

# TAIWAN AND EAST ASIAN REGIONALISM

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Taiwan's Future in the Asian Century  
Towards a Stronger, Prosperous and Enduring Democracy

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## **Introduction**

The goal of this paper is to describe Taiwan's place in the global economy and to analyze the impact on Taiwan's economy of growing East Asian regional trade and investment initiatives such as the ASEAN Plus Three Agreement (APT) and the Trans-Pacific Partnership Agreement (TPP). The first section of the paper presents a brief snapshot of the Taiwan economy and the place of Taiwan in world trade and in global supply chains. Subsequent sections described major development in East Asian integration over the past decade: the large increase in the number of bilateral free trade agreements; the push for greater intra-Asian trade integration through the APT and other configurations; and finally, the alternative path for trans-Pacific regionalism, as evidenced by the TPP. The final section lays out a set of options for Taiwan, given the dangers of trade-destroying discrimination and isolation through exclusion from future East Asian regional economic institutions.

## **Taiwan in the World Economy**

This paper will not undertake a detailed look at Taiwan's economy, or its trade and investment structure. Rather, it will briefly set forth those facts and trends in the Taiwan economy that illustrate both the opportunities and the challenges arising from major new developments associated with East Asian regionalism—a wave of bilateral FTAs, and parallel movements toward greater intra-East Asian regionalism (APT) and trans-Pacific regionalism (TPP and APEC).<sup>1</sup>

With a population of only 23 million, Taiwan boasts a gross domestic product of \$822 billion (2010: purchasing power parity), which ranks 19<sup>th</sup> among the world's economies. It is the fourth largest economy in Asia (see Table 1). Real GDP (ppp) per capita increased by roughly 130% from 1995 when it was \$15,704 to \$35,604 in 2010. This makes Taiwan the 20<sup>th</sup> richest country on a per capita basis, ahead of Japan and the UK, and just behind Germany.

Total trade with Taiwan's trading partners has doubled in the last decade, reaching \$535 billion in 2010 (see chart 1). In 2009, Taiwan was ranked 11<sup>th</sup> among the world top trading nations, and it accounted for 2% of total world merchandise trade (see chart 2). Generally, Taiwan runs a trade surplus with its trading partners; in 2010, that surplus amounted to 9.3 percent of GDP. This has

allowed the island economy to amass the fourth largest foreign reserve account in the world, behind only China, Japan and Russia.

Taiwan's major export partners are: China (including Hong Kong), 42 percent; United States (11.5 percent); Japan (6.6 percent); and Singapore (4.4 percent). Major imports come from: Japan (21 percent); China (14 percent); United States (10 percent); South Korea (6.4 percent); and Saudi Arabia (5 percent, oil). The top ten exports in 2010 were: electronics, basic metals, precision instruments, plastics, chemicals, machinery, electrical machinery textiles, transportation equipment, and rubber. Taiwan's changing industrial structure is illustrated by the decline in the role of textiles and toys, games, sports goods, and footwear among the island's exports (Table 2)

Taiwan has followed a traditional long-term development trajectory, moving from an agricultural economy in the 1950-60s, to an industrial economy by the 1980s (50 percent in 1986), and on to a more service based economy (70 percent in 2009) today. Despite the rise of the service sector, Taiwan's growth model has been heavily dependent on industrial trade and exports. Exports generate about 70 percent of the island's GDP growth.

Though as noted above, other sectors (chemicals, machinery, plastics, metals, medical instruments) play an important role in Taiwan's export competitiveness, the focus here will be on the electronics sectors, including diverse subsectors such as information and communications technology (ICT), flat-panel displays, and semi-conductor chips and machinery, among others. Particularly in the ICT supply chains, Taiwan consistently is said to punch above its (economic) weight. It has 19 firms in the OECD's list of top 250 global ICT firms (compared to 9 from South Korea, and 39 from the EU: population, 500 million).

A useful comparison is with one of Taiwan's major competitors in the ICT and high-end electronics area, Korea. Though the two economies export broadly in the same categories of electronic goods, the reality of actual products exported is very different. The Korean economy is dominated by large industrial conglomerates (*chaebol*), and the exports are focused on mass-produced, standardized, brand-name products such as television and computer displays, MP3 players; and with regard to components, DRAM chips, memory circuits, and highly-standardized components used in MP3 players and computers.

Taiwan, on the other hand, while it has developed a few internationally-known firms (Acer, ASUS), is largely characterized by numerous small-and-medium-sized-companies (SMEs) that account for over 80 percent of industrial output. A big majority of Taiwan's exports in ICT are produced by niche firms or by contract manufacturers (OEMs) producing for customers of consumer and technology brands, from the U.S., Japan, the EU and, recently, China. Taiwan companies are world leaders in laptops, wifi routers, smartphones, personal digital

assistants (PDAs), all in which Taiwan firms have two-thirds of global markets share.

For this paper, there is another key characteristic of Taiwan's ICT trade: Taiwan's central role in, and heavy dependence on, regional and global supply chains. In most years, Taiwan leads the world in trade in intermediate goods, or goods that are used as inputs to final, or partially finished products. According to WTO statistics, 71 percent of Taiwan's imports, and 65 percent of its exports consist of intermediate goods.

A similar pattern has emerged in the semiconductor industry, where OEM and ODM (original design manufacturing) contracts have moved Taiwan to the top of the semiconductor manufacturing scale. In 2007, Taiwan's semiconductor industry overtook the United States, and moved into second place behind Japan. It should be added, however, that over the past decade Taiwan companies have made huge investments in mainland China, moving a good deal of actual semiconductor production offshore. Further, it is estimated that at least half of the PRC's ICT exports are produced by Taiwan firms.

*Future Challenges*—Though Taiwan has large competitive strengths and a strategic geographic location for Asian and worldwide supply chains, it also faces daunting future challenges. Its population is aging at a rate that exceeds most Asian trading partners; and while an industrial powerhouse Taiwan continues to lag in the production and export of key services, particularly central business services and ICT-related services where other mid-sized East Asian economies are excelling (Singapore, Hong Kong). Government policies also constitute an impediment, particularly a regulatory framework that is insular and not on a par with standard international practices. According to the World Bank's *Doing Business Report*, Taiwan's "business climate" ranks below its major Asian competitors, including Japan, Hong Kong, Korea, Malaysia and Thailand.

Finally, of most relevance to this paper, future trade trends and institutional changes in Asia present major challenges and large potential impediments to Taiwan's continued strong growth and prosperity. Specifically, though the recent free trade agreement with the PRC (ECFA) has paved the way for increased trade and investment, Taiwan will suffer if it is not able to use ECFA as a stepping stone to greater formal institutional integration both with its Asian trading partners and with global trading economies such as the United States and the EU.

