

**Global Opportunities  
Local and Transnational Politics:  
Taiwan's Bid for FTAs**

T.J. Cheng, College of William  
and Mary

Peter C.Y. Chow, City University  
of New York

# I. Introduction

- i. The myth of the FTA and the apprehensions of being marginalized
- ii. The emerging trade blocs in the region
- iii. A comparison between the TPP and RCEP
- iv. The purpose of this study

## II. Hope for the Best: A Double Play

- i. Domestic politics in prioritizing the TPP vs. RCEP
- ii. The “China factor” in pursuing the trade pacts
- iii. Sequencing order of applying for the TPP and RCEP
- iv. Bilateral FTAs with dual membership countries first
- v. Political dividends of FTAs

### III. What if Both Doors Remain Shut?

- i. Multiple bilateral FTAs to reach the near hub-ness
- ii. Looking beyond regional horizon: The Pacific Alliance

## IV. Economic Re-structuring Holds the Key

- i. Agricultural sector: an economically weak yet politically strong sector
- ii. Service sector: a socio-political complicated sector to be liberalized
- iii. Three points on industrial restructuring
  - a. Branding and enhancing value-added in OEM by functional and processing upgrading
  - b. Innovate new production technology
  - c. Exploit the untapped trade potential: Identifying the niche products in niche markets

# I. Introduction

## I.1. The myth of the FTA and the apprehensions of being marginalized

The proliferations of Free Trade Area ( FTA) in Asia has generated many webbed trade blocs which were characterized as the “ Spaghetti bowl” ( Asian noodle bowl) of overlapping trading partners under different “ rules of origin” in various trade pacts.

Taiwan has been blocked from signing FTAs with many of them

# I.1. The myth of the FTA and the apprehensions of being marginalized

Except for its FTAs with 5 small economies in Central America which accounted for only 0.2% of its trade volume in 2010, Taiwan became an outlier of the emerging trade blocs in the Asia Pacific region.

The apprehension of being marginalized in the trend of economic integration and partisan politics on how to cope with China amid the drive for globalization have dominated Taiwan's policy circles and academia research for decades.

Taiwan signed a trade pact with New Zealand (ANZTEC) in July 2013. But New Zealand is Taiwan's 40th largest trading partner with two-way trade totaled only \$ 1.23 billion in 2012. Nevertheless, the ANZTEC is the first trade pact with the OECD countries.

## I.1. The low utilization of the FTAs; A sour grape argument ?

A survey from Asian Development Bank Institute on the application of FTAs at the firms' levels in many countries found that the percentage of applying the preferential trade rule is only 29 % in Japan, 24.9% in Thailand, 20.8% in Korea, 20% in the Philippines and 17.3% in Singapore (Kawai and Wignaraja, 2009. P.11).

For Taiwan, even the utilization rate for the “early harvest product list” under Economic Cooperation Framework Agreement (ECFA) with China is only about 20% for textile products, and about 50 to 60% in petro-chemical, machinery/parts and transport equipment in 2012.

# FTA is not a panacea for all trade-inhibiting problems

Because of different rules of origin under various FTAs, the administrative cost of complying with the local contents requirement in conformity with the custom valuation is even higher than preferential rules. Hence, it is even more cost effective for business firms to apply the “most favored nation” clause under the WTO rather than the FTAs.

Therefore, FTA is not a panacea at all for trade-inhibiting problems.

Psychologically, participation or lack of it affects the incentive of investment domestically and from abroad.

Nevertheless, both the government and business enterprises in Taiwan have been eager to participate in the emerging trade blocs for both economic and political rationales to be analyzed below. **Psychologically, participation or lack of it affects the incentive of investment domestically and from abroad.**

## I.2. The emerging trade blocs in the region

### a) Trade in parts and components

Since the Plaza Accord in 1985, trade in parts and components dominated the trade flows within Asia while most of their final products are destined to OECD markets, especially the U.S.

In other words, intra-region trade in Asia is engaged more for intra-industry trade whereas that of inter-regional is more on an inter-industry basis.

## **I.2. The emerging trade blocs in the region**

There are more consensuses on liberalization on those sectors which are closely linked with the global supply chain than any others as reflected in the Information Technology Agreement (ITA) under the WTO framework.

## I.2. The emerging trade blocs in the region

b)

The ASEAN has long been adroitly applying the ‘divide and rule’ tactic to expand the ASEAN-FTA to six economies using the formula of ASEAN plus 1’s rather than ASEAN plus N.

Hence, trade flows within ASEAN and between ASEAN and those six external economies are liberalized but not among those six economies outside of the ASEAN. Non-ASEAN economies thus have lately learned to take action collectively, rather than individually, viz., China-proposed ASEAN plus three (China, Japan, and Korea) and Japan-proposed ASEAN plus six (that is, ASEAN plus 3 plus Australia, India and New Zealand).

## I.2. The emerging trade blocs in the region

Combining the ASEAN plus 3 and the ASEAN plus 6 led to the emerging Regional Comprehensive Economic Partnership (RCEP).

c) The U.S. decided to join the four Trans-Pacific Partnership initiating members (TPP-4) for FTA talk in 2008. TPP-4 enlarged its member states to become TPP-12 by including Canada, Mexico and Japan, etc.

## I.2. The emerging trade blocs in the region

Per the U.S. Trade Representative, the TPP is not meant to exclude China, but the bars for TPP membership are so high that China's bid is not just in the offing yet, if it ever comes.

Vowed to cover more members across the Pacific Ocean and liberalize deep by including service sector, labor and environment standards and regulatory governance on state-owned enterprises, the TPP will link Asia Pacific with Latin America and hopes to become the “Gold-standard FTA” in the 21st century.

## I.2. The emerging trade blocs in the region

The RCEP and the TPP can be a pair of rival trade blocs through the emerging China-centric and the U.S.-centric hubs with overlapping spokes.

But both could be complementary to the Free Trade Area of Asia Pacific (FTAAP) if both pursue the ‘open regionalism’ principle to entice more new member states to join in.

**Both RCEP and TPP are considered by APEC Business Advisory Committee (ABAC) in 2013 as the pathways to Free Trade Area of Asia Pacific (FTAAP).**

# A Comparison between the TPP and RCEP

The TPP is proclaimed to be a high quality trade pact, going beyond tariff reductions on merchandise trade. It is therefore broader than the RCEP in terms of sector coverage and the degree of trade liberalization.

