

**Progress in launching and signing of FTAs between Taiwan and its primary trading partners (the United States, Singapore, the European Union, the ASEAN, Japan, New Zealand, India, and Australia)**

**Ministry of Economic Affairs**

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**I. Background**

Over the past decade, because of the slow progress of the Doha Round, a round of multilateral trade negotiations launched by the World Trade Organization (WTO), for the purpose of providing businesses with assistance in market expansion, and for strengthened overall national competitiveness, different countries have gradually turned their focus with respect to trade policies to the promotion of launching and signing of bilateral or plurilateral free trade agreements (FTA) or economic cooperation agreements (ECA); rapid developments of FTAs have been observed over the recent years. WTO statistics show a total of 329 FTAs or ECAs are in effect and being implemented by the end of 2012, among which 229 of those went into force during the past decade, accounting for over half of the total, while at the same time, while transnational trade conducted via FTAs accounts for over 50% of gross trade worldwide

The East Asia region is the one among the regions in the world that has signed the greatest number of ECAs. In addition of signing ECAs with others, competitors of Taiwan such as South Korea, Japan, and the ASEAN have been actively promoting the signing of ECAs amongst themselves. For instance, South Korea has formally launched FTA negotiations with China, whereas China, Japan, and South Korea have jointly announced the launch of FTA negotiations. Said developments would probably cause businesses in Taiwan to lose gradually the opportunities for fair competition in terms of international market expansion, resulting in extremely unfavorable impacts against economic development and public welfare of Taiwan.

In order to create an international business environment favorable for growth of businesses of Taiwan, to strengthen the international competitiveness of Taiwan, to boost exports and to create more job opportunities, President Ma has included “open planning” as a main policy for the future in his “Golden Decade” national vision that was announced in 2011, and proposed the following policy targets:

1. Active launching of ECAs, strive for participation in regional integration, for connection to the Asia Pacific, and for global deployment
2. Further steps towards economic liberalization, so as to attract multinational corporations to establish operational headquarters in Taiwan

3. Building Taiwan as the best portal for enterprises worldwide to access the Asia-Pacific market
4. Gradual creation of conditions to achieve the goal of participation in the Trans-Pacific Partnership Agreement (TPP)

For implementation of the “Golden Decade” national vision, President Ma pointed out in his inaugural speech on 20 May 2012 that a “strengthened momentum for economic growth” is one of the five pillars for overall enhancement of Taiwan’s competitiveness, for which the core tasks are the liberalization of the economic environment of Taiwan and a quality upgrade in its industrial structure. For promotion of said two core tasks, the MOEA has included the launching and signing of FTAs or ECAs with Taiwan’s primary trading partners as an important item on its administrative agenda for active promoted.

## **II. Challenges facing Taiwan’s promotion efforts for launching and signing ECAs**

Challenges that Taiwan currently faces while pursuing for ECAs with primary trading partners comprise mainly the special political circumstances in which Taiwan finds itself internationally and the competitive pressure that domestic industries are subjected to due to market opening, both of which are analyzed as follows:

### **1. International circumstances**

The absence of official diplomatic relations between Taiwan and its primary trading partners has caused increased number of challenges in terms of international politics for Taiwan while pursuing for ECAs. Nevertheless, continuous improvement of the cross-strait relations over the past five years and the signing of the cross-strait ECFA in 2010 have created an improved atmosphere for Taiwan to pursuing for ECAs with other trading partners in the future.

### **2. Competitive pressure facing domestic industries**

In pursuing for ECAs, Taiwan is told by its primary trading partners that their FTAs or ECAs currently being negotiated are all agreements that are of “gold standard” and comprehensive. In other words, the ECAs that they sign must involve the removal of most market access barriers within a certain period, including: elimination of tariffs for agricultural and industrial products, opening of the service sector market, removal of foreign investment restrictions, bringing in line with international norms and harmonization of regulations and policies on different trade regime-related issues, such as: competition policies, intellectual property rights (IPR), sanitary and phytosanitary (SPS) measures, electronic commerce, environmental protection, and labor standards.