The next sections of this paper will describe the rise of Asian regionalism and its potential impact on Taiwan's economic future.

## **THE EVOLUTION OF ASIAN TRADING INSTITUTIONS: BILATERALISM AND REGIONALISM**

Since the late 1990s, East Asian regionalism has witnessed the emergence of three different phenomena in tandem: the decline of the importance and influence of APEC and trans-Pacific regionalism; the rise of alternative intra-East Asian regional organizations and processes—ASEAN Plus Three (APT) and East Asian Summit (EAS)—that are duplicating, and may well replace, the activities associated with APEC; and an explosion of bilateral FTAs (both among East Asian nations and with nations outside the region).<sup>2</sup> (Chart 3 compares the relative importance in world trade for the various proposed intra-Asian agreements vs. APEC)

### **Bilateral FTAs**

The greatest activity in East Asia on the trade front over the last eight years has been the burst of bilateral FTAs that have been negotiated among East Asian countries and between East Asian countries and nations outside of the region. In 1999, except for the loose ASEAN grouping, no nation in East Asia was negotiating or had concluded a bilateral FTA. By the late 1990s, however, East Asian leaders became increasingly aware and fearful of the rapid expansion of FTAs in other parts of the world and the potential that in the future trade discrimination would exclude them from key markets. Between 1990 and 2000, some 120 FTAs were notified to the WTO. This in turn produced, according to a number of scholarly accounts, a “defensive regionalism” in Asia, with bilateral and subregional FTAs becoming the mechanism of choice to lock in future export markets, both within and outside the region.<sup>3</sup>

By mid-2011, according to the Asian Development Bank, East Asian nations are planning, negotiating or have concluded over 170 FTAs (Chart 4). Singapore (35 FTAs) is the champion in this area, with the Korea (30), the PRC (24), Thailand (24), Australia (21), Japan (21) and Indonesia (19) following in its footsteps, according to the data compiled by the Asian Development Bank.

*ECFA*—Taiwan did not participate in the bilateral FTA wave of the past decade. Despite the fact that as a “customs territory” it had been allowed membership in the WTO with no challenge to a “one China” policy, the PRC warned that nations “would bring trouble upon themselves” if they began FTA negotiations with Taiwan. Still, the election of President Ma Ying-jeou and the KMT in 2008, ushered in an era of at least partial reconciliation; and the new administration moved to reorder Taiwan’s economic relations with the mainland—

not least because regional developments were systemically disadvantaging Taiwanese firms in competition with firms from other Asian nations. China had begun negotiating an FTA with ASEAN in 2001, completing a series of supplemental agreements on service, investment, and other non-tariff barriers in 2010. Following suit, other Asian nations (Japan, Korea, Australia, New Zealand, and India) had pursued a so-called ASEAN Plus One model, negotiating bilateral agreements separately with ASEAN.

The upshot of Ma's election was the successful negotiation of a rolling FTA with the PRC: the Economic Cooperation Framework Agreement (ECFA). Signed in 2010, under the agreement, the agreement will systemically remove most tariff and non-tariff barriers in coming years. For China, ECFA was no doubt another effort to bring Taiwan into the fold over some period of time. For Taiwan, it was the first step in attempting to break out of the bind of regional (and worldwide) discrimination from FTAs that threatened its export competitiveness, and ultimately its economic prosperity. An "early harvest" initial bonus for Taiwan included commitments from Beijing to reduce and eliminate tariffs on hundreds of Taiwan's key exports over a three-year period (valued at just under \$14 billion); and to open up 11 domestic service sectors to Taiwan investment, including financial services, accounting, computer and data services, and entertainment, among others. Table 3 presents the results of recent modeling by economists Daniel Rosen and Zhi Wang of the impact on Taiwan's GDP under three scenarios: ECFA, no ECFA but a regional APT agreement is negotiated, and ECFA plus an APT agreement. The baseline scenario assumes (as is the case) that the PRC and ASEAN have completed a bilateral FTA. By the year 2020, the impact of ECFA alone, according to their model, will increase Taiwan's GDP by 4.4 percent over what it would have been otherwise. Had ECFA not been concluded and the APT agreement had been fully implemented, then Taiwan's GDP would have been 3.5 percent less than the baseline model. Finally, with ECFA concluded and the APT fully implemented, Taiwan's GDP in 2020 would be 3.5 percent greater than the baseline model.

#### Intra-Asian Regionalism: Asean Plus Three (APT)

The APT process began quite modestly when the ASEAN nations asked ministers from Japan, China and Korea to participate in talks to reach a common ground on issues to be discussed at a summit with the European Union in 1995. Subsequently, the first APT leaders summit was convened in Kuala Lumpur in December 1997 in conjunction with the 30<sup>th</sup> anniversary of ASEAN's foundation. Though not explicitly stated, the desire for some common response to the 1997-

1998 Asian financial crisis was the most compelling subject at the initial gathering and for some years thereafter.<sup>4</sup>

For these modest beginnings, after 2000 the APT increasingly moved to center stage as the chief vehicle for East Asian integration. In 2002, leaders of the APT established an East Asian Study Group (EASG), composed entirely of government officials, which recommended a “step-by-step” approach to trade and financial liberalization in East Asia and suggested that formal negotiations for an intra-East Asian FTA be put off well into the future.<sup>5</sup> Despite this cautious approach, the APT has steadily moved to duplicate and overtake many of the functions of APEC. There are now annual meetings of trade ministers, and in recent years, the APT has taken on additional activities, with accompanying ministerial meetings, such as the environment, energy, tourism, health and safety, financial services—and recently, regional security.

Originally behind the scenes, but in recent years more openly, the PRC has pushed to increase the stature and activities of the APT. For China, there are three virtues associated with the organization and the process: neither the United States nor Taiwan is a member, and the overriding vision foresees intra-Asian regionalism as the wave of the future. Chinese scholars, if not Chinese officials, have become quite candid in their view of the future of Asian regionalism and the role of the United States. Chu Shulong, a scholar close to the Beijing government (and a 2006-2007 visiting scholar at the Brookings Institution) wrote bluntly in 2006: “Americans ... have to realize, soon(er) or later, that a regional economic and security arrangement in Asia without direct U.S. involvement is inevitable in the long run ... simply because ... Asia needs its own economic and security mechanism to (take) care (of) itself”.<sup>6</sup>

In 2004-2005, however, Beijing overplayed its hand in pushing also for an annual East Asian Summit that it hoped to dominate. What ensued was a struggle regarding membership in the summit, with Japan (aided by Indonesia and Singapore) leading a successful movement to include Australia, New Zealand and India as full participants in the gathering. The only stipulation was that all three countries sign the ASEAN Treaty of Amity and Commerce. Subsequently, Japan, in a further effort to dilute PRC influence, put forward an alternate proposal for an expanded APT free trade agreement that would include the three additional summit members: thus, an ASEAN Plus Six.