## **I.3. A Comparison between the TPP and RCEP: Trade creation effects on the world economy**

In general, the impacts of TPP will be only about half as large as those of the RCEP to its member states because, except for Vietnam, most of the TPP economies have already relatively lower tariff barriers to start with. In terms of the impacts on the composition of world exports, the TPP will have no effect on trade in primary products, but will boost trade in manufactures by 0.8% and service sector by 1.1%.

On the other hand, the RCEP will increase trade in primary products by 0.4%, manufactures by 2.3% and service sector by 2.1% from the base line of 2025 ( Petri et al, 2011, Table 9 Effects on the composition of world exports).

## **I.3. A Comparison between the TPP and RCEP : Trade creation and diversion effect**

Taiwan itself will benefit economically more by joining the RECP than the TPP. Applying the GTAP 8.1 version of the computable general equilibrium (CGE) model simulations, Hsu (2012) found that Taiwan's GDP will increase by 1.98%, social welfare by \$6.2 billion, and exports by \$8.8 billion from its baseline if Taiwan joins the TPP-12.

But, Taiwan will be benefitted more by joining the RCEP; its GDP will increase by 4.36%, social welfare by \$11.6 billion and exports by \$ 13.4 billion.

## I.3. A Comparison between the TPP and RCEP : Economic security nexus

Arguably, in terms of its political and strategic interest, Taiwan will have collateral benefits from its membership in the TPP (vs. the RCEP), namely, enhancing her economic-security nexus with the leading members in the club and further safeguarding her security.

But it is much better if Taiwan can join both which are not mutually exclusive at all. Political feasibility, to be elaborated in Section II, would also suggest that Taiwan pursue its membership bids in both the TPP and the RCEP.

## I.4. The purpose of this study

The purpose of this study is to analyze how Taiwan can do to cope with the rapidly evolving trade environment, why and how it can achieve that goal by pursuing both the TPP and RCEP, and, if neither agreement comes through, suggest some policy measures on improving economic structure to adapt to the new trading environment for further development. The thesis of this paper is based on the following assumptions.

# Basic assumptions of this study

## Assumptions

a) The TPP is very likely to succeed because it is the only trade pact undertaken by the Obama Administration to ‘return’ to a region of strategic and economic importance to the U.S. Without the TPP, the U.S. pivotal to Asia will be undercut substantially if not jeopardized because of the economic-security nexus (Cheng and Chow, 2013).

## Basic assumptions of this study

The TPP has an accession clause which invites “like-minded” states of APEC members to join in. Even if it does not fully implement the “open regionalism” to admit all APEC members as promised, the TPP will enlarge its members at various stages of its negotiations either before or after it is completed. Hence, a trade bloc with U.S.-centric hub is likely to emerge.

## Basic assumptions of this study

b)

A China-centric hub is likely to emerge as well. In spite of their territorial disputes, China, Japan and Korea are negotiating a trilateral FTA (CJK FTA). China has been pursuing its “good neighborhood” policy through preferential trade arrangements and has already wrapped its FTA deal with ASEAN (ASEAN plus China), and has another one with Central Asia (Shanghai Coop), and will probably get RCEP done to help generate China-centric hub.

## Basic assumptions of this study

c)  
Both the RCEP and the TPP have the incentive to enlarge its membership to expand its sphere of influence before the completion of the FTAAP. Competitive trade liberalization will entice more non-member states to join either the TPP or the RCEP or both.

