, TPP's failure would seal the demise of the United States as the international leader, including its role as the architect of the global trade order.

From the perspective of maintaining a balance of power based on an emphasis on security and containment, the TPP's purpose is to guard against Chinese expansion and to dismantle East Asian regionalism. However, from a long-term strategic perspective, Washington might intend to take advantage of "setting norms and mechanisms" implied by the TPP to shape the conduct of its opponents and to define and control future conflicts, and therefore does not rule out incorporating China into this system.

2015 seems to be the opportune time for the U.S. to promote the TPP for the following reasons:

- Thanks to its two major competitive advantages – population structure and technological progress – the U.S. economy is on the road to recovery, which favors the launch of external trade talks.
- China kept a relatively low profile on foreign policy during its economic rise in the past. However, now that the momentum of its economic growth is weakening, China becomes increasingly assertive on the diplomatic front and in territorial disputes. Consequently, East Asian countries are spurred to draw on external forces to countervail the

Chinese, which will help pave the road for the U.S.-proposed TPP in the Asia-Pacific region.

- In two key nations, Japan and the United States, the current domestic political situation favors TPP negotiations. In the U.S. the Republican Party, which favors free trade, is presently in control of Congress, which will make it easier for President Barack Obama to obtain Trade Promotion Authority for TPP negotiations. The Obama administration also hopes to complete the first round of negotiations in 2015 before the U.S. presidential campaign kicks off. Tokyo has also adopted a more proactive attitude toward the TPP since the ruling Liberal Democratic Party won a landslide victory in a snap election in late 2014 following the dissolution of the House of Representatives.

### **III. While neither the TPP nor RCEP accession lies entirely within Taiwan's control, joining the TPP would come at a lower political price in Realpolitik terms**

RCEP progress appears to have fallen behind the TPP mainly because of occasional tension between China and Japan (over Diaoyutai/Senkaku Islands, textbook issue etc.), slow consensus building within the Association of Southeast Asian Nations (ASEAN), and the specter of protectionism looming over various countries, particularly India. Unless Taiwan makes major concessions to China with regard to national sovereignty, accession to the China-led RCEP will remain extremely difficult.

If Taiwan wants to gain the opportunity to join the second round of TPP talks, it should properly prepare itself on the domestic and international fronts to actively seek admission. Such

preparations should entail tackling regulatory and governance issues that matter to the United States, namely agricultural imports and intellectual property rights. Most importantly, in addition to defensive considerations such as preventing its marginalization in the current FTA trend and correcting its excessive orientation toward China, Taiwan should seize this moment to revamp itself (including forging political consensus, devising comprehensive policy measures, and carrying out industrial upgrading) and take advantage of the regional economic integration process to strengthen its international links and to promote internal reforms in order to clarify the direction of Taiwan's industrial development. **BT**

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