Going forward, the timing for consolidation toward free trade in the Asia-Pacific, under either an intra-Asian or trans-Pacific pathway, is uncertain. In this section, we will deal with options and impact on Taiwan of intra-Asian regional options. Table 4 is taken from an oft-cited study by two Asia Development Bank economists, Masahiro Kawai and Ganeshan Wignaraja. Their studies models the impact of successive intra-Asian regional combinations on Asian and other

economies—bilateral FTAs with ASEAN by China, Japan and Korea; a formal APT FTA, and finally an FTA consisting of the ASEAN Plus 6. As expected from economic theory, generally the results are positive for the nations included in the regional consolidation initiatives, but generally negative (because of trade discrimination and diversion) for those nations outside the grouping. For Taiwan, the negative impact on GDP growth against a baseline projection with no future Asian FTAs is small but discernable for the bilateral, ASEAN plus Japan and ASEAN plus Korea. But the negative impact becomes substantially larger if intra-Asian regionalism moves to and APT or an ASEAN Plus Six. Taiwan GDP in 2017 would be 2.03 and 2.23 percent lower than the baseline. It should be noted finally that the numbers in this chart do not take into account the more positive impact of the ECFA. Implementation of the ECFA agreement over the next few years will reduce—but not eliminate—the negative impact of Taiwan’s exclusion from other regional FTA initiatives.

#### Trans-Pacific Regionalism: APEC and the Trans-Pacific Partnership Agreement (TPP)

Until very recently, it could be argued that the vision of a trans-Pacific economic architecture had reached a high point in the mid-1990s and then declined. In 1990, then-Secretary of State James Baker had staked out the claim for U.S. leadership of trans-Pacific regionalism, warning bluntly that the U.S. would vigorously oppose any plan that “drew a line down the middle of the Pacific” and placed the U.S. outside that line.<sup>7</sup>

President Clinton advanced this vision by taking leadership in the Asia Pacific Economic Forum (APEC); and in 1994, Clinton and seventeen other heads of state committed in the Bogor Declaration to free trade among developed APEC nations by 2010, and for developing countries by 2010. Unfortunately, several years later, the Clinton administration overstepped the bounds and attempted to force zero tariffs in a key group of sectors immediately. Led by Japan, but quietly supported by other APEC nations, this effort failed dramatically, causing the Clinton White House to turn to other priorities in the trade arena.

With little exaggeration, it can be said that after 1998, APEC drifted, increasingly bereft of momentum and, as time passed, influence.<sup>7</sup> After the failure of the EVSL effort in 1998, the Clinton administration lost interest in APEC as a vehicle for trade liberalization. Then after 9/11, pushed strongly by the Bush administration, global security issues and the war on terrorism took center stage at APEC leaders’ meetings. From 2001 to 2005, the U.S. position toward further APEC regional liberalization was either negative or non-committal. In 2003,



USTR Robert Zoellick rebuffed a proposal by Thailand to move up the Bogor Goals from 2020 to 2015, arguing that the “best way to move forward” was to use bilateral FTAs “to create models” for future liberalization<sup>8</sup>. It was not until 2006 that President Bush endorsed a study group to assess the possibilities of Free Trade Area of the Asia-Pacific agreement (FTAAP). And it was not until the 2007 APEC leaders’ summit in Sydney, Australia, that Bush administration officials really attempted to exert leadership in advancing the FTAAP proposal—to muted and even lukewarm response from other APEC leaders.<sup>9</sup> Meanwhile, major new intra-Asian forces and initiatives were gathering force.

*The Trans-Pacific Partnership Agreement (TPP)* The original TPP (then known as the Pacific-4), negotiated by Chile, New Zealand, Brunei and Singapore, came into effect in 2006. In September 2008, after prodding by USTR Schwab, the Bush administration formally notified Congress of its intention to begin negotiations with the original TPP nations, plus Australia, Peru, and Vietnam, which had signaled their desire to join the agreement (The United States already had concluded FTAs with four of the proposed TPP members: Australia, Chile, Peru, and Singapore). Subsequently, Malaysia was allowed to join the agreement in October 2010, bringing the current total negotiating partners to nine (See Table 5 for basic economic facts of TPP 9).

Because of distraction with the global financial crisis and, more importantly, because of deep divisions within the Democratic party over trade and globalization issues, the Obama administration in effect had no trade policy during its first year in office. After more than eleven months’ delay, the action-forcing event for the TPP was the November 2009 APEC Leaders Summit, where the lack of any announcement regarding regional trade negotiations would have badly undercut the administration’s evolving theme that the United States was “back” in Asia and ready to assume a forward-looking leadership role. Thus, on November 14, President Obama committed the US to “engage” with the TPP nations “with the goal of shaping a regional agreement that will have broad-based membership and the high standards worthy of a 21<sup>st</sup> century trade agreement.”<sup>10</sup>

### Negotiating Structure and Baseline Documents

Once launched into the negotiating process, the Obama administration and the other TPP partners established a very ambitious agenda and schedule: they nominally committed to the goal of completing negotiations on the TPP by the time the United States hosted the APEC summit in Hawaii in November 2011. Pursuant to that goal, TPP members held four negotiating sessions in 2010 (Melbourne, San Francisco, Brunei, and Auckland).

The TPP represent new territory for trade negotiators, as they must combine or meld existing negotiated texts (P-4, bilateral agreements) with new or more advanced bilateral or TPP-wide texts. The original P-4 agreement was itself a comprehensive FTA. It encompassed some twenty chapters, including trade in goods (total free trade by 2015), services, intellectual property, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, government procurement and competition policy.

