


Taiwan and the Trans-Pacific Partnership

The Political Dimension

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The task seems insurmountable. The various obstacles to Taiwan's becoming a member of the Trans-Pacific Partnership are indeed daunting. The disciplines that TPP imposes are demanding. Resistance to them from domestic interests is certain. And then there is China, which opposes the idea of Taiwan acting independently in the international system. Some might say that for Taiwan to make a play for TPP and lose because of Chinese obstruction is worse than not trying at all. That is, even if the rewards of being a member of the TPP club—perhaps the most exclusive in the global economy—are clear, the costs of even trying to join seem excessive. If Las Vegas or Macau bookmakers took bets on the chances of TPP success for Taiwan, they would surely be very long.

How to shorten these odds? Consider the metaphor of a safe with a combination lock. Essentially, the locking mechanism of this kind of safe is made up of a set of wheels called a "wheel pack." The combination dial sequentially engages the wheels with a series of turns in alternating directions and of varying numbers of times around the dial. If

each turn has been done correctly, the wheels line up in a way that disables the lock and allows safe to open. But the turns have to be precisely accurate, with the right number of turns around the dial and to the exact final point. Any small mistakes and the whole process must begin again. This is the challenge that Taiwan faces, but the number of steps it must successfully accomplish is greater than the number of wheels in the standard combination safe. It must take these steps in the correct order, for it will be their cumulative effect that opens the door to TPP membership. Finally, Taipei is not always in total control of its destiny. For some "wheels" it is others, not Taiwan, who are "spinning the dial." Taipei is dependent on the decisions of these others but has no say in them.

So what are the "wheels" that must align for Taiwan to open the locked safe of TPP membership? The following are the steps that I believe must occur, listed in what seems to be the proper sequence. Obviously, removing Chinese political opposition is one of those wheels but it is not the only one, nor is it the first one. None of these steps is easy, and some are not under Taiwan's control,

either wholly or partially. But if these steps occur and occur in the proper order, the odds of Taiwan's membership become less daunting.

Step One: The twelve countries that are party to the current TPP negotiations must complete an agreement.

At least rhetorically, the countries currently participating in the TPP negotiations believe they are addressing issues that are key to a healthy international economy in the twenty-first century. They appear to be negotiating seriously to reach a mutually acceptable outcome. But it is conceivable that finding solutions to these problems may simply be too ambitious. If the twelve countries are not able to reach consensus on new rules, then Taiwan will not have a TPP option. Let us assume, however, that the twelve current countries *will* reach a TPP agreement and that Taipei can plan for the best, even as it prepares for the worst.

Step Two: Taiwan society must reach a broad political consensus on why TPP membership is vital to Taiwan's long-term economic competitiveness.

Clearly, the twelve countries that are already engaged in the TPP negotiations are the only ones that will be initial parties to an agreement, if one is reached. Taiwan's goal should be to position itself to gain inclusion in a post-agreement second round. As a starting point of that positioning, it must first agree on a fairly broad societal basis that TPP is good for Taiwan.

If one accepts certain premises, the logic of TPP for Taiwan seems clear.

- The task for any economy in an era of globalization is to constantly preserve competitiveness. An economy that seeks to protect

a certain status quo will inevitably fall behind.

- The liberalization of economic relations with other trading partners is a key means of preserving competitiveness, because it opens new markets, enhances productivity, and most importantly stimulates structural adjustment domestically.
- External economic liberalization should occur with as large a group of trading partners as possible. Liberalizing with only one trading partner only distorts the adjustment that ensues.
- The scope of liberalization must be appropriate to the existing obstacles to it. If barriers at the border are the biggest obstacle (i.e. tariffs), then they should be the focus. If the barriers are behind borders (e.g. domestic regulation) are the obstacle, as is increasingly the case today, then they should be the focus.

It is true that even if Taiwan seeks to act on this logic, it is badly handicapped by its exclusion so far from regional efforts to foster economic integration. For example, because the Republic of Korea has preferential access to the U.S. market through its free trade agreement with the United States, then Taiwan companies that compete with South Korean ones in certain product lines will be at a disadvantage. There is no economic reason why Taiwan should not be included in the various emerging regional blocs tying Northeast and Southeast Asia together or tying Asian countries to markets in the Western Hemisphere. The reason is entirely political: China's desire to keep Taiwan's international profile as low as it can. But Beijing's opposition should not be the reason that Taiwan fails to formulate the right economic strategy to preserve competitiveness.