Under a “gold-standard” FTA/ECA, signatories must engage in substantial degree of market opening, which affects domestic industries and calls for adjustments of domestic industrial policies. Under such circumstances, many countries used to be hesitant of launching and signing FTAs/ECAs, however, Asian countries such as Japan and South Korea have decided recently that, based on a necessity for national survival, sensitive industries (such as agriculture and several vulnerable conventional industries) must be provided with assistance in tackling the challenges, such as providing guidance for upgrade and transformation or providing subsidies, so as to facilitate the launching and signing of FTAs/ECAs with primary trading partners.

### **III. Taiwan’s mechanism for promoting launching and signing of ECAs, potential targets, and strategies**

Given the aforementioned international and domestic challenges, for accelerated progress in terms of launching and signing ECAs, the Government elevated the level of its ECA decision-making mechanism, where the Premier concurrently serves as the convener of the International Economic and Trade Strategy Group to establish the strategies for launching and signing ECAs; established under said Group is the International Economic and Trade Working Group, for which the Minister of Economic Affairs serves as the convener to coordinate and communicate with relevant agencies, also established is the Academia-Industry Advisory Council, which is set up to strengthen channels for communication with the academia and industry.

Also, for maximized efficiency in pursuing ECAs, the MOEA continues to promote the launching and signing of ECAs with primary trading partners on the basis of the principle of “diverse contact, gradual signing,” while the target is set as: to have the value of trade conducted via ECAs signed to account for 60% of the total value of trade of Taiwan by 2020. Hence, target countries for Taiwan to pursue ECAs with will be selected on the basis of the following principle elements: (1) economic complementarity and industrial relevance, (2) level of economic development, (3) market size, (4) level of barriers to trade, (5) high degree of liberalization, rich experience in FTA, and reduced impact towards Taiwan, (6) geopolitical relations, (7) having strategic interests and chain effects, and (8) positive attitude towards launching and signing of FTAs/ECAs.

The Government takes said elements into comprehensive consideration, and adopts a pragmatic approach to cope with the unique international situation that Taiwan is in; the main strategies and relevant measures for launching and signing ECAs are as follows:

#### **1. Adoption of pragmatic approaches to cope with the unique international**

### **situation that Taiwan is in**

Due to the unique international situation that Taiwan is in, pragmatic approaches of increased flexibility and resilience must be adopted, where ECAs are launched at first with one to two major trading partners. With respect to trading partners with which ECAs cannot be launched yet, ECA feasibility studies and “block-building” efforts are conducted as an early-stage preparatory work. Relevant measures are listed as follows:

#### **(i) Launch of ECAs with one to two trading partners at first**

Taiwan and Singapore opened formal negotiations in May 2011, and have reached consensus on most chapters after joint efforts from both sides. Both sides will continue their efforts so as to complete the negotiations as soon as possible.

ii. Singapore: Taiwan and Singapore stated in a joint statement issued in August 2010 that both sides agree to conduct feasibility studies on the launching of an ECA, and exchanged opinions on 9 September 2010 with respect to the results of the respective feasibility studies, in which both sides believe that the signing of the agreement would provide both sides with significant economic benefits, and that the “Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu” ([ASTEP](#)) should be of a standard that is highly liberalized and of extensive coverage. Taiwan and Singapore opened formal negotiations in May 2011, and have reached consensus on most chapters after joint efforts from both sides. Both sides will continue their efforts so as to complete the negotiations as soon as possible.

iii. [New Zealand](#): Taiwan and New Zealand stated in a joint statement issued in October 2011 that both sides agree to conduct feasibility studies on the launching of an ECA. Both sides announced on 18 May 2012 the completion of the joint feasibility study, and opened formal negotiations in May 2012, with hopes of concluding the negotiations within the shortest possible timeframe.