At the first meeting in Melbourne in March 2010, the negotiators established ten negotiating groups, including industrial goods, agriculture, sanitary and phytosanitary standards, telecommunications, financial services, customs rules of origin (ROOs) government procurement, environment, and trade capacity building. By the third session in Brunei in October 2010, areas were added and subdivided, with the addition of textiles, technical barriers to trade, investment, and intellectual property (IP).<sup>11</sup>

In addition, cross-cutting issues emerged in high-priority areas, including supply-chain management, competitiveness, transparency, regulatory coherence, labor and the environment, development, and small and medium businesses. Pushed by the United States, though strongly supported by Australia and New Zealand, these proposed cross-cutting rules, largely aimed at behind-the-border regulatory barriers, became the basis for proclaiming that the TPP would become the new model for a 21<sup>st</sup> century FTA. All told, the TPP will consist of more than twenty-six individual chapters.<sup>12</sup>

For 2011, five rounds of negotiations were scheduled, beginning in Santiago, and then moving on to Singapore, Vietnam, Chicago, and Lima throughout the summer and fall. At the April Singapore session, TPP members began the process of developing legal texts and exchanging market access offers. Countries put forward partial draft texts on industrial goods, sanitary and phytosanitary issues, the environment, technical barriers to trade, and regulatory coherence.<sup>13</sup> At this point, the near-term goal of the TPP negotiations is to agree to a framework and set of policy determinations by the APEC leaders' summit in Honolulu in November.

Table 6 shows the trade impact of the addition of other nations in Asia to the current TPP 9. If within the next decade, Japan, Korea and the ASEAN nations join and complete negotiations with the original 9 members, the TPP will represent over 30 percent of world trade. Should the PRC join, this figure would rise to 43 percent of world trade.

There are a number of potential paths for movement toward a total Free Trade of the Asia-Pacific, each of which would have important negative consequences for Taiwan, should Taiwan continue to be excluded from participating in the drive for regional integration. In a just completed draft paper on the TPP and the future of Asian regionalism, economists Peter Petri, Michael

Plummer and Fan Zhai have modeled several scenarios, and available paths to reaching an FTAAP by 2025. More specifically, they envision two major paths—one through expansion of the TPP and the other through expansion of existing East Asian FTAs and negotiating an APT agreement as a way station. They also take into account that some Asian countries could join both sets of negotiations. Table 7 gives a truncated account of their findings. Without going into greater explanatory detail, for this paper the important results are those related to Taiwan. In each of the scenarios—TPP, Asian Track, and Two Track—Taiwan suffers negative consequences from baseline GDP growth until and unless it is allowed to join an FTAAP, at which time it enjoys a quite large boost over baseline GDP—almost 4 percent.

### **Paths Forward for Taiwan**

While this paper has described larger regional and trans-Pacific initiatives, two recent bilateral FTAs pose more immediate challenges to Taiwan firms: the EU-Korea FTA and the just completed US-Korea FTA. Preliminary projections by Taiwan's Ministry of Economic Affairs (MOEA) for the EU-Korea FTA, predict that on a micro level, some 1500 exports to the EU will face increased competition from Korean companies as a result of tariff benefits and lower nontariff barriers. More than two-thirds of these competing items will come from the telecoms, machinery, and automobile (components) sectors. For the US-Korea FTA, current estimates hold that Taiwan will suffer trade losses of about \$2 billion: put another way, a fifth of Korea's increased exports to the US will be taken from Taiwan's export to the US.<sup>14</sup>

Down the road, as this paper has laid out, even with the substantial economic benefits of ECFA, Taiwan will experience negative impacts as East Asian integration proceeds either through a consolidation of intra-Asian FTAs, through the expansion of the TPP, or through some kind of melded integration. Beyond the bare trade numbers, there is also the likelihood that Taiwan's central status as a hub for regional and global supply chains will be jeopardized. Foreign direct investment is indispensable for the future growth of Taiwan's economy—particularly in the high-tech electronics and ICT sectors. The danger is that isolation from formal institutional arrangements will lead to investment diversion as well as more prosaic and visible trade diversion. It is for this reason that ECFA's undoubted benefits are a two-edged sword. The degree to which Taiwan is more closely tied to the mainland economy, absent any ability to forge new trade and investment ties on its own, could well become the degree to which other

nations increasingly consider Taiwan as a appendage—indeed, a province—of the PRC.

During the ECFA debate and successful completion, President Ma and the KMT repeatedly stressed that one major goal in completing the agreement was easing Beijing's opposition to new free trade agreement between Taiwan and its major trading partners. Since the agreement passed, however, movement toward new FTAs has been slow. There are active discussions with Singapore (It is reported, without solid confirmation, that President Ma would like to conclude negotiations by the end of the year). There have also been less definitive talks with other Asian nations such as Malaysia and Vietnam. Further, Taiwanese officials have raised the prospect of new trade agreements with the EU and Japan. In the case of the EU, there has been some favorable feedback: over the past several weeks a number of EU parliament members have spoken out in favor of such an agreement, and a parliamentary committee has held a hearing on a potential EU-Taiwan FTA.<sup>15</sup>

With the completion of both the EU and US FTAs with Korea, with forward movement in the TPP, and at least the possibility that Japan, Korea and Beijing may undertake bilateral or trilateral FTA negotiations, it is time for the President Ma to step up the pace of Taiwan's drive to establish new formal trade and investment agreements, particularly with East Asian neighbors but also with other major trading partners. Of particularly note, Indian officials have recently expressed great interest in since kind of trade and economic alliance, not least because of Taiwan's high-tech prowess and its role in Asian supply chains. They have made it clear that, whatever the outcome, they will not be swayed by Beijing's response.

It is time to test the PRC's supposedly more benign attitude toward new FTAs. In this regard, Taiwan should move with dispatch to complete negotiations with Singapore and to reach out to other nations in the area.

*The Role of the US*—For several years, the US and Taiwan have been moving toward closer, more formal trade arrangements, thus far in the form of so-called a Trade and Investment Framework Agreements (a way station utilized by the US for nations not yet ready for a full-fledged FTA). These TIFA negotiations stalled after the Taiwan legislature reneged on a pledge to open Taiwan's market to US beef. It is time for both sides to reach a compromise on this issue so that much more economically significant trade issues can be resolved on the way to a more formal trade arrangement.

Finally, as noted above, Taiwan's first priority should be negotiating and signing FTAs with its major trading partners in East Asia. Should Beijing actively oppose such action—and attempt to intimidate potential FTA partners for Taiwan—the US should make it clear that it is prepared on its own to move

quickly to negotiate and conclude a comprehensive FTA with Taiwan.<sup>16</sup> And further, that it will push for Taiwan's future membership in the TPP.