Actually, President Ma Ying-jeou has begun to lay out such a rationale, both for external economic liberalization and for TPP in particular. In his May 20, 2012, address to inaugurate his second term, he said:

Enhancing the drivers of economic growth is the first pillar for bolstering Taiwan's competitiveness. Further economic liberalization and improvements to our industrial structure constitute the core drivers. . . . Only if Taiwan opens up to the world will the world embrace Taiwan. In an era when we are confronted by a restructuring of the global, political and economic order and a shift in the economic center of gravity toward Asia, we must change from a protectionist mindset and revise outdated legislation. We must eliminate artificial trade and investment barriers and create a genuinely free and open economic environment for Taiwan that is more in line with international practices.¹

In a speech at Brookings in November 2013, former Vice President Vincent Siew, long a central figure in Taiwan's economic policy-making made similar argument:

Taiwan's external economic relations are highly skewed and imbalanced towards integration with Mainland China but marginalization to the rest of the world. The risk of marginalization undermines people's confidence on Taiwan's economic prospects and discourages domestic and foreign direct investments in Taiwan, at a time when Taiwan needs these investments the most to improve its structure of exports and move to higher value-added goods and services to tackle the challenges of slowed economic growth, stagnated

wage increases, and deteriorating income inequality. . . .

First, Taiwan's economy is facing a challenging period of transition, where a TPP membership will provide Taiwan with a strong external stimulus and vehicle to carry out structural reforms and rebuild people's confidence on Taiwan's economic prospects. Market liberalization and economic confidence will be conducive to investments that are critical to Taiwan's long-term economic competitiveness.

The problem, of course, is that although Ma, Siew, senior economic officials, and some corporate executives in Taiwan understand this logic very clearly, many other interest groups and stakeholders do not accept it as *their* logic. These groups tend, understandably, to consider only the consequences of liberalization for their more narrow interests and not for Taiwan's economy as a whole. For example, farmers and the organizations that support them have an impact of Taiwan's domestic politics that far outweigh their contribution to the national economy. In order to bridge the gap between a vision for the competitiveness of Taiwan's economy as a whole and the more narrow visions of sectors concerning their own competitiveness, there will need to be a concerted campaign to educate public opinion on the virtues of liberalization and the structural adjustment that will come with it, and to build a political coalition that will support those goals. Moreover, the government will need to develop mechanisms to help sectors disadvantaged by liberalization, and their workers, to cope with that adjustment, even as it develops ways to ensure that sectors that can benefit from liberalization can seize every opportunity.

¹ "Full Text Of President Ma Ying-jeou's Inaugural Address," Central News Agency, May 20, 2012 (Open Source Center, CPP20120520968035).

It is important to note that the emphasis here is on Taiwan's long-term economic competitiveness. It is certainly true that TPP membership for Taiwan would help it break through China's diplomatic blockade and enhance the island's sense of dignity, which is the motivation behind its campaign for more international space. But enhancing dignity is probably not a sufficient motivation to justify the concessions that entry into TPP will require. If dignity may be a secondary reason to pursue TPP, sustaining economic competitiveness and the prosperity that flow from it is the primary reason, and a vital one at that.

Step Three: Taiwan can and should restore its credibility with key trading partners

If we assume that there will be a first-round TPP agreement; and even if Taiwan can forge a sufficiently broad, initial domestic consensus in favor of liberalization; and even if we set aside for now the obstacle of a PRC diplomatic blockade, Taipei must still eliminate a significant threshold obstacle to its becoming a part of TPP. That is, the view of present and former American trade officials that Taiwan has not always been able to actually carry out the commitments it makes in negotiations. This is not because its economic officials lack sincerity in any way. But they are seriously constrained by domestic political forces. The case of market access for American beef illustrates the difficulties of Taiwan's political leadership has faced in securing and sustaining domestic approval for external commitments.