# Major Trade Blocs in Asia Pacific Region

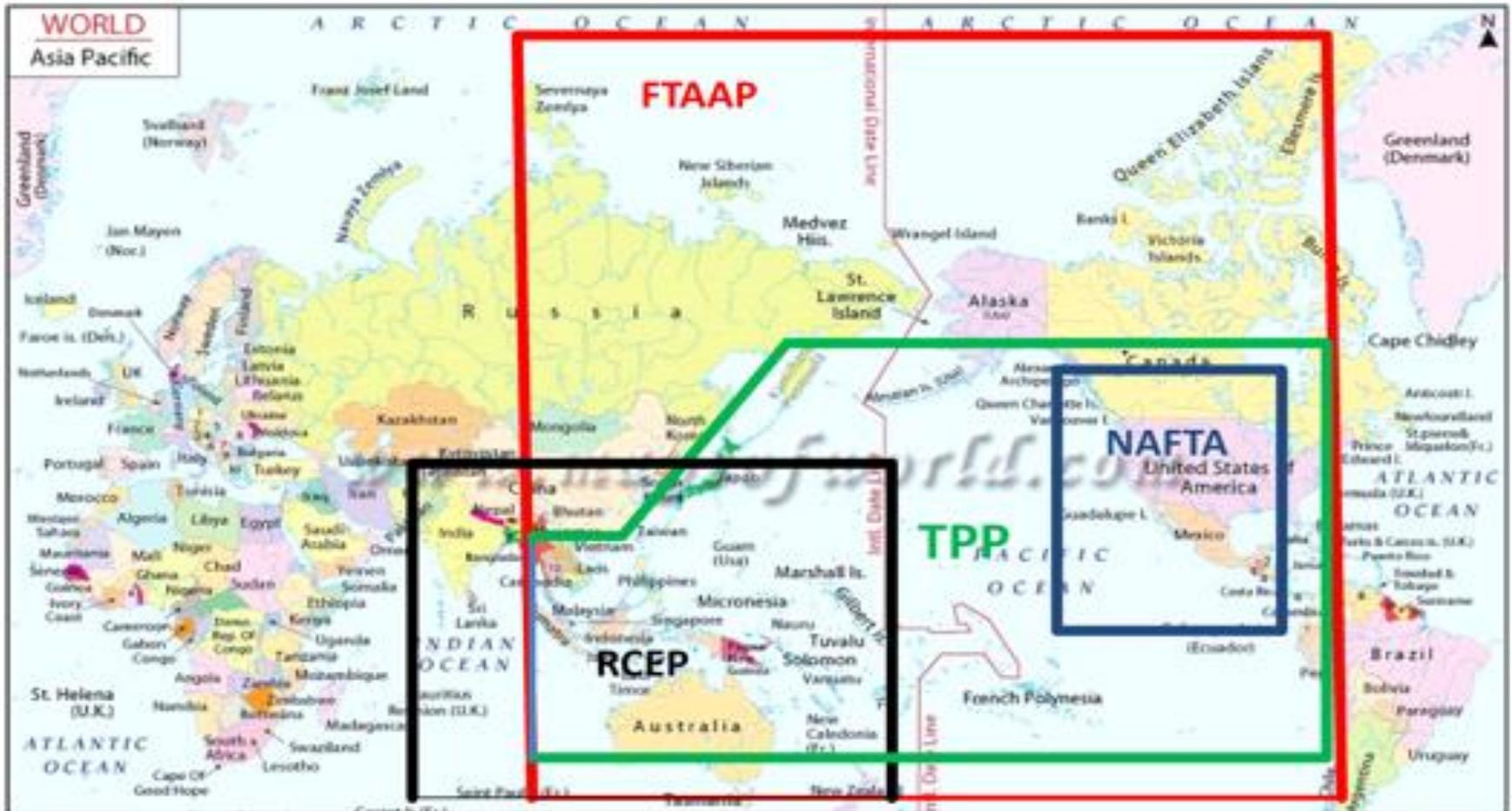


Figure 1: Major trade blocs in the world economy

## II. Hope for the Best: A Double Play

## **II. Hope for the Best: A Double Play**

Based on internal and external rationales, Taiwan's pursuit of both could help its bids for each.

## II.1 Domestic politics on prioritizing the FTA talks

All politics, including political economy of trade, is local. Trade policy would inevitably involve domestic interest group politics in any democratic country.

Taiwan is no exception. What is unique to Taiwan is that the pursuit of any FTA is entangled with national identity and partisan politics.

## II.1.Domestic politics on prioritizing the FTA talks

While the government of Kuomintang (KMT), has officially announced its interests in pursuing FTAs on all fronts, the Blue camp is more enthusiastic about signing FTAs with China than with the US (Chiang et al, pp.106-107).

Hence, it may well lead the Blue camp to favor the China-centric RCEP over the U.S.-centric TPP.

## II.1.Domestic politics on prioritizing the FTA talks

But pursuing more agreements with China under the framework of ECFA has been upsetting most people in the Green camp. To them, the ECFA clearly reveals China's political intent to draw Taiwan closer into its orbit, as the former continuously packs economic sweeteners into a series of specific agreements.

## II.1.Domestic politics on prioritizing the FTA talks

The Green camp believes that China, claiming sovereignty on Taiwan, has been enticing Taiwanese businessmen or Taishangs to become a strong pressure group by which to leverage the KMT government to lean toward **China**. Moreover, the Green camp has learned from past elections that China did infiltrate into Taiwan's electoral politics by, for example, supporting the KMT presidential candidate in 2012.

## II.1.Domestic politics on prioritizing the FTA talks

However, the Green camp is not totally opposed to liberalizing trade with China, however. What many in this camp strongly favor is for Taiwan to become part of the TPP before seeing further cross-strait economic integration which would otherwise affect Taiwan's autonomy and their cherished aspiration of a de jure independent Taiwan.

## II.1.Domestic politics on prioritizing the FTA talks

The Green camp believes that further cross-strait economic liberalization can only, in real terms, incorporate Taiwan into the “Western Economic Zone across the Taiwan Strait” and blend Taiwan into Fujian, as intended by the Beijing leadership and stipulated in China’s 12<sup>th</sup> 5-year plan.

## II.1.Domestic politics on prioritizing the FTA talks

In the words of an interviewee in the Chinese authorities, the ECFA “serves as an effective tool to enhance the formation of a ‘one China’ political identity and to suppress separatist, independence movements” (Yuan, 2012.p.7). Given that the RCEP is a China-centric trade bloc, the Green camp probably prefers the TPP to the RCEP.

## II.1.Domestic politics on prioritizing the FTA talks

In the words of an interviewee in the Chinese authorities, the ECFA “serves as an effective tool to enhance the formation of a ‘one China’ political identity and to suppress separatist, independence movements” (Yuan, 2012.p.7). Given that the RCEP is a China-centric trade bloc, the Green camp probably prefers the TPP to the RCEP.

## II.1.Domestic politics on prioritizing the FTA talks

As in any democratic country, interests groups in Taiwan, organized or not, are likely to face import competition through trade liberalization which could be a hindrance to any FTA negotiation.

Taiwan's trade with and investment in China has generated disproportional gains, more to big businesses, less to small and medium enterprises, and perhaps undesirable income redistribution effects as well.

## II.1.Domestic politics on prioritizing the FTA talks

More KMT constituents have benefitted than DPP's (if any) from cross-strait economic integration. Hence, constituents of the two political camps tend to harbor divergent attitudes on further expansion of the ECFA and deeper economic integration with China.

## II.1.Domestic politics on prioritizing the FTA talks

The Green camp has alleged that the China leaning policy undertaken by the incumbent KMT government is leading to such a stage that it is impossible for any future government to reverse course, thereby dimming the hope for creating a de jure independent Taiwan.

Given income and political effects of economic liberalization with China, the Green camp would be alienated if the ruling KMT government prioritizes RCEP over TPP.

## II.1. Domestic politics on prioritizing the FTA talks

Warranted or not, many in the Blue camp are wary of joining the TPP not that they necessarily oppose it, but that they thought such an attempt would antagonize Beijing and jeopardize the next round of negotiation for an expanded ECFA with China as well as the negotiation for membership in the RCEP.

## II.1. Domestic politics on prioritizing the FTA talks

While the Green camp is wary of asymmetric dependency on China's market, the Blue camp does not think that this is a problem at all. For them, the real worry is that someday, China may not want Taiwan to continuously depend on its market, meaning that Taiwan no longer matters that much to China politically, and economic incentives to lure Taiwan begin to evaporate.

## II.1.Domestic politics on prioritizing the FTA talks

The Blue camp's preference of RCEP over the TPP is evidenced by the incumbent government's persistent efforts to sign the trade pact in service sector with China without prior consultation with the enterprises, the industrial associations in service and even the legislators of its own party.

## II.1.Domestic politics on prioritizing the FTA talks

Other than partisan politics, the civic society groups in Taiwan have been actively engaged in public (including trade-related) policy debates. Human rights, labor, environment, and other groups have long advocated that labor and environment standards be incorporated into public policies.

## II.1.Domestic politics on prioritizing the FTA talks

The TPP includes the labor standard regulations which will fulfill the five principles of the International Labor Organization whereas the RCEP has not included labor clauses in its negotiation agenda.