## TABLES AND CHARTS

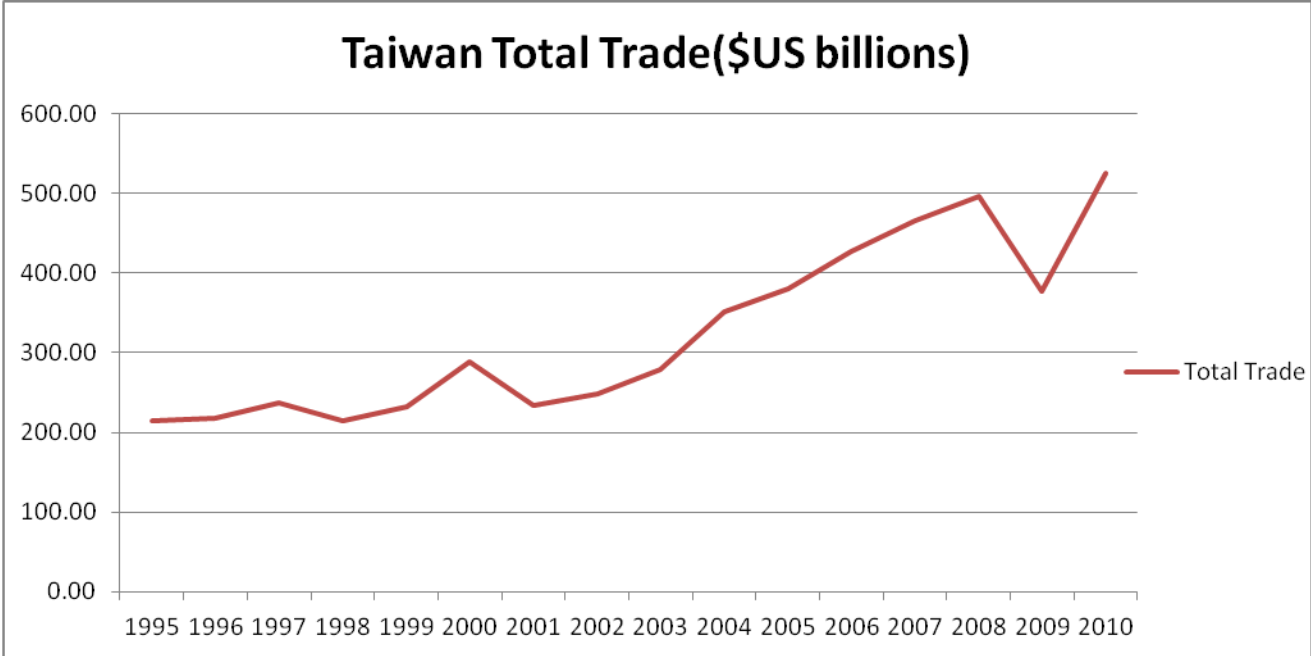
Table 1: Snapshot of Asian Economies

	<b>GDP (2008, million \$US, PPP)</b>	<b>Average annual GDP growth rate 2000-2008, in per cent</b>
China	7,912,850	9.99
Hong Kong	306,696	4.97
Japan	4,363,874	1.47
South Korea*	1,342,782	4.84
Taiwan	711,584	3.63
Malaysia	383,116	5.48
Philippines	317,258	4.79
Singapore*	244,177	5.47
Thailand	546,420	4.78
Vietnam*	240,390	7.47
India*	3,361,295	7.21

Source: Asia Development Bank (2009)

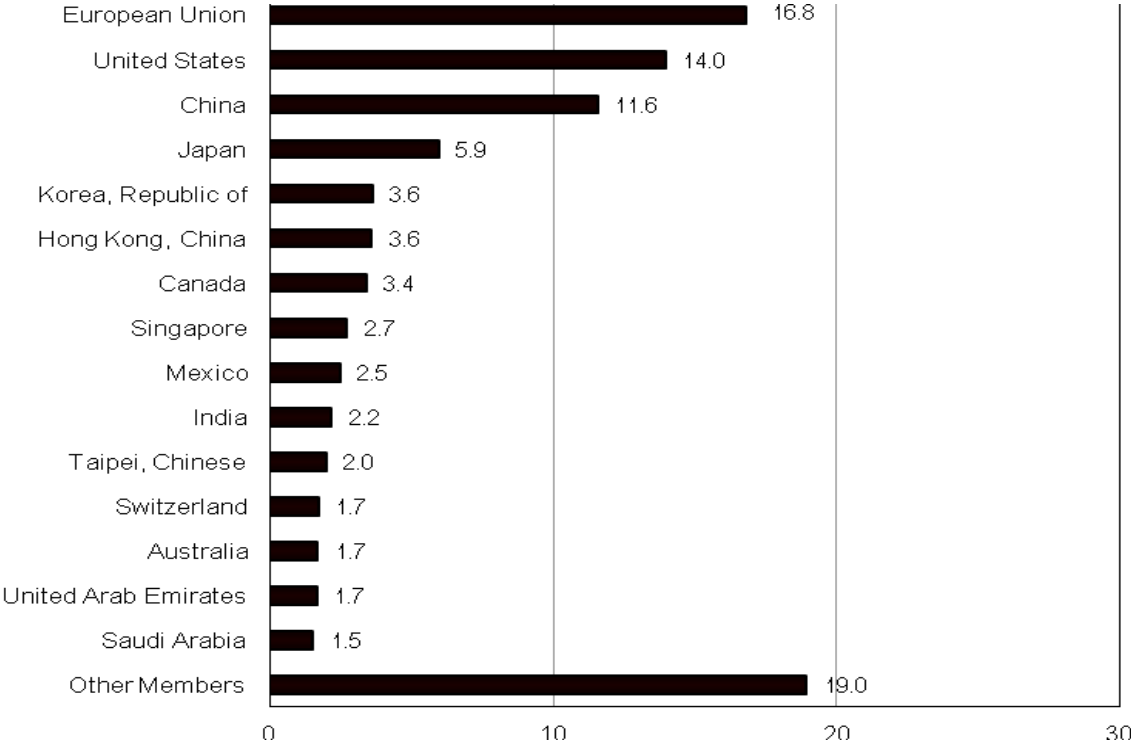
EU negotiations for a FTA agreement under Global Europe Strategy

Chart 1: Taiwan Total Trade



Source: Taiwan Ministry of Economic Affairs, Accessed October 2011

Chart 2: WTO Members share in world merchandise trade, excluding intra-EU(27), 2009