When the Obama Administration came into office, it undertook to improve U.S. relations with Taiwan, in part to reward Taipei for its success in reducing tensions with China (a security benefit for Washington). In the economic sphere, Washington hoped to resume discussions with Taipei on

economic issues under the Trade and Investment Framework Agreement (TIFA). Yet U.S. trade negotiators insisted that Taiwan had to address some specific barriers in advance, particularly beef. For Washington, a satisfactory outcome on beef became a precondition for holding a TIFA meeting. The two sides had good intentions, and they reached a market access agreement in the second half of 2009. But the Ma Administration decided that the signing ceremony for the understanding should come right before elections for county magistrates and mayors. In the subsequent public uproar, which was fueled in part by unsubstantiated concerns about food safety, Taiwan's legislature imposed restrictions that had the effect of renegeing on the agreement (in this case, some members of the KMT caucus, which had a large majority in the Legislative Yuan, were unhappy with Ma's performance and voted with the opposition).

After this setback, the Obama Administration's enthusiasm for TIFA waned temporarily, but it made a new effort and talks were scheduled for early 2011. Then, Taiwan's health minister, without adequate consultation within the government, decided to enforce a legal ban on ractopamine, a chemical added to livestock feed to increase the protein content of the meat. He did so in a manner designed to secure maximum publicity and in spite of an understanding between the two governments that Taiwan would somehow adjust the ban to ensure continued imports of foreign beef. There was the suspicion that the health minister took the initiative to curry favor with domestic producers of pork, who compete with beef importers. The TIFA meetings thus remained suspended. In both cases, politicians readily played upon public concerns about food safety. A senior U.S. official indicated that in Washington's view, the stakes were greater than whether Taiwan consumers ate American beef: "Taiwan has taken a series of actions in recent years on agricultural trade

issues that have *damaged its credibility as a reliable trading partner* and have proved to be a serious impediment” to improving economic relations.²

The situation was salvaged once Ma Ying-jeou was re-elected for a second term, because resolving beef with the United States was important for his larger strategy of economic liberalization with all major trading partners. In the summer of 2012, after Ma had expended considerable political capital, the Legislative Yuan relaxed the restrictions on chemical additives in a way that again opened the Taiwan market to American beef. In March 2013, Taiwan and American economic officials held a TIFA meeting and laid out an agenda for future potential agreements. It was expected that more bilateral economic negotiations would occur thereafter.

TIFA talks certainly have the potential to reach agreements that would promote the economic interests of both Taiwan and the United States. A bilateral investment treaty is a case in point. Making significant progress in reducing various barriers in agriculture, services, investment, pharmaceuticals and medical devices, and problems in intellectual property rights protection is useful for its own sake, if only to minimize their complicating TPP negotiations in the future.³

But reaching new agreements under TIFA and reducing old barriers are significant beyond any specific value they may yield. They can be a vehicle for Taiwan to restore the credibility of the commitments that it makes through negotiations. If the Taiwan government is able not only to conclude specific agreements under TIFA but also get them approved by the Legislative Yuan and implemented well by the relevant agencies, that

will enhance Washington’s confidence that it is worth engaging Taiwan on a comprehensive and complex project like TPP. (In truth, restoring the credibility of commitments would be worthwhile even if TPP were not on the horizon.)

Follow-through is important for all of Taiwan’s trade agreements, not just those reached with the United States under TIFA. Whether Taiwan can implement accords it has concluded with other parties will also be important data points for any American trade negotiator assessing the ability of Taiwan’s executive branch to secure public support and legislative approval. Taipei’s agreement with Beijing on trade in services under the Economic Cooperation Framework Agreement (ECFA) and its initiative to establish branch offices of the Straits Exchange Foundation on the Mainland are significant here. So are its free trade agreements with New Zealand and Singapore.

Some important institutional concerns affect the credibility with which Taiwan negotiates trade agreements. First of all, there is the autonomy that trade negotiators receive from their political masters vis-à-vis the demands of narrow domestic economic interests. On this point, we can envision a spectrum of possibilities. On one end of the spectrum, trade negotiators get a high degree of autonomy, which permits them to approach their task with a highly strategic perspective on the sectors where liberalization is necessary for the sake of facilitating future competitiveness. Domestic sectors hurt by these steps are excluded from influencing negotiators’ decisions because protection of their narrow sectoral interests undermines the broader national interest. On the other end of the spectrum, trade negotiators are openly

² “Assistant Secretary Campbell at House Hearing on Taiwan,” IIP Digital, October 4, 2011 (<http://iipdigital.usembassy.gov/st/english/text-trans/2011/10/20111004182250su0.5076955.html#axzz2g7Ob9XtN>).