The TPP is led by the U.S. which is undoubtedly a democratic country whereas RCEP is led by China which is an authoritarian regime. Various civic society groups in Taiwan will be more enthusiastic about, and lend more support to their government's participation in, TPP negotiations than RCEP ones.

## II.2.The “China factor” in pursuing the trade pacts

Externally, the single most formidable hindrance for Taiwan to ink free trade agreements is the omnipresent “China factor.” **That China has minimal tolerance for Taiwan’s presence in international arena and for other countries’ assistance to help Taiwan to secure its place in the sun is too self-evident to warrant any elaboration here.** It suffices for us to specify China’s preference order when it comes to Taiwan’s pursuit of FTAs.

## II.2.The “China factor” in pursuing the trade pacts

China's stand on this issue is as follows:

First, expand ECFA which will further incorporate Taiwan into its orbit economically in the short term and political in the longer term.

Second, delay its reply to Taiwan's aspiration to join the RCEP, then allow Taiwan to negotiate into RCEP only after its scheduled completion in 2015 under China's terms.

## II.2.The “China factor” in pursuing the trade pacts

Third, prevent Taiwan from flirting with the TPP by demonizing it as a device to contain China's economic and political influence, though the U.S. has repeatedly declared it is not, and if China cannot prevent Taiwan from bidding for TPP's membership, then it probably will try to draw some red line for the US which is the leading player of the TPP.

## II.2. The “China factor” in pursuing the trade pacts

Taiwan does not seem to have a path of least resistance, as either pursuit is an uphill battle. It would then make sense for Taiwan to keep all the door opens, pursuing both the TPP and the RCEP, and indeed more bilateral FTAs with other economies as well.

## II.3. Sequencing order of applying for the TPP and RCEP

Can Taiwan kill the two birds with one stone?  
Will the two pursuits be compatible or cross-cutting?

First of all, the sequencing order of application is dictated by the application procedure and membership requirements for the trade pacts. The following reality check list helps to find a road map for Taiwan's bids.

## II.3. Sequencing order of applying for the TPP and RCEP

1)

The TPP has an open admission policy for APEC members that are interested in joining, whereas the RCEP mainly recruits those which have already FTA with the ASEAN as a group such as ASEAN plus Australia, China, India, Korea, Japan and New Zealand.

## II.3. Sequencing order of applying for the TPP and RCEP

2)

ASEAN as a group is more interested in consolidating various FTA plus 1 and, in screening various RCEP applicants, will give priority to those that already have signed FTAs with the ASEAN.

## II.3. Sequencing order of applying for the TPP and RCEP

3)

There is a double eligibility criterion for any country to join the TPP which includes the approvals from both individual member state and the TPP as a group.

## II.3. Sequencing order of applying for the TPP and RCEP

Taiwan can only prepare to apply, rather than apply, for entering the RCEP now, as the door is temporarily shut till the RCEP agreement is inked in 2015 by the founding members.

## II.3. Sequencing order of applying for the TPP and RCEP

As a member of APEC forum, Taiwan's chance of being invited to the TPP talk is high, and it can be exploited right away. In 2012, Taiwan was the 11th-largest U.S. trading partner which was ranked higher than most those countries that the U.S. has signed FTAs, except for Canada, Korea and Mexico. Taiwan was the sixth-largest foreign holder of U.S. Treasury securities at \$199 billion by the end of 2012.

## II.3. Sequencing order of applying for the TPP and RCEP

Taiwan's quest for institutionalizing its trade liberalization with its trade partners in the region may coincide with U.S. "pivot to Asia".

## II.4. Bilateral FTAs with dual membership countries first

Given the internal and external political realities, one feasible approach is for Taiwan to solicit more bilateral FTAs with those countries which have dual memberships in both the TPP and the RCEP. There are seven countries which belong to both: Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam.

## II.4. Bilateral FTAs with dual membership countries first

When more and more FTAs are signed with those countries which have dual memberships in the two blocs, it would be more conducive for Taiwan to join either or both. **Bilateral FTA talks with individual ASEAN members, especially on the peninsular side of the organization, are something that Taiwan can initiate without anybody's approval, though 'the China factor' may make it difficult to conclude these talks.**

## II.5. Political dividends of FTAs

Wallace (1982) argued that any format of economic integration, be it a FTA or a custom union, is basically a political establishment. For Taiwan, FTAs may come with some political dividends, if it can join under a proper name. Taiwan may be able to present itself as a negotiating party in the TPP under the name of “Chinese Taipei” (the so-called Asia Development Bank formula, rather than the “Custom Territory of Taiwan, Penghu, Kinmen and Matsu” (CT-TPKM), which is used in the WTO. The ADB formula, Chinese Taipei, connotes an official title for a Chinese national government with a capital in Taipei.

## II.5. Political dividends of FTAs

The WTO formula is referred to a custom region, an economic jurisdictional unit that is clearly separate from China's. China might have qualms with Taiwan using either formula for the TPP bid. Of the two formulae, the WTO one appears to be a lesser evil for China, as it denigrates Taiwan as an economic zone, while the ADB one puts Taiwan more or less on an equal footing with China.

China being an outsider of the TPP negotiating body, and APEC membership being honored in the TPP talk, Taiwan stands a good chance defending its “Chinese Taipei” moniker, if it chooses to use this name.

## II.5. Political dividends of FTAs

Assuming that Taiwan under the banner of “Chinese Taipei” succeeds in joining the TPP within the next two years, it will be awkward, if not hard, for China to prevent Taiwan from using the same name in its application for admission to the RCEP in 2015.

## II.5. Political dividends of FTAs

Should China insist that Taiwan use its WTO name, China could be roundly criticized for inconsistency and ‘snobbishness’ (China would ‘be snubbing’ TPP members, as well as ADB members), and China would be offending even the Blue camp in Taiwan, jeopardizing the prospect of further expanding the ECFA, and pushing Taiwan away from the RCEP and toward the TPP.

## II.5. Political dividends of FTAs

Taiwan's recent trade pact with New Zealand (ANZTEC) is a good start because New Zealand has dual membership in TPP and RCEP. The ongoing negotiation of trade pact with Singapore (ASTEPA) is another big plus when it is completed.

## II.5. Political dividends of FTAs

Taiwan's pursuit for bilateral FTAs with those which have dual memberships in RCEP and TPP will not compromise or jeopardize its chance to be a negotiating party for either or both the TPP and the RCEP. On the contrary, it could help to create a window of opportunities to join both and enables Taiwan to kill two birds with one stone.