Source: WTO International Trade Statistics 2010

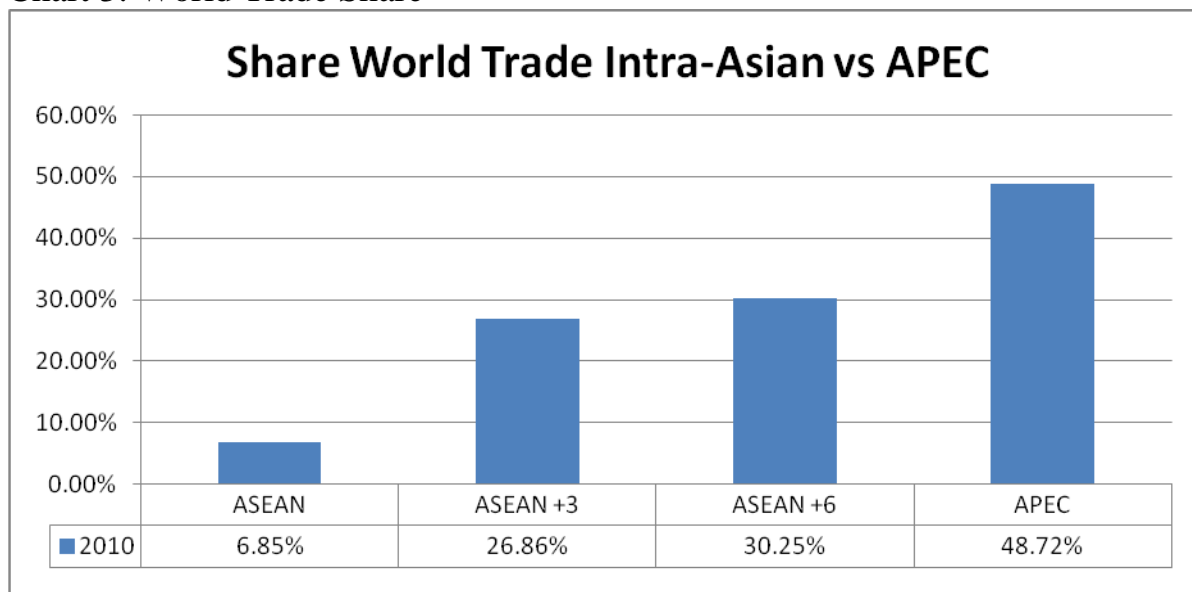


Table 2: Taiwan Leading Exports

<b>Rank</b>	<b>1985</b>	<b>1995</b>	<b>2010</b>
<b>1</b>	<b>Garments</b>	<b>Electronics</b>	<b>Electronics</b>
<b>2</b>	<b>Electronics</b>	<b>Textiles</b>	<b>Basic Metals</b>
<b>3</b>	<b>Textile Products</b>	<b>Basic Metals</b>	<b>Precision Instruments</b>
<b>4</b>	<b>Basic Metals &amp; Articles</b>	<b>Information and Communication Products</b>	<b>Plastics</b>
<b>5</b>	<b>Footwear</b>	<b>Machinery</b>	<b>Chemicals</b>
<b>6</b>	<b>Toys, Games &amp; Sports</b>	<b>Plastics</b>	<b>Machinery</b>
<b>7</b>	<b>Machinery</b>	<b>Transportation Equipment</b>	<b>Information and Communication Products</b>
<b>8</b>	<b>Information &amp; Communication Products</b>	<b>Electrical Machinery</b>	<b>Electrical Machinery</b>
<b>9</b>	<b>Plastics</b>	<b>Chemicals</b>	<b>Textiles</b>
<b>10</b>	<b>Electrical Machinery</b>	<b>Toys, Games, Sports</b>	<b>Transportation Equipment</b>

Source: Ministry of Finance, R.O.C., *Monthly Statistics of Exports and Imports, Taiwan Area, R.O.C.*, May 2011.

Chart 3: World Trade Share



IMF E-Library Data, Direction of Trade Statistics (DOTS)

Accessed August 2011

Notes:

- 1) ASEAN: Brunei Darussalam, Cambodia, Indonesia, Malaysia, Singapore, Vietnam, Thailand, Myanmar, Philippines, Lao PDR
- 2) ASEAN +3: includes the ASEAN bloc as well China, Republic of Korea, and Japan
- 3) ASEAN +6: includes the ASEAN +3 bloc as well as Australia, New Zealand, and India
- 4) APEC: Australia, Brunei Darussalam, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States, Chinese Taipei (Taiwan), Hong Kong (China), People's Republic of China (mainland), Mexico, Papa New Guinea, Chile, Peru, Russia , Vietnam
- 5) In calculating total trade between two nations, economies or regions, total trade was generally averaged between using both entities as the country of origin to account for minor statistical discrepancies where they existed.

This chart shows the share by percentage of total world trade by selected trade region. Data was calculated based on current U.S dollars in 2010 and total trade was defined as the sum of the value of exports and imports. The share of world trade was defined as the world's total trade with a specific region as a percentage of total world trade. In 2010, the ASEAN bloc accounted for 6.85% of total world trade, ASEAN +3 held a share of 26.86%, ASEAN +6 was responsible for 30.25%, and the APEC member economies accounted for 48.72 %.

Chart 4: FTAs in Asia



Source: Asian Regional Integration Center Database, Asian Development Bank Accessed September 2011  
Includes all of the following countries listed by region:

Central and West Asia - Armenia; Azerbaijan; Georgia; Kazakhstan; Kyrgyz Republic; Tajikistan; Turkmenistan; Uzbekistan

East Asia - China, People's Republic of; Hong Kong, China; Japan; Korea, Republic of; Mongolia; Taipei, China  
South Asia - Afghanistan; Bangladesh; Bhutan; India; Maldives; Nepal; Pakistan; Sri Lanka

Southeast Asia - Brunei Darussalam; Cambodia; Indonesia; Lao PDR; Malaysia; Myanmar; Philippines; Singapore; Thailand; Viet Nam

The Pacific - Australia; Cook Islands; Fiji Islands; Kiribati; Marshall Islands; Micronesia, Federated States of; Nauru  
New Zealand; Palau; Papua New Guinea; Samoa; Solomon Islands; Timor-Leste; Tonga; Tuvalu; Vanuatu

In 1975 there was one free trade agreement in the region but in 2011, there are now currently 245 free trade agreements that have been proposed, under negotiation or concluded.