³ For a detailed inventory, see U.S. Trade Representative, “2013 National Trade Estimate Report on Foreign Trade Barriers,” March 2013, section on Taiwan (www.ustr.gov/sites/default/files/2013%20NTE%20Taiwan%20Final.pdf).

exposed to the demands of narrow sectoral interests and must factor those demands into their negotiating position.

Obviously, these two ends of the spectrum are ideal types that are never reflected in reality. But the spectrum does exist. South Korea's Ministry of Foreign Affairs and Trade has been on the more autonomous end of the continuum in recent years. Domestic sectors still demand that negotiators protect their interests and sometimes they have some success. On balance, however, South Korean officials have had relative autonomy.⁴ Japan, on the other hand, has been on the other side of the spectrum, with its trade negotiators more beholden to traditionally protected sectors such as agriculture.⁵ Generally, Taiwan appears to be more like Japan than Korea, with implications for the degree of liberalization that its trade negotiators feel free to offer, as well as the ability of the executive branch to get its agreements ratified.

Highly relevant here is the very process by which trade agreements receive legislative approval, which is becoming more contested. After Taipei and Beijing concluded the Economic Cooperation Framework Agreement in June 2010, the Legislative Yuan debated each article but then voted on the pact as a package. Three years later, the Ma Administration is having much greater difficulty getting approval for trade agreements and passage of controversial legislation concerning its external relations.⁶ Going forward, Taiwan's trade officials will command more serious attention from their counterparts in other countries if the Executive and Legislative Yuans can agree on a smooth and

standard mechanism for reviewing and approving the agreements negotiated.

Finally, there are signs of a new trend in Taiwan politics, including the politics of trade agreements. In the past, most political activity flowed through political parties and the representatives elected through them. In recent months, however, more populist forces have become more active. These form to mount protests on narrow single issues. They act outside of political parties and the legislature, but are mobilized through the mass media and social media. Recent examples concern nuclear power, urban development, and the treatment of soldiers. These social movements are similar to those that have frustrated movement on the Doha Round in the field of international trade. Taiwan's leaders, therefore, must create consensus not only within the political system per se, including legislators who reflect the interests of protected sectors, but also in society more broadly.

Step Four: Taiwan should develop a negotiating position and strategy for TPP

Even as Taiwan is using ECFA, TIFA, and other forums to promote liberalization now and enhance the credibility of its commitments, it can also prepare for negotiations for TPP later. This will perhaps be the most complex trade negotiation that Taiwan has ever undertaken, for reasons of both substance and process.

Concerning substance, the removal of tariff and non-tariff barriers will be difficult enough, given the likely resistance of domestic interest groups

⁴ Mireya Solis, "South Korea's Fateful Decision on the Trans-Pacific Partnership," Brookings Institution Foreign Policy Paper Series, no. 31 (September 2013) ([http://www.brookings.edu/~media/research/files/papers/2013/09/0918%20south%20korea%20trans%20pacific%20partnership%20solis.pdf](http://www.brookings.edu/~media/research/files/papers/2013/09/0918%20south%20korea%20trans%20pacific%20partnership%20solis/0918%20south%20korea%20trans%20pacific%20partnership%20solis.pdf)).

⁵ Brookings Institution-Sasakawa Peace Foundation USA symposium on "Japan and the Trans-Pacific Partnership," December 2, 2011 (http://www.brookings.edu/~media/events/2011/12/02%20transpacific%20partnership/1202_transcript_final.pdf), pp. 44-49.

⁶ David G. Brown and Kevin Scott, "China-Taiwan: Bumps Along the Road," *Comparative Connections*, vol. 13, no. 2 (September 2013) (http://csis.org/files/publication/1302qchina_taiwan.pdf).

that benefit from such barriers. But that is just the beginning of the complexity that TPP's "platinum-standard" issues present. These include the protections that the United States has sought in its recent bilateral FTAs for labor rights, intellectual property rights, investment, and the environment. TPP also targets a set of concerns that were ignored in earlier multilateral trade regimes. These include regulatory coherence; small and medium-sized enterprises; competitiveness; development; regional integration; and supply chains, plus a new focus on state-owned enterprises.⁷

Given its level of development, and setting domestic politics aside, Taiwan's trade policies may be within striking distance of the "platinum standard" in some of these areas. The progress made on protection of intellectual property rights has been significant. Taiwan companies are deeply embedded in global supply chains. But there are likely other areas where Taiwan will have to reform its own practices to ensure that they conform to those set forth in TPP. One assumes that Taiwan's economic policymakers have begun to do an inventory of how each of the TPP standards affects Taiwan, the regulatory policies and practices affected, the relevant domestic interests that may be disadvantaged, and what will have to be done to bridge the gap between current reality and TPP's expectations.