#### **(2) Gradual creation of favorable conditions by means of feasibility studies**

Prior to deciding whether or not to engage in the launching and signing of an FTA, many countries would usually assess the potential economic and trade benefits of the FTA via individual studies and joint studies, which serve as a basis for deciding whether or not to formally open negotiations. Taiwan is promoting in this manner the launching and signing of ECAs with the following target countries:

- i. India: During the 5th Minister-level economic dialogue in 2010, Taiwan and India decided to set up a joint feasibility study group for a Taiwan-India Economic and Trade Framework Agreement via private think tanks from both sides, which have signed the Memorandum of Cooperation in January 2011. Subsequently, the Ministry of External Affairs of India openly expressed its support towards this initiative. Studies on chapters related to economic and trade policies were completed by the end of 2011. The initial findings show that there are rooms for cooperation between both sides, hence, with the support from both governments, follow-up studies on industries with potential for cooperation and overall policy recommendations were carried out in the following year. A research report was expected to have been furnished by the think tanks from both sides by the first quarter of 2013; however, as India requires a research conclusion of increased comprehensiveness, the release of such report may be postponed until May.
- ii. [Indonesia](#): after being contacted by the Taipei Economic and Trade Office in Jakarta, the Indonesian Institute of Sciences (LIPI) agreed to conduct a joint study with the Chung-Hua Institution for Economic Research (CIER) on possible ways for both sides to strengthen bilateral cooperation relations by means of launching and signing an ECA. In December 2012, the LIPI and CIER held a workshop in Jakarta, Indonesia to release the result of the joint study; both parties agreed in the conclusion of the report that an ECA between Taiwan and Indonesia would create a win-win situation. Given that several challenges may be encountered by both sides when promoting the ECA, it is recommended for both sides to consider expanding bilateral economic and trade relations by means of block-building at the current stage, while focusing at first industrial exchanges, investment promotion, capacity building, and cooperation in terms of small and medium enterprises.

**(3) Bilateral consultations and commission of think tanks to conduct studies:**

Australia: Both sides have discussed issues of concern of each under the framework of the Taiwan-Australia Economic and Trade Consultative Meeting, also, the MOEA has commissioned a well-known Australian think tank to conduct a study on development of a close economic partnership between Taiwan and Australia, which will serve for Taiwan as a reference

for future promotional works. Meanwhile, the “Workshop on development of a close economic partnership between Taiwan and Australia” was held in Australia in 2012 to increase the importance attached to Taiwan-Australia economic and trade relations by different sectors in Australia, and to communicate the initiative that Taiwan put forth regarding a joint feasibility study on launching an ECA with Australia. The MOEA will continue to make contact with the academia, industry, and government of Australia as an implementation of the guiding principle of “simultaneous promotion, diversified contact, and gradual launching and signing” with respect to promotion of ECAs.

**(4) Appropriate application of the “block-building” strategy**

The “block-building” strategy refers to signing of bilateral agreements with a target country in respect of the content of some chapters in an ECA, such as: investment, technical barriers to trade, electronic commerce, competition policies, trade facilitation, thus laying a foundation for both sides to launch and sign a comprehensive ECA in the future.

The strategy has the advantage of allowing both sides to realize early on some of the benefits of an ECA and to strengthen the bilateral relations with the target country. For instance, the United States, the European Union, and Japan are all primary trading partners of Taiwan, but given the difficulty of launching FTAs/ECAs with these countries, “block-building” can be regarded as a feasible means for promotion.

With active promotion, Taiwan has attained the following achievements from “block-building”:

i. Japan:

After several years of efforts from both sides, Taiwan and Japan finalized and signed on 22 September 2011 the [Taiwan-Japan Investment Arrangement](#), which entered into force on 20 January 2012. Upon entry into force, the Arrangement is highly welcomed by industries on both sides, and spur confidence and momentum in bilateral investment, as evidenced by the 30% growth in the amount of investment in Taiwan from Japan.