# **III. What if Both Doors Remain Shut?**

### III. What if Both Doors Remain Shut?

While Taiwan should hope for the best, it should also prepare for the worst. The invitation from either the TPP or the RCEP to Taiwan may be slow in coming. **The ‘China factor’ may push political cost of joining either trade pact far beyond what Taiwan’s domestic partisan politics could bear.** The worst scenario for Taiwan is to find insurmountable high entry barriers to the negotiation rooms of the two trade blocs. If neither the TPP nor the RCEP is beyond the reach of Taiwan, will Taiwan be continuously marginalized

### **III. What if Both Doors Remain Shut?**

#### **Trade diversion effect on Taiwan's economy**

The formation of TPP or RCEP may divert trade away from Taiwan if it is barred from joining the club. A study by Petri et al (2011) shows that trade diversion effect caused by the TPP to the exclusion of Taiwan would cost Taiwan a welfare loss of 0.2% of its baseline GDP in 2020.

The welfare lost for a Taiwan excluded from the RCEP would be 0.95%. Should both the TPP and the RCEP leave Taiwan out in the cold, the combined welfare loss for this orphan would be 1.05% of its baseline GDP (Petri et al, 2011, Table 7), a nightmare figure indeed.

### **III. What if Both Doors Remain Shut? Trade diversion effect on Taiwan's economy**

It should be noted that the model simulation by Petri et al is based on the assumption that both the TPP and the RCEP are fully established without Taiwan's participation and that Taiwan has signed no other bilateral or multilateral FTAs.

The fact that Taiwan has recently signed the ANZTEC with New Zealand, has been negotiating with Singapore for a FTA (the ASTEP), and may go after FTAs with those countries with dual membership in the TPP and the RECP means that the worst scenario projected Petri et al can be avoided.

## III.1. Multiple bilateral FTAs to reach the near hub-ness

If Taiwan can sign multiple bilateral FTAs (which can take many formats and are broadly referred as “economic cooperation agreements” or ECAs) with its trade partners, then the above-mentioned trade diversion effect created by the two emerging trade blocs can be mitigated.

## III.1. Multiple bilateral FTAs to reach the near hub-ness

Baldwin (2004) argued that small economy can reach the status of near hub-ness by emulating the following three models.

The first is the Mexican model where a small economy not only signs a FTA with large economies (the U.S. and Canada), but also inks bilateral trade pacts with other small economies in its neighborhood (Latin American and Caribbean countries).

## III.1. Multiple bilateral FTAs to reach the near hub-ness

The second is the EFTA model where small economies outside a sizable and growing trade and economic bloc (the European Union) set up their own shop (the European Free Trade Association).

The third is the Singapore model where a small economy forges FTAs with as many trade partners far and near as possible.

## **III.1. Multiple bilateral FTAs : A combination of the Mexican and Singaporean models**

Taiwan should adopt both the Mexican and Singaporean models to not only escape marginalization, but also try to attain a near hub-business status in the Asia Pacific region (Chow, 2013 a).

## III.2.Looking beyond regional horizon: The Pacific Alliance

An emerging trade bloc named the Pacific Alliance which includes Colombia, Costa Rica, Peru, Chile and Mexico with several observers from Japan, Canada, New Zealand, Panama, Guatemala and Spain, appears to be a promising alternative.

## III.2.Looking beyond regional horizon: The Pacific Alliance

The five member states of the Pacific Alliance accounted for one half of export and 36% of total GDP in Latin America. It is the 8<sup>th</sup> largest trade blocs in the world, and its total export in 2010 was \$445 billion, almost 60% more than what [Mercosur](#) (Southern Cone Common Market), which is the main economic bloc in Latin America, exported in the same year.

## III.2.Looking beyond regional horizon: The Pacific Alliance

The Pacific Alliance, which is also the third pathway identified by the ABAC (the APEC Business Advisory Council) toward FTAAP, could be an alternative avenue for Taiwan to break its increasing isolation from an increasingly integrated East Asian economy. A bit like the Third Way, the Pacific Alliance does not have a hegemonic member and seems to be beyond the radar screen of the US or China.

## **III.2. The trade diversion effect of Pacific Alliance for Taiwan is too sizable to be ignored**

A study by Hsu (2013) showed that the full implementation of the Pacific Alliance without Taiwan could reduce its GDP by 0.39% to 0.51%, social welfare by \$ 483 million to \$ 1360 million under comparative static and dynamic model simulations respectively. Meanwhile Taiwan's export will be reduced by \$ 514 million to \$ 741 million, and its terms of trade will deteriorate by 0.19% to 0.18% (see the third column on Table 1 below).

## **III.2. The trade diversion effect of Pacific Alliance for Taiwan is too sizable to be ignored**

But if Taiwan can join the Pacific Alliance, its total GDP will increase by 0.37%, social welfare will increase by \$ 989 million, export will increase by \$419 million, import will increase by \$ 801 million and its terms of trade will improve by 0.17% (not shown in Table 1). The impact of the Pacific Alliance on Taiwan's economy is too sizable to ignore.

## III.2. Is Latin America more friendly to Taiwan than other regions ?

One additional reason to explore the possibility of entering the Pacific Alliance is that Latin American and Caribbean is the home to the last significant bloc of countries that still maintain formal ties with Taiwan. **The opportunity provided by the Pacific Alliance should be exploited before China seals more investment commitments and gains more soft power in Central America.**



# The impacts of major trade pacts on Taiwan's economy

Major trade pacts	TPP		RCEP		Pacific Alliance		CJK FTA		TTIP*	
	I	II	I	II	I	II	I	II	I	II
Nominal GDP (%)	-0.54	-0.70	-1.51	-1.90	-0.39	-0.51	-1.27	-1.57	-0.49	-0.65
Social welfare ( \$ million)	-832	-2097	-2292	-5536	-483	-1360	-1772	-4316	-585	-1817
Export (\$ million)	-784	-1328	-2283	-3571	-514	-741	-1626	-2524	-517	-1006
Import (\$ million)	-1538	-1944	-4295	-5313	-942	-1154	-3167	-3867	-1048	-1512
Terms of trade (%)	-0.31	-0.27	-0.89	-0.85	-0.19	-0.18	-0.68	-0.64	-0.21	-0.19

Table 1: The impacts of major trade pacts on Taiwan's Economy under comparative Static ( I) and Dynamic Scenarios ( II)

\* Trans-atlantic Trade and Investment Partnership  
Source: Hsu (2013)

# **IV. Economic Re-structuring Holds the Key**

Taiwan needs to re-adjust its economic structure to be ready for further economic integration. If Taiwan will be left out of major free trade bloc, it is equally necessary to shake off its remaining protective shell, overhaul its industrial structure, and improve its competitiveness in all sectors

## **IV.1. Agriculture: An economically weak but political strong sector**

A brief look at the tariff schedule on imports from the world, TPP-12 nations, and RCEP nations on Table 2 below showed that Taiwan has high tariff on imports of vegetable/fruit, fish, meats, milk, sugar, beverage/ tobacco and other agricultural products. On manufacturing products, wearing apparels and motor vehicles are the two most protective sectors.