Even as it evaluates Taiwan's own policies against TPP's "platinum standard," Taiwan can also gain a better understanding of the dynamics of negotiations that are both multilateral and demanding. Its general exclusion from economic integration efforts in East Asia and, so far, from TPP, make this task all the more pressing. Among the negotiations that are worth reviewing:

- Taiwan's own negotiations, bilateral and otherwise, that led to its becoming a member of the World Trade Organization over a decade ago.
- The bilateral negotiations between the United States and the Republic of Korea to establish their free trade agreement (important because that agreement anticipated many of the new issues in TPP).
- The TPP negotiations now underway.

Speaking at Brookings in November 2013, Taiwan's vice minister of economic affairs, Francis Liang, signaled that Taiwan is already taking some of these steps. Among other things, it has:

- Established a taskforce within the government on negotiating FTAs, chaired by the premier.
- Created a special committee under this taskforce; the Committee for Industrial Advisory Work is a mechanism to conduct outreach and dialogue with industry and academia.
- Begun to adjust its trade policies, legislated and otherwise, to TPP standards through its FTA negotiations with Singapore and New Zealand, which are already negotiating TPP.
- Created an inter-agency task-force to review the commitments and regulatory changes in FTAs to which Taiwan is not a party, such as the Korea-U.S. FTA, and assess what changes Taiwan will have to make in its own policies conform.

⁷ Mireya Solís, "The Trans-Pacific Partnership: Can the United States Lead the Way in Asia-Pacific Integration?" *Pacific Focus*, Vol. XXVII, No. 3 (December 2012), 327-332. One item that is not on the TPP menu but might end up there if some in Congress have their way is currency valuation. With its very large current account surplus and reserve accumulation, Taiwan would be badly affected by such a provision, which most economists believe is bad trade policy. (I appreciate David Dollar bringing this point to my attention.)

Vice-Minister Liang ended his review by saying, “I have the confidence to share with all of you that Taiwan is ready to apply for TPP membership, when the window of opportunity becomes available.”

Step Five: China's leaders must opt for fundamental economic reform

The variable that is most outside of Taiwan's control is the fate of economic reform in China. But for reasons that will become apparent, that variable is probably the key to Taiwan's successful entry into TPP.

The reform-and-opening policies that Deng Xiaoping began in 1979 and then accelerated after 1992 were the basis for the rapid economic growth that China experienced over the last three and a half decades. Taiwan companies and Taiwan workers were the beneficiaries of those policies as well. Taiwan companies that had previously produced an array of goods in Taiwan for markets in developed economies and had become highly skilled in global supply-chain management in the process preserved their market dominance by moving final assembly to Mainland China where the price of labor was substantially cheaper. Other firms produced goods, either wholly or partly on Taiwan, for consumption in China, and rode the emergence of a Chinese middle class with disposable income. Still others provided high-quality services to many tens of millions of Chinese consumers fed up with poor indigenous service industries.

Yet evidence has accumulated that the PRC policy set that fueled rapid economic growth, secured the ruling position of the communist regime, and benefited economies like Taiwan's in a variety of ways is no longer sustainable. One reason is the decline of the economic advantage that China enjoyed after 1979 as its cohort of younger workers willing to labor long hours for low wages is rapidly

shrinking. This transition was bound to happen, as it did in other East Asian economies that had earlier experienced rapid growth. In China, the decline is aggravated by a demographic shift that is reducing the absolute size of the younger segment of the working-age population.

Then there a number of the imbalances that China's strategy of export-led growth and its associated policies have created: a very high ratio of savings and investment vis-à-vis consumption; a financial regime that privileges producers, particularly state-owned enterprises, over private enterprises and households, suppressing both entrepreneurialism and consumption; an incentive system for provincial and local officials that breeds widespread collusion and corruption between those with governing power and those with wealth; severe degradation of the environment by industrial enterprises unrestrained by well-intended but ineffective regulation; growing income and wealth inequality between the very wealthy and relatively well-off and everybody else; growing instability (in a society that values public order), fueled by popular grievances against local governments over land and environmental issues and the lack of benefits for rural residents who relocate to cities for work; a foreign exchange policy that keeps the value of currency (the *renminbi*) artificially low by policy measures that in turn increase the domestic money supply and with it inflation; growing power for state-owned enterprises that use their preferential access of the political system to sustain policies that may benefit them but not the country more broadly; and so on. In short, China hovers over a middle income trap and cannot ignore the reality that the country will get old before it gets rich.