In addition, Taiwan and Japan signed on 29 November 2012 the [Taiwan-Japan Electric and Electronic Product Certification Mutual Recognition Agreement](#) (MRA) and the [Taiwan-Japan Industrial-Cooperation Bridging Memorandum of Understanding](#) (MOU), both of which will help exporters of electric and electronic products on both sides to reduce certification costs, promote bilateral

trade exchanges and industrial cooperation, and improve the market competitiveness of related products from Taiwan in Japan and even the entire Northeast Asia, thus benefiting both Taiwan and Japan.

ii. The United States:

(i) The [Taiwan-US Trade and Investment Framework Agreement](#) (TIFA) meeting is an important platform for both sides to deal with economic and trade issues; in addition to solving bilateral issues related to trade barriers of concern, both sides also agreed to incorporate under this framework an expanded set of issues pertaining to Taiwan-US economic and trade cooperation, such as: the promotion of a bilateral investment agreement, technical barriers to trade, customs cooperation, trade facilitation, and food safety cooperation.

(ii) The Taiwan-US TIFA meeting that was scheduled for early 2011 was held back due to the dispute over US beef. Subsequently, in the wake of the approval of the amendment to the Act Governing Food Sanitation by the plenary session on 25 July 2012, the Government has completed the procedure of establishing follow-up complementary regulations and continued to communicate with the US, as such, both sides agreed to hold the Taiwan-US TIFA meeting in Taipei on 10 March 2013. This is the 7th Taiwan-US TIFA Council Meeting, which marks an end to a six-year interruption since the last TIFA meeting that was held in 2007.

(iii) Several specific promotion plans were achieved in this meeting, including the Joint Statement on Principles for International Investment, the Joint Statement on Information and Communication Technology (ICT) Services, and the establishment of the working groups on investment and on technical barriers to trade (TBT). Both sides reaffirmed to engage each other in further cooperate on expanded negotiations on the Information Technology Agreement (ITA) and the International Services Agreement. Both sides held follow-up technical-level meetings on 11 and 12 of March to discuss issues such as intellectual property rights (IPR), food safety, agricultural products, investment, and the working groups on investment and on TBT, and drafted a plan for future works. The MOEA will put the specific promotion plans achieved in this meeting to good use, re-establish mutual trust with the US under the TIFA framework, and ensure via discussions

at working-level meetings that specific achievements can be attained when the next TIFA meeting is held in Washington, D.C. next year (2014).

iii. The European Union:

Under the framework of the Taiwan-EU Economic and Trade Consultation Meeting, both sides have established the working groups on issues such as TBT/automobile, IPR, pharmaceuticals, and sanitary and phytosanitary (SPS) measures, so as to allow both sides to discuss respective issues of concern via regular video conferences held semiannually. Also, the EU has agreed to “block-building” with Taiwan in that both sides will engage in dialogues at the working level on some issues.

**2. Active communication with the industrial sector for gradual creation of conditions favorable to liberalization and internationalization**

Because ECAs currently being launched by different countries are all “high quality” and “gold standard” agreements, whereby a substantial degree of market opening in terms of goods and services is called for, when Taiwan is promoting the launching and signing of relevant agreements, sensitive domestic industries should be provided with appropriate guidance to mitigate any potential impact, thus allowing smooth promotion of the launching and signing of the relevant agreements under the premise of bringing benefits to the overall economic development of the nation, and achieving the goal of an improved overall national competitiveness. Specific strategic measures taken by Taiwan are as follows:

- (1) Commission of domestic professional academic institutions to study and analyze issues such as potential economic and trade benefits from launching and signing FTAs/ECAs, potential impacts on the industries due to market opening, and possible adjustments that the industries may adopt in response, where the results of such analysis will serve as references for policy-making.
- (2) Dialogue with different domestic sectors will continue to be held by means of field interviews and symposiums; in addition to getting an understanding of the needs of the industries, doing so will raise the awareness of the different sectors on the concepts that the opening of domestic market is necessary when an ECA is signed, and that various preparatory works must be carried out actively in response.