## **IV.1.Agriculture: An economically weak but political strong sector**

Since the TPP negotiations are committed to setting “zero tariff “on all commodities including agriculture, Taiwan will have to prepare to face up to this challenge, especially in the area of agricultural imports. One should also realize that the TPP include three major agricultural exporters in the world; Australia, New Zealand and the U.S.

## **IV.1. Agriculture: An economically weak but political strong sector**

The issue of “beef and pork” import from the U.S. had recently triggered an intensive political battle in Taiwan, and caused a great deal of tension between Taipei and Washington, and postponed their TIFA (Trade and Investment Framework Agreement) talks. One can only expect more policy debate and fights within Taiwan over its agricultural liberalization, as the train of FTA talks moves on.

## **IV.1. Agriculture: An economically weak but political strong sector**

If the TPP accomplishes its scheduled tariffs reduction on agriculture without discount, then Taiwan would need to resolve its domestic obstacles on liberalization of agricultural trade. This is a contentious issue on the political economy of trade which deserves for a full analysis that is beyond the scope of this study.

# Tariff schedules in Taiwan

sector	Global (%)	From TPP12 (%)	From RCEP(%)
1 pdr	0.12	0.00	0.00
2 wht	6.49	6.50	6.49
3 gro	1.59	1.60	1.33
4 vege,fruit	17.23	17.16	17.36
5 osd	3.89	3.88	3.24
6 c_b	0.00	0.00	0.00
7 pfb	0.02	0.00	0.00
8 ocr	5.70	5.96	5.63
9 ctl	3.11	4.21	3.57
10 oap	5.40	6.24	3.80
11 rmk	0.00	na	0.00

Table 2: Tariff Schedule on Taiwan's Imports from the world, TPP-12 nations, and RCEP area

Source: calculated from the GTAP version 8.1 by Hsu

# Tariffs schedule in Taiwan

sector	Global (%)	From TPP12 (%)	From RCEP(%)
12 wol	1.39	1.43	1.40
13 frs	1.74	0.83	0.62
14 fish	15.16	15.74	14.77
15 coa	0.00	0.00	0.00
16 oil	1.21	1.07	1.12
17 gas	0.11	0.00	0.00
18 omn	0.30	0.32	0.29
19 cattle meat	15.27	15.56	15.55
20 other meat	19.50	19.82	19.74
21 vol	2.69	2.33	1.73
22 milk	11.19	11.31	11.24

Table 2: Tariff Schedule on Taiwan's Imports from the world, TPP-12 nations, and RCEP area

Source: calculated from the GTAP version 8.1 by Hsu

# Tariffs schedule in Taiwan

sector	Global (%)	From TPP12 (%)	From RCEP(%)
23 pcr	0.34	0.00	0.00
24 sugar	10.43	10.95	10.96
25 other food	17.68	17.34	17.99
26beve.tobac.	11.28	11.59	11.37
27 tex	7.59	7.72	7.63
28 wearing apparel	11.31	11.28	11.37
29 lea	4.23	3.91	4.56
30 lum	2.19	2.95	2.36
31 ppp	0.09	0.09	0.07
32 p_c	2.59	3.13	2.75
33 crp	2.96	2.98	2.99
34 nmm	5.88	5.94	5.85

Table 2: Tariff Schedule on Taiwan's Imports from the world, TPP-12 nations, and RCEP area

Source: calculated from the GTAP version 8.1 by Hsu

# Tariff schedules in Taiwan

35 i_s	0.36	0.37	0.33
36 nfm	1.01	1.01	0.98
37 fmp	6.09	6.02	6.07
38 mor.veh	12.06	13.30	11.38
39 otn	3.90	3.74	4.59
40 ele	1.85	1.94	1.71
41 ome	3.15	3.25	3.14
42 omf	3.43	3.71	3.40

Table 2: Tariff Schedule on Taiwan's Imports from the world, TPP-12 nations, and RCEP area

Source: calculated from the GTAP version 8.1 by Hsu

## **IV.2. Service: a socio-political complicated sector for mature economy**

In general, the first wave of development in service sector occurred in the traditional services which comprised wholesale and retail trade, hotels and restaurants, real estate, transport, personal services, and public administration. The second wave of development that occurred at the stage of high income level was dominated by modern services including information and communication, finance, and professional business services (Eichengreen and Gupta, 2009).

## **IV.2.Service: a socio-political complicated sector for mature economy**

From Lee and Itakura ( 2013), the tariff equivalents of non-tariff trade barriers on service sector in Taiwan is as follows; 10.8% in construction and utilities, 28.8% in trade, 12.6% in sea transport, 25.4% in airport, 26.1% in other transport, 23.6% in communication, 27.5% in financial services, 29.1% in government services and 26.7% in other private services.

## IV.2.Service: a socio-political complicated sector for mature economy

The TPP program includes liberalization of trade in service. Understandably, most of the TPP-12 nations, especially the U.S. and Japan, have a strongly competitive edge on trade in service. **If Taiwan is to participate in the TPP, then it has to prepare well to open its service sector.**

## **IV.2.Service: a socio-political complicated sector for mature economy**

Trade in service involves

- a) cross border consumption
- b) cross border supply
- c) commercial presence where the provider establishes a facility in the client's country (i.e., investment)
- d) the temporary movement of personnel.

## **IV.2.Service: a socio-political complicated sector for mature economy**

Each of these four aspects involves complex socio-cultural factors between the service providers and consumers, a process that is much complicated than liberalization of merchandise trade.

The trade pact in service that Taiwan recently signed with China under the umbrella of ECFA is already sparking a massive policy fight. A closer look at this sector is in order here.