None of these trends or imbalances are unknown to Chinese leaders or economists. An authoritative joint report by the World Bank and the Development Research Center of China's State Council

identified a number of reform steps that should be taken to rebalance policy and ensure sustained growth. They are:

- “Implement structural reforms to strengthen the foundations for a market-based economy by redefining the role of government; reforming and restructuring state enterprises and banks; developing the private sector; promoting competition; and deepening reforms in the land, labor, and financial markets.⁸
- “Accelerate the pace of innovation and create an open innovation system in which competitive pressures encourage Chinese firms to engage in product and process innovation not only through their own research and development but also by participating in global research and development networks.⁹
- “Seize the opportunity to ‘go green’ through a mix of market incentives, regulations, public investments, industrial policy, and institutional development.¹⁰
- “Expand opportunities and promote social security for all by facilitating equal access to jobs, finance, quality social services, and portable social security.¹¹
- “Strengthen the fiscal system by mobilizing additional revenues and ensuring local governments have adequate financing to meet heavy and rising expenditure responsibilities.¹²

- “Seek mutually beneficial relations with the world by becoming a proactive stakeholder in the global economy, actively using multilateral institutions and frameworks, and shaping the global governance agenda.”¹³

There has been a tendency among some observers in China to view TPP as a tool of the United States to constrain China’s economic growing power.¹⁴ It is seen less as a means to foster regional economic growth as a challenge to Beijing-led efforts to foster economic regionalization on a geographic (i.e. Asian) basis. Japan’s inclusion among the countries negotiating the TPP agreement has only heightened those concerns. But the prospect that TPP will succeed and cover a large segment of the international economy has changed China’s stance. It is shifting from dismissal of TPP as a tool of American containment to seeking transparency on its content.

What is interesting about the content of TPP is that it speaks to and challenges those aspects of the Chinese economic environment that are antithetical to long-term growth (state-owned enterprises, poor protection of intellectual property rights, emphasis on national innovation, and so on). My Brookings colleague Mireya Solís concludes: “The U.S. motivation in including many of the new rules derives not only from desire to reform the trade practices of current negotiating parties, but also largely from their potential utility if and when other larger economies join in (China or India). In that sense, China in particular looms large as a ‘shadow’ negotiator.”¹⁵

⁸ “China 2030: Building a Modern, Harmonious, and Creative Society,” The World Bank and the Development Research Center of the State Council of the People’s Republic of China, 2013, p. xxi (<http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>).

⁹ Ibid., p. xx.

¹⁰ Op. cit.

¹¹ Op. cit.

¹² Ibid., p. xxi.

¹³ Op. cit.

¹⁴ For example, see “The US-Japan Trans-Pacific Partnership Strategies and China’s Response,” *Xiandai Guoji Guanxi*, December 2012 issue, pp. 54-60.

¹⁵ Solís, “The Trans-Pacific Partnership,” p. 330.

Taiwan must hope for a “sweet spot” in Beijing’s calculus concerning economic reform, in both its internal and external dimensions. On the one hand, Taiwan’s prospects for TPP would not be helped by a decision by the Beijing leadership not to do reform at all. Nor would it be aided by a scenario in which the Chinese leadership undertakes reform and easily succeeds, with little or no resistance from domestic vested interests. The optimal situation for Taiwan is when China’s reformist leaders sincerely want to carry out fundamental change but face stiff resistance from domestic interests, to the point that they cannot move forward on their own, even though they want to. In that case, external incentives can stimulate internal reform.

Step Six: Leverage China’s accommodation

Earlier, we assumed for purposes of discussion that China would not oppose Taiwan’s joining TPP. However unrealistic it might have seemed, that was a useful premise for revealing what would have to happen for Taiwan to increase its chances. Now it is time to relax that assumption and, in the interests of realism, consider what Taiwan and others might do to make PRC opposition less likely. Clearly, even if the current twelve TPP countries reach agreement; even if Taiwan formulates a compelling domestic rationale for the sort of liberalization TPP requires, restores the credibility of its commitments in trade negotiations, and devises an effective negotiating strategy for TPP; and even if China’s leaders decide that they need to reform economic policies and institutions to ensure long-term growth; if those same leaders make a political decision to block membership for Taiwan, then entry is highly unlikely. The United States might be willing to judge Taiwan’s TPP negotiating position on its economic merits (and I believe it should), but other member-countries would be more likely to succumb to Beijing’s political pressure.