Table 3: Potential Trade Effects

<b>Change in 2020 GDP (billions of 2004 US dollars and percent)</b>			
	<b>ECFA (China-Taiwan)</b>	<b>No ECFA, ASEAN +3</b>	<b>ECFA, ASEAN +3</b>
<b>Taiwan</b>	20.6 (4.40)	-3.5 (-.75)	16.4 (3.50)
<b>China</b>	4.2 (0.08)	18.3(0.34)	24.4 (0.45)

Source: Rosen and Wang

Table 4: Income Effects of Alternate Scenarios (Compared to 2017 base)

	ASEAN+ PRC FTA	ASEAN+ JAPAN FTA	ASEAN+ KOREA FTA	ASEAN +3	ASEAN +6
	% Change	% Change	% Change	% Change	% Change
<b>NE Asia</b>	0.11	0.21	0.08	1.85	1.93
Japan	-0.08	0.51	-0.03	1.54	1.59
Korea	-0.67	-0.23	1.37	6.19	6.43
P.R.C	0.58	-0.14	-0.07	1.26	1.33
<b>ASEAN</b>	3.72	2.43	0.68	5.23	5.66
Cambodia	0.75	0.33	0.16	1.20	1.21
Indonesia	2.30	0.94	0.49	2.62	2.86
Malaysia	4.02	2.37	0.71	5.54	6.33
Philippines	2.13	1.59	0.52	2.64	2.85
Singapore	4.13	1.91	0.48	4.79	5.43
Thailand	7.39	6.39	1.20	12.10	12.84
Viet Nam	4.68	2.94	1.58	7.35	7.63
Others	0.50	0.18	0.05	0.59	0.33
<b>Other East Asia</b>	-0.30	-0.13	-0.06	-1.32	-1.54
Hong Kong	-0.03	-0.02	-0.02	-0.33	-0.59
Chinese Taipei	-0.49	-0.21	-0.09	-2.03	-2.23
Others	-0.11	0.09	-0.03	-0.25	-0.24
<b>South Asia</b>	-0.09	-0.07	-0.05	-0.32	1.52
Bangladesh	-0.08	-0.06	-0.04	-0.26	-0.37
India	-0.10	-0.08	-0.05	-0.30	2.42
Pakistan	-0.11	-0.06	-0.06	-0.55	-0.79
Sri Lanka	-0.07	-0.05	-0.07	-0.38	-0.67
Others	0.05	-0.01	-0.01	-0.03	-0.73
<b>Oceania</b>	0.18	-0.21	0.00	-0.41	3.91
Australia	0.21	-0.09	0.02	-0.27	5.24
New Zealand	0.48	0.02	-0.12	-0.03	-1.25
<b>Central Asia</b>	0.04	-0.02	-0.01	-0.09	-0.11
<b>NAFTA</b>	0.06	0.00	0.00	0.00	-0.03
Canada	0.12	0.04	0.02	0.18	0.15
US	0.05	-0.01	0.00	-0.03	-0.06
Mexico	0.11	0.02	-0.02	0.31	0.30
<b>World</b>	0.17	0.09	0.03	0.45	0.54

Source: Kawai and Wignaraja (2008)

Table 5: U.S. Goods Trade with TPP Countries, 2009(million\$)

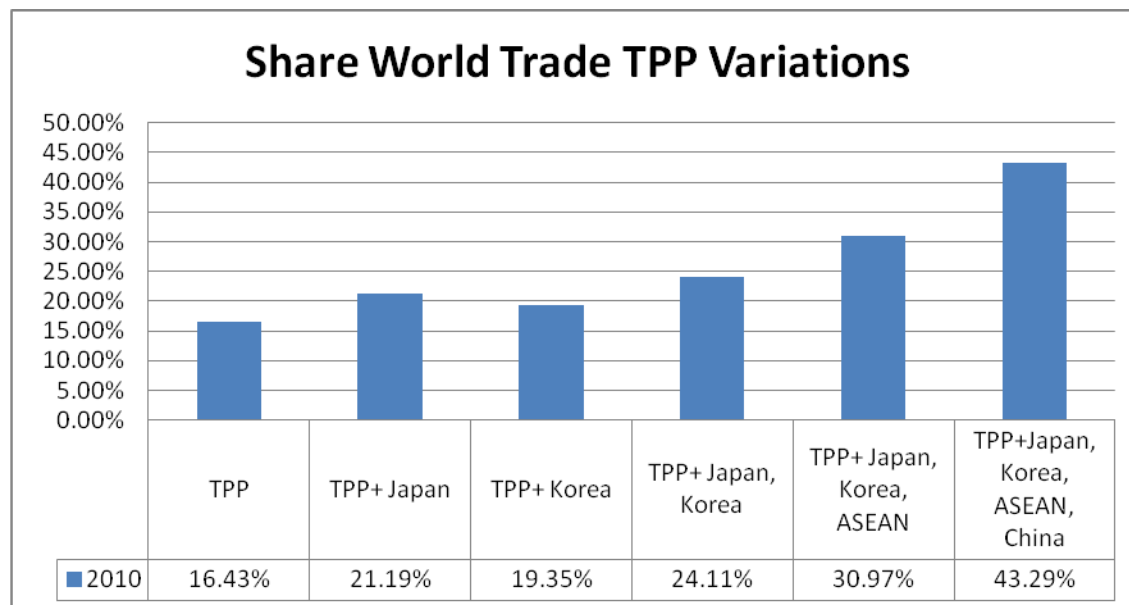
Country	Rank	Imports	Exports	Total	Balance
Singapore	15	15,586.9	19,923.6	35,511.5	4,335.8
Singapore	15	15,586.9	19,923.6	35,511.5	4,335.8
Malaysia	18	23,252.0	8,911.8	32,163.8	(14,340.1)
Australia	21	7,997.8	18,243.7	26,241.5	10,245.9
Vietnam	30	12,366.8	2,966.6	15,333.4	(9,400.2)
Chile	31	6,047.2	8,693.5	14,740.7	2,646.3
Peru	42	4,234.6	4,355.8	8,590.4	121.2
New Zealand	55	2,535.8	2,048.8	4,584.6	(487.0)
Brunei	152	41.6	96.8	138.4	55.2
<b>Total TPP</b>	5	72,063.7	65,240.6	137,304.3	(6,823.1)
Pacific Rim		564,706.6	240,561.4	805,268.0	(342,145.2)
Korea		38,769.5	27,037.9	65,807.4	(11,695.6)
China		295,544.5	65,123.9	360,668.4	(230,420.6)
Japan		96,001.8	47,074.3	143,076.1	(48,927.5)
World		1,549,163.5	936,745.0	2,485,908.5	(612,418.5)

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**Source:** U.S. International Trade Commission

**Notes:** Rank based on total grade (imports + exports); imports for consumption, U.S. domestic exports.

Table 6: TPP World Trade



IMF E-Library Data, Direction of Trade Statistics (DOTS)  
 Accessed August 2011

Notes:

- 1) TPP: United States, Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam,
- 2) ASEAN: Brunei Darussalam, Cambodia, Indonesia, Malaysia, Singapore, Vietnam, Thailand, Myanmar, Philippines, Lao PDR
- 3) In calculating total trade between two nations, economies or regions, total trade was generally averaged between using both entities as the country of origin to account for minor statistical discrepancies where they existed.
- 4)Asia-Pacific:TPP, ASEAN, Japan, Korea, China