## **IV.2.Service: a socio-political complicated sector for mature economy**

Regarding the trade pact on service with China, Taiwan does have some competitive edge on the high end side of service industry where skills matter more than labor cost, but is less competitive on the low end side where labor cost matters more than skills. The recent service trade pact is a bit biased for Taiwan, mitigating the cost of liberalization that Taiwan is expected to bear.

## **IV.2.Service: a socio-political complicated sector for mature economy**

If future service trade pacts will be truly symmetric, giving equal treatment to both sides, those in the high end of service trade will benefit from, whereas the less skilled will be adversely affected by liberalization of service trade with China.

## **IV.2. Service: a socio-political complicated sector for mature economy**

In terms of political spectrum of the constituents, those owners, managers and service persons in high end service (engineering service, high tech gadget testing and packaging, software development, financial product designs and transactions, fashion and cosmetic marketing, etc) are more in line with the KMT government for the expansion of ECFA into the service sector, while low end service people (beauty salons, transportation yeomen, etc) are, in contrast, more attuned to the Green camp.

## **IV.2. Service: a socio-political complicated sector for mature economy**

Those who oppose the trade pact in service with China are not necessarily from the Green camp. These opponents are against any further trade liberalization agreement with China for fear of opening the gate for China's investors to infiltrate the Taiwan society, a development that, in the Green camp's words, would "generate significant legacies on Taiwanese society".

## **IV.2.Service: a socio-political complicated sector for mature economy**

To the opponents, not only would economic benefits of free trade pact in services accrue to big business and high skilled employees only, this service agreement, more importantly, would incur a high socio-political cost.

## **IV.2. Service: a socio-political complicated sector for mature economy**

Most investment from China are directly or indirectly sourced at or affiliated with huge state-owned enterprises whereas 99.7% of the 93,500 firms in Taiwan's service sector are owned and operated by SMEs. China-invested service firms in Taiwan will be either monopolies or oligopolies whereas those local SMEs in Taiwan are highly competitive and can easily go out of business.

## **IV.2. Service: a socio-political complicated sector for mature economy**

Asymmetrical industrial organization and market power between the China-invested and local enterprises in service industry kept many service firms in Taiwan wary of and worry about unfair market competition once the door to China is open.

## IV.2. Service: a socio-political complicated sector for mature economy

The socio-political implications of liberalizing trade in service with the U.S. are quite different from those with China. High skilled services are leery of Taiwan's signing on to the TPP, a bloc that includes the U.S., hereby opening up the floodgate for formidable American high services, while low end services in Taiwan are nonchalant about such an agreement.

Moreover, Taiwanese people favor American investors more than those from China as the survey by Chiang et al (2013) indicated.

## **IV.2. Service: a socio-political complicated sector for mature economy**

Admitting chain stores of a fast food giant, McDonald restaurant caused fewer problems than licensing a single Peking duck house from China. The reason is simple and clear: the U.S. has no interest in claiming sovereignty on Taiwan but Beijing does.

## **IV.2. Service: a socio-political complicated sector for mature economy**

Considering the inevitable resistance from the interest groups for liberalization in finance, communication and transport services under the TPP, the government may use the leverage of external forces to induce more competition abroad through trade liberalization under various FTAs.

Of course, many social remedy policies compensating the disadvantaged groups are needed to reach the “Pareto Optimum” of trade liberalization.

## IV.3. Three points on Industrial Restructuring

Comprehensive study on industrial restructure for globalized trade liberalization is beyond the scope of this paper. But three major directions are highly recommended.

## IV.3. Three points on Industrial Restructuring

- a. First, promote Taiwan's functions in the global production network and increase the value-added in the global supply chain.
- b. Second, re-structure production method from OEM (original equipment manufacturing) to newly innovative production methods such as the application of the "3 D printing" to manufacturing sector.
- c. Third, exploit the untapped trade potential by identifying the niche products in niche markets

## IV.3. Three points on Industrial Restructuring

### a. **Branding and Enhancing value-added in OEM by functional and processing upgrading**

Stan Shih's famous "Smiling Curve" shows the value-added at various stage of production in ICT (information and communication technology) sectors. Since the past decade, there is a significant development in the flattening out of the "smiling curve" shown in Figure 2 as argued by Chow (2013b). The dots on the right-hand side of the curve represent those firms with their own brands, as reported on Table 2, whereas those on the left-hand side are firms such as Acer, TSMC, etc. which engaged in chip designs.