If the rules governing both TPP and the WTO more broadly were the threshold question, Beijing should not have an opening to block Taiwan from TPP. In the WTO, special customs territories, of which Taiwan is one under the name of Taipei, Penghu, Jinmen, and Matsu (TPJM), are permitted to enter into free-trade arrangements. The TPP is open to all member economies of the Asia-Pacific Economic Cooperation forum (APEC), of which Taiwan is one under the name of Chinese Taipei. If those ground rules, which the United States crafted with Taiwan very much in mind, were all that mattered, the only issue would be Taiwan’s own willingness to make the concessions needed to meet TPP standards and to secure domestic ratification for them. But regrettably they are not decisive. That Beijing would mount political opposition by exerting pressure on the smaller members of TPP is a reality that cannot be wished away. It is an obstacle that must be circumvented.

Taiwan faced a similar situation in the mid-1990s regarding its aspiration to join the World Trade Organization. The prospect that the PRC would erect obstacles to Taiwan’s entry even if Taipei met all the demands of member countries concerning its trade and economic policies became a powerful disincentive to its making any concessions at all. Yet a work-around emerged, through the initiative of the Clinton Administration. Its officials crafted a strategy that exploited the desire of both Taiwan and China to become WTO members in order to get Beijing to shift from opposing Taiwan outright to opposing its entry before Beijing. What had been a matter of principle became a question of timing.

The first element of the strategy was to encourage Taipei to make sufficient concessions in its economic and trade policies to meet the WTO’s standards. In return, it gave Taiwan assurances that, in the event that China refused to make its own concessions, Washington was prepared to al-

low Taipei to join on its own. This pledge had to be credible to Taipei if it was to make the necessary economic concessions. Negotiations between the United States and Taiwan advanced, and after protracted bargaining agreement was reached in February 1998.¹⁶ That agreement then became the basis for other countries who wished to shape the details of Taiwan's protocol of accession.

The second element was to get China to negotiate its own bilateral agreement with the United States. Beijing had three incentives for doing so. The first was economic: the leadership understood that it could not grow through globalization if it remained outside the WTO circle (because liberalization within the circle of member economies creates economic distortions that disadvantage economies that remain outside the circle). The second incentive was the desire of some policymakers in China, particularly Premier Zhu Rongji, to use the opportunity of joining the WTO circle to drive economic reform within China. The third incentive was the fear that the United States was not bluffing when it pledged to promote Taiwan's membership when the latter's policy-set was complete. So Beijing accelerated its negotiations on a bilateral agreement with the United States in parallel with Taiwan's, and it reached closure with Washington in November 1999. After completing its other bilateral negotiations over the next two years, both the PRC the TPJM special customs territory acceded to the WTO in February 2002.

The incentives (and disincentives) facing China are aligning today in ways that replicate the late-1990s WTO pattern. First of all, TPP will create the prospect of a significant circle of liberalization that China will be hard-pressed to ignore. The

countries that are now negotiating TPP account for 37.8 percent of global output and 25.3 percent of world trade.¹⁷ A successful TPP would include the world's first and third-largest economies by GDP—the United States and Japan. Once a first-round agreement is reached, the prospect of the Republic of Korea joining is not small, since Korea's FTA with the United States already anticipated the “platinum standard” of TPP countries.

Second, objectively China needs the reforms that TPP can offer. The very factors that are becoming a drag on China's growth are the ones that TPP is designed to remove. The question is whether there exist in China today leaders with both the vision and will of Zhu Rongji. Or, if they do not exist, can they be encouraged?

Third, the prospect of Taiwan's joining the TPP, fortified by a credible U.S. commitment to treat its entry on the merits of its economic policy concessions (assuming the concessions are made) adds a political reason for China to be more accommodating on TPP.