**3. Aiming at joining the TPP**

President Ma proclaimed in his inaugural speech on 20 May 2012 that



Taiwan aims to join the TPP by 2020, for that, the MOEA is actively promoting different preparatory works in hope to attain major progress within five to six years in terms of joining the TPP, so as to become a new member of the TPP as soon as possible.

Given that the current 11 members of the TPP, when considering a candidate country for membership, attach great importance to the commitment of that country towards the promotion of economic and trade liberalization, therefore, the overall “strategy for Taiwan to join the TPP” will be carried out simultaneously on two aspects, namely “domestic economic and trade liberalization” and “striving for external support,” where the focus will be placed, domestically, on enhanced communication and public awareness campaigns to build a national consensus, accelerated adjustment and reform of the economic and trade institution, and adjustment of the industrial structure, and externally, on strengthened bilateral relations between Taiwan and the United States, sustained friendly atmosphere for cross-strait interactions, further establishment of economic and trade relations with the TPP Members, and a demonstration to the TPP Members of the efforts and commitment of Taiwan towards liberalization, thus achieving the goal of joining the TPP by means of said complementary domestic and external strategies.

The MOEA will continue to take stock of insufficiencies of Taiwan in terms of liberalization, and draft an agenda for further liberalization, thus allowing for Taiwan to gradually meet the criteria for joining the TPP, for the members of the TPP to understand the commitment of Taiwan towards further economic and trade liberalization, and for seeking from the existing members their support for Taiwan to join the TPP. Domestically, assistance will be actively provided to businesses to engage in global deployment, industrial upgrade, and industrial adjustment to develop high value-added products, thus increasing the international competitiveness of products from Taiwan, and mitigating any potential impact caused by participation in the TPP to some sensitive industries of Taiwan.

**4. Pay close attention to the progress of the Regional Comprehensive Economic Partnership (RCEP)**

(1) The RCEP concept was put forth in the 19<sup>th</sup> ASEAN Summit in November 2011, covering the 10 members of ASEAN and its six Free Trade Agreement Partners, namely China, Japan, South Korea, India, Australia, and New Zealand. Approved by the unofficial meeting of the ASEAN economic ministers in February 2012, the RCEP-related negotiations are

to be concluded by 2015, while the goal is to reduce to zero the tariffs for 95% of goods. The ASEAN has established three working groups respectively on trade in goods, trade in services, and investment, and has convened respective meetings of the working groups.

- (2) In the ASEAN Summit held in Cambodia on 20 November 2012 came the formal announcement that the RCEP-related negotiations will be initiated in early 2013, and the target of concluding said negotiations by the end of 2015. If the RCEP initiative can be realized, the scale of such economy will account for 28.52% of global annual product, thus transforming into a single market that worth a total of 19.9 trillion US dollars, and tuning itself into the largest free trade area worldwide.
- (3) In 2011, the exports of the RCEP Members accounted for 28.38% of that worldwide, accounted for 56.953% of the total trade of Taiwan, and accounted for 56.649% of the total export of Taiwan. In the future, once the RCEP is realized, the production network within the Asian region will be more tightly knit, while tariff reductions among the RCEP Members will further drive the growth of intraregional trade. Taiwan continues to pay attention to the developments of large-scale regional economic integrations such as the ASEAN Plus and the RCEP, and deliberates the possibilities of participation.

#### **IV. Conclusion**

In response to the worldwide trend of regional economic integration, and for implementing the policy objectives of the “Golden Decade” national vision set forth by President Ma, Taiwan must strengthen the momentum for domestic trade institution reform by actively pursuing FTAs/ECAs with its primary trading partners, so as to increase the economic competitiveness of Taiwan, to attract foreign investments, and to consolidate Taiwan’s position in terms of trade in the Asia Pacific and throughout the world.

Moreover, in pursuing for FTAs/ECAs, Taiwan will be faced with many political and economic challenges. In order to ensure the development of domestic industries and to create job opportunities, the MOEA will assess diligently potential impacts on the domestic industries due to the launching and signing of FTAs/ECAs, and analyze different feasible industrial guidance measures in response.