## IV.3. Three points on Industrial Restructuring

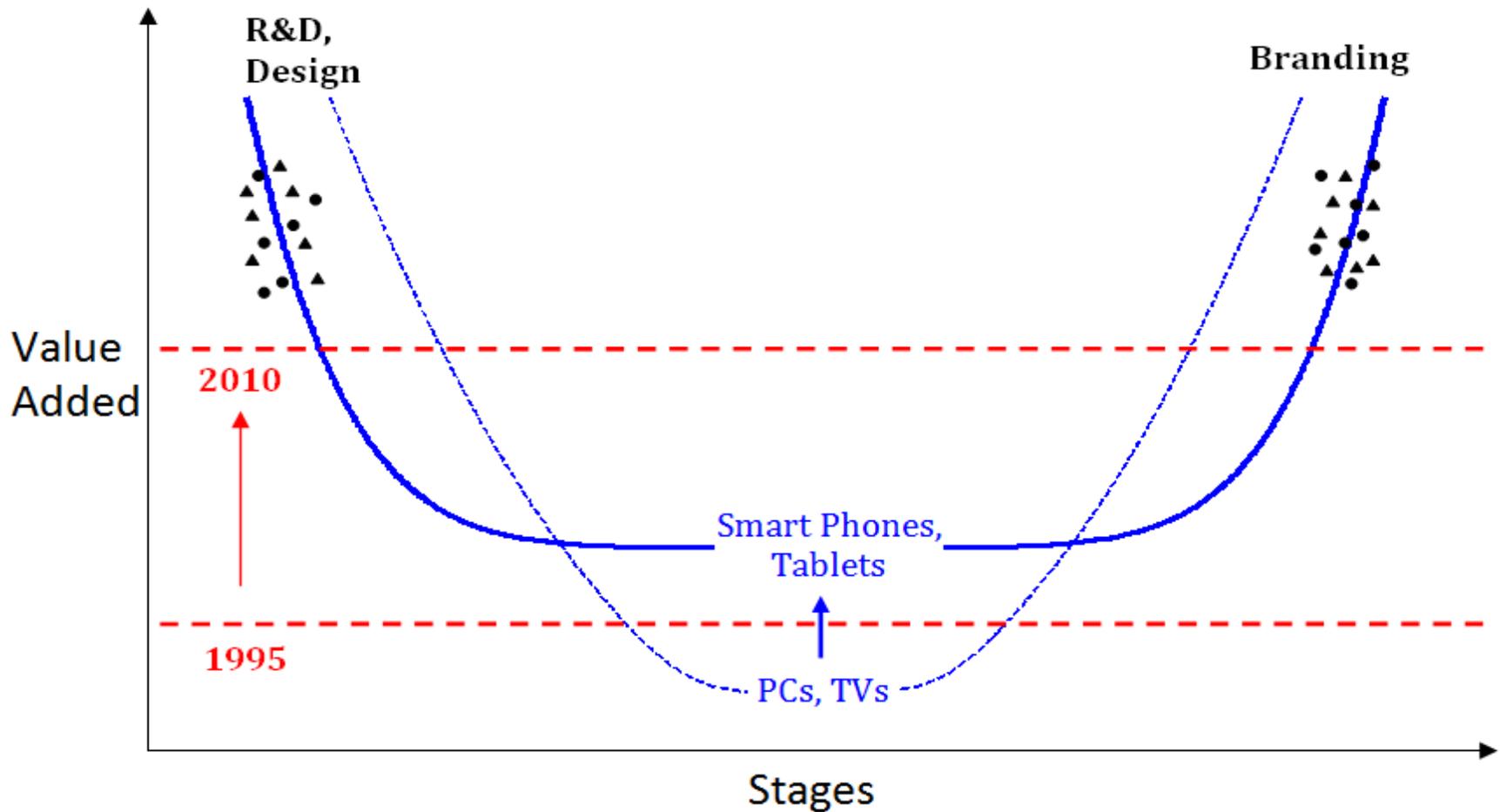


Figure 2: Breaking Through the Threshold by process and functional upgrading

# Major brand names of Taiwanese manufactures

Company	Brand Name	Products
Acer	Acer	Notebook PC
Asustek	ASUS, ASRock	PC, PC motherboard, ODD, PDA, cellular phone
BenQ	BenQ	Notebook PC, MP3 player, LCD TV
Compal	Palmax, Optorite	Cellular phone, ODD
Elite	-	PC motherboard, mini PC
FIC	Afina	Mini PC
Gigabyte	AXPER	PC motherboard, mini PC, notebook PC, LCD TV
Hon Hai	Foxconn	PC motherboard
hTC	Dopod	PDA
Inventec Appliance	OKWAP	Cellular phone
Mitac	Mio	Smartphone
Quanta	Nu, Gia	ODD, cellular phone, display monitor, LCD TV
Tatung	Elio	MP3 player
TPV	AOC	Display monitor

Table 3: Major brand names from Taiwanese manufactures

## IV.3. Three points on Industrial Restructuring

There are two approaches to moving upward on the smiling curve: **process upgrading and functional upgrading**. Humphrey (2004) argued that once firms enter the GVC such as OEM, suppliers would gain valuable lessons from their partnerships with buyers. Specifically, they would be able to upgrade product development.

## IV.3. Three points on Industrial Restructuring

Many Taiwanese firms managed to exploit their second mover advantage by expanding the bottom of the “smiling curve” through advancement in processing technology and product development. They made significant progress in processing technology, as reflected by the number of patents granted by the U.S.

## IV.3. Three points on Industrial Restructuring

In terms of patents per capita, Taiwan was ranked third in 1997-2001, after only the U.S. and Japan. In 2009, Taiwan held 287 patents per million people, ranking it first among 139 countries, higher than Japan (279; rank 2) and the U.S. (262; rank 3). Among those patents granted to Taiwan, a great majority was in processing technology.

## IV.3. Three points on Industrial Restructuring

On functional upgrading, one can find that many Taiwanese foundries and ICT industries have been moving vertically by engaging in the advanced stage of design and branding. Several firms served both as OEM manufacturers and IC designers.

This tendency would increase the “value-added” on the segmented global production process, and improve the profit margin of Taiwanese enterprises. **Taiwan should transform its role from what is being performed by Foxconn to what Toshiba does in Apple’s I-Pad.**

## IV.3. Three points on Industrial Restructuring

Entry barriers of branding are high for most Taiwanese firms; In addition to the requisites of manufacturing, those barriers include innovative R&D and marketing channels, which impose their own cultural barrier as well (W.Chu, 2009). Taiwanese government did not support the branding of national champions of industry, as what the Korean government did to its *chaebol* conglomerates.

## IV.3. Three points on Industrial Restructuring

Nevertheless, some Taiwanese firms such as Acer, Asustek, and BenQ have developed their own brand names, as Table 3 reports. Though the extent of branding in Taiwan is much smaller than in Korea, which has its *chaebol* conglomerates, it demonstrates that Taiwan has followed a non-statist model of branding development.

## IV.3. Three points on Industrial Restructuring

The progress in chip design, the specialization in wafer fabrication, and the brands of some firms show that the “smiling curve” has been flattening out in Taiwan in recent years. Taiwan would need to further increase its value-added and enhance its profit margin in the global supply chain to slow down the industrial migration and avoid further hollowing out of its domestic industries

## IV.3. Innovate new production technology

### **b. Innovate new production technology**

The other way to improve Taiwan's industrial structure lies in innovation of production technology. While sector-specific industrial promotion policies undertaken in the past decades cannot be replicated the new socio-political environment, a more generic method of nurturing technology innovation is highly doable. One example is for Taiwan to ride the next big wave of 3D printing industrial revolution, which is based on computer design and additive manufacturing and which is what the U.S. is betting on to overhaul its economy to create high value jobs.

## **IV.3. b. Innovate new technology-“3D printing” manufacturing technique**

The “3D printing” manufacturing technique can grossly reduce the time it takes from the drawing board to prototype making and testing. It has potential of revolutionizing the mode of production, transcending the Henry Ford type of large scale manufacturing of the standardized product, and ushering in an innovative, diversified, flexible, and diversified type of manufacturing in meeting quickly changing market demand and satisfying a wide range of consumer references.

## **IV.3. b. Innovate new technology-“3D printing” manufacturing technique**

The 3D industrial revolution can transform Taiwan's industrial structure and enhance its position in