China has become more open to TPP and may be modulating its view on TPP membership. During PRC President Xi Jinping's summit with President Obama in June 2013, he conveyed a desire for greater transparency on the development of TPP. As National Security Advisor Tom Donilon reported to the media, “President Xi indicating that China was interested in having information on the process as it went forward and being briefed on the process and maybe setting up a more formal mechanism for the Chinese to get information on the process and the progress that we're making with respect to the TPP negotiation.”¹⁸

¹⁶ As the then-Chairman of the American Institute in Taiwan, I signed the bilateral agreement on behalf of the United States.

¹⁷ Tung Chen-yuan, “More Trade Talk Needed with China,” *Taipei Times*, September 21, 2013, p. 8.

¹⁸ Office of the White House Press Secretary, “Press Briefing by National Security Advisor Tom Donilon,” June 8, 2013 (<http://www.whitehouse.gov/the-press-office/2013/06/08/press-briefing-national-security-advisor-tom-donilon>).

Just as China has shifted on TPP in general, it is also adjusting its view on Taiwan's membership. Initially, the PRC position was "no way." Now, at least in conversations with Taiwan scholars, Chinese counterparts are holding out the WTO model as a possible way for Taiwan to join TPP. That is, the PRC and Taiwan join simultaneously as they did for WTO.¹⁹ That PRC views may be moving in a positive direction is good, but the extent of movement is clearly insufficient. For Taiwan to bind itself to the WTO model in advance is to give Beijing a veto over its entry into TPP and in effect vesting control over that veto to anti-reform elements in China. Simultaneous accession to the WTO in 2002 worked only because Beijing had negotiated seriously, and had positive and negative incentives for doing so.

Taiwan can do its part to enhance the chances for Chinese accommodation on this issue. It can make the case to Beijing that if it does block Taiwan's entry into TPP, China will be far less likely to achieve its political objective regarding the island—unification. For China to exclude Taiwan from the most advanced circle of economic liberalization not only offends its sense of dignity but also limits its future prosperity. Dignity, which is conventionally cited as the reason for Taipei's quest for international space, is important, and Beijing hurts itself by continuing to restrict Taiwan's participation in multilateral institutions. Whether Taiwan undertakes economic liberalization with all its major trading partners will have a profound effect on its long-term prosperity. A Taiwan that is denied that kind of prosperity, and forced to depend on tight integration with the Chinese economy while being further marginalized from the rest of the global economy is a Taiwan that is unlikely to voluntarily accept unification. The

island's democratic system all but guarantees this outcome. Of course, even as Taiwan pursues TPP, it must simultaneously offer credible assurances to China that its effort is not part of a separatist plot. Beijing must be willing to accept both those credible assurances and the logic underlying Taipei's economic policy of comprehensive globalization, which is sound and long-standing.

This argument, which pits Taiwan's economic interests against China's political imperatives, will be more likely to succeed if the United States itself maintains a distinction between the two. In principle, Washington should be prepared to accept Taiwan for membership in TPP if it is prepared to meet the grouping's economic standards, without regard for China's criteria for Taiwan's international participation. As with WTO, Washington should be prepared to pragmatically bend that principle if and only if China is prepared to negotiate seriously to meet TPP standards and gear the timing of entry accordingly. The credibility of these twin U.S. commitments, both of principle and pragmatism, therefore becomes very important in achieving an outcome that best meets U.S. interests: the inclusion of both Taiwan and China in TPP.

Conclusion

To sum up, Taiwan's path to membership is not easy but a path does exist. It cannot traverse that path on its own: the TPP countries themselves and China can impose significant obstacles. But that has always been true. The key conclusion of this analysis is that, assuming that a TPP agreement is reached in the first place, there are feasible means for Taiwan's increasing the odds of removing or circumventing those obstacles. Another key

¹⁹ Tung, "More Trade Talk Needed with China"; "Scholar: China Agrees WTO Model a Feasible Approach for Taiwan to Join TPP" OSC summary based on article in *Chung-kuo Shih-pao*, September 21, 2013 (OSC CHL2013092136966270). A scenario where China decides to join TPP and makes the necessary concessions and erects insurmountable obstacles to Taiwan joining seems unlikely.

conclusion is that sequence is extremely important. There is much that Taiwan can do—or must do—to clear the path on its own: forging a domestic consensus; enhancing the credibility of its economic commitments; and developing its own

negotiating strategy. Having done these things, it will be much easier for TPP members, particularly the United States, to support Taiwan's entry on economic grounds and resist Beijing's political opposition.

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