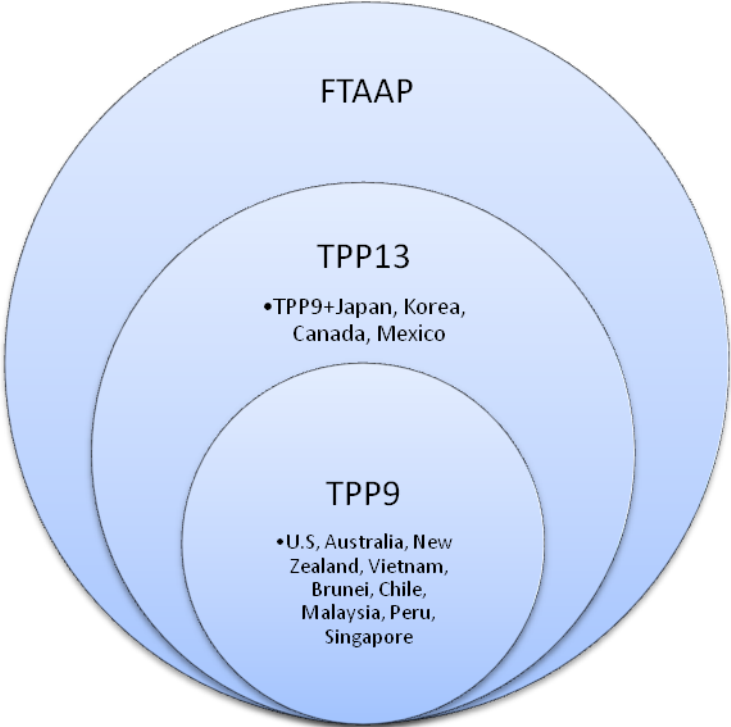
This chart shows the share by percentage of total world trade by selected trade region. Data was calculated based on current U.S dollars in 2010 and total trade was defined as the sum of the value of exports and imports. The share of world trade was defined as the world’s total trade with a specific region as a percentage of total world trade. The Trans-Pacific Partnership garnered 16.43% of total trade in 2010 and sum of all trade with the world of the TPP, Japan, Korea, and the ASEAN bloc accounted for 30.97% of world trade. After adding China to that grouping, the bloc accounts for 43.29% of world trade.



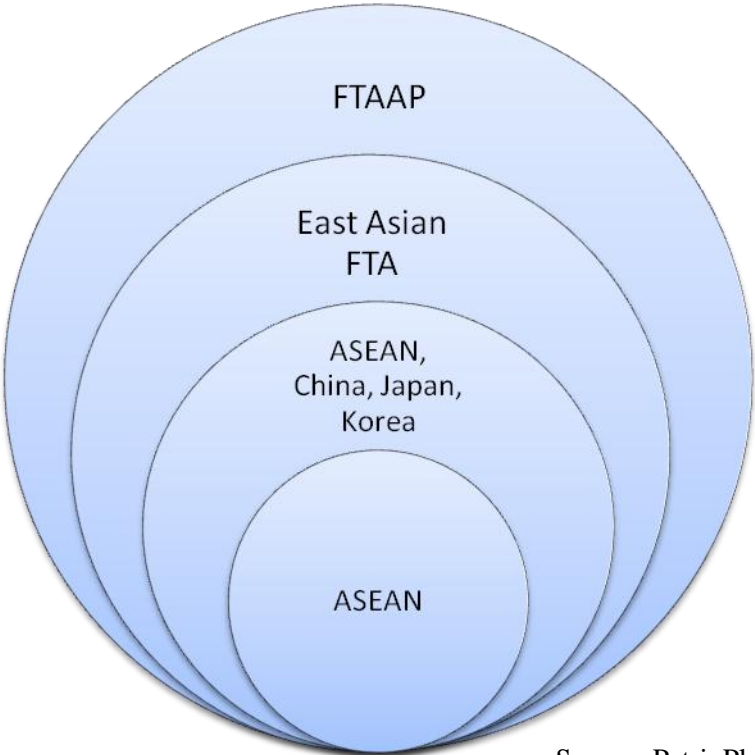


Chart 5: TPP & Asian pathways to FTAAP

**TPP Track**



**Asian Track**



Source: Petri, Plummer, and Zhai (2011)

Table 7 : Welfare on alternative tracks

	Welfare Gains in 2025 % Baseline GDP			
	TPP	Asian Track	Two Tracks	FTAAP
<b>TPP Track</b> US, Australia, Canada, Chile, Mexico, New Zealand, Peru	0.15	0.03	0.18	0.51
<b>Asian track</b> China, Hong Kong, Indonesia, Philippines, Thailand	-0.10	0.61	0.53	1.98
<b>Two-Track</b> Brunei, Japan, Korea, Malaysia, Singapore, Vietnam	1.07	1.16	2.01	2.45
<b>Other</b> Chinese Taipei	-0.20	-0.95	-1.05	3.77
<b>World</b>	0.10	0.21	0.30	0.85

Source: Petri, Plummer, and Zhai (2011)

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## Endnotes

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<sup>1</sup> This opening section is taken from the following sources: CIA (2011); Dreyer et. al. (2010); Rosen and Wang (2011)

<sup>2</sup> For a detailed, recent analysis of the evolution and prospects for East Asian regional institutions, see: Dent (2010). Dent does not included the TPP in his analysis.

<sup>3</sup> Solis and Katada, 2007;. “Understanding East Asian Cross-Regionalism: An Analytic Framework,” *Pacific Affairs*, vo. 80, no. 2, 229-257; Munakata, 2006.

<sup>4</sup> Dent (2010) is the most authoritative recent analysis of the APT. He predicts that it will emerge as the dominant regional institution among the variety of candidates for that honor.

<sup>5</sup> Kwon (2002); Capie (2004).

<sup>6</sup> Chu (2006).

<sup>7</sup> Baker (1995); Dreyer et al. (2009); Dent (2010); Rosen and Wang (2011)

<sup>8</sup> ITR, October 23, 2003.

<sup>9</sup> U.S. Department of State (2007).

<sup>10</sup> Barfield and Levy (2009); Barfield (2011).

<sup>11</sup> *Inside US Trade*, February 26, April 2, May 7, 2010.

<sup>12</sup> Interviews, trade diplomats, embassy staffs, and congressional aides.

<sup>13</sup> *Inside US Trade*, May 6, 2010.

<sup>14</sup> Tu (2010); Chang (2011); Chao (2007); and *China Times* (2011).

<sup>15</sup> *Taiwan Today* (2011); see also: Hsu (2011); Chang (2011); and Wren (2011).

<sup>16</sup> The author has argued this fallback position for some time: Barfield (2006)