

SIGUR CENTER ASIA REPORT

Taiwan and Asia Pacific Economic Integration: ECFA, TPP, and Beyond

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The signing of The Economic Cooperation Framework Agreement (ECFA), a preferential trade agreement between the governments of the People's Republic of China and the Republic of China (Taiwan) that aims to reduce tariffs and commercial barriers between the two sides seems to have alleviated some concerns about Taiwanese economic integration. At the same time, the signing of ECFA has reopened the issue of broader economic integration in the region. Experts on Taiwan's economic policies assembled for a conference on "Taiwan and Asia-Pacific Economic Integration" on April 30th at the Sigur Center for Asian Studies in an effort to explain Taiwan's current economic integration efforts as well as future challenges that will likely accompany such developments.

Opportunities and Challenges of Economic Integration

The conference began with William Liu, Senior Executive Economic Officer in the Economic Division of the Taipei Economic and Cultural Representative Office in the U.S. (TECRO) focusing on three main pathways towards continued prosperity for Taiwan. First, he described Taiwan's economic profile, stating that the country's economic growth owed much to its vibrant economy in the global supply chain. Second, he outlined the possible effects of regional integration on trade and investment. For example, ECFA would consolidate Taiwan's role as a regional hub, create a gateway to invest in mainland China, and in the process, enhance regional security.

Lastly, Liu described the efforts being made to meet the challenges of economic integration. These include the conclusion of FTAs with countries like Panama and Honduras, continuing free trade negotiations with the PRC, and conducting feasibility studies in countries such as New Zealand and India. Liu concluded that Taiwan's FTA strategy is on the right track but that Taiwan will require continued strong economic expertise when conducting trade policy. In a turn to more political matters, Rupert Hammond-Chambers, President of the U.S.-Taiwan Business Council, discussed President Ma Ying-jeou's 2012 re-election and the prospects for economic growth under a second term. Insufficient opposition to domestic vested interests was a major theme of the discussion. Uncompetitive domestic sectors are proving to be a huge drag on Taiwan's economy; however, President Ma's plan of action has not been to take on these constituencies, but to use trade policy as a mechanism for reforming the economy, with agriculture being an important example.

The issue of Taiwan's ban on U.S. beef containing the additive ractopamine was also identified as a huge obstacle, with Hammond-Chambers expressing the hope that President Ma will have the political courage to help remove this as a trade impediment between the U.S. and Taiwan. Unless the beef issue is resolved, the U.S. and Taiwan will not be able to push economic liberalization into new areas. This would not be a sustainable economic path for Taiwan in the coming years.

As for the so called "U.S. pivot to Asia," Matthew Goodman from the Center for Strategic and International Studies (CSIS) discussed the economic drivers behind this policy shift and its implications for Taiwan. One of the most significant factors behind the "pivot" is a desire to embed the U.S. in the Asia-Pacific region. Doing so in a largely economic way is smart, since economic engagement is generally seen as less threatening than stationing or deploying troops. Moreover, the U.S. still has leverage in this area as its goods continue to be highly desired. However, concerns exist regarding U.S. staying power in the region as well as the inevitable distraction from other parts of the world that will result.

Regarding the implications for Taiwan, it is clearly in Taiwan's interests for U.S. to be engaged in region for reasons of security and economics. Also, in Goodman's view, Taiwan should be part of any regional architecture that is established, as it has much to contribute. Furthermore, Taiwan faces a number of economic challenges and strengthening ties with the U.S. can help keep Taiwan economically relevant.

Advice for Moving Taiwan Forward

Striking a similar tone, Joseph C.Y. Chang, a visiting scholar at the Sigur Center advised that the U.S. should take a lead role in encouraging Taiwan's participation in the Trans-Pacific Partnership (TPP) as this would enhance the prospects of the TPP and ensure that the Asia-Pacific region remains an area conducive to commerce and trade, ultimately benefitting all parties, including China. Despite China's ongoing opposition to Taipei's membership, China may have to reconsider its position if more APEC economies, as well as the U.S., decide to join the TPP. Ultimately, the advice from Chang was for Taiwan to join the TPP, regardless of the economic and political challenges in that exist.

In rather stark contrast to this advice, Claude Barfield from the American Enterprise Institute (AEI) emphasized that Taiwan "should forget about the TPP," at least for the time being. There simply has not been enough activity on Taiwan's part to pursue regional economic integration. Furthermore, while the TPP is important, Taiwan should focus more on immediate, domestic reforms so as to better position it to sign free trade agreements with other countries. Perhaps most importantly, while Taiwan is not legally restricted from joining the TPP before China, it is not realistic for Taiwan to make this bold move, for reasons of regional politics and history.

On this last point, Derek Scissors from the Heritage Foundation helped to conclude the conference by stating that Taiwan should be less concerned about what China thinks and that it must diversify and increase ties with countries like India which have far less of an interest in China's dictates. At the same time, what Taiwan can offer China economically has dramatically decreased, therefore necessitating steps to make Taiwan better at producing what China needs.

Echoing a point made by Hammond-Chambers at the beginning of the conference, Scissors stressed that Taiwan needed to reorient its economy away from domestic constituencies and towards comparative advantage. Taiwan should exploit and promote "what it's actually good at." This includes environmental goods, urban planning, education and finance. Ultimately, Taiwan should make itself more valuable to other countries by changing itself through diversification and concentrating on what is under its own control, not on what the U.S. or China does.

The Search for Consensus

What emerged from day's discussion was a heightened awareness of the opportunities and challenges facing Taiwan as East Asian economies continue to integrate. Whether Taiwan is ready for participation in such important FTAs as the TPP remained an open question. What seemed clear, however, was the importance of Taiwan to the economic and trade architecture of the Asia-Pacific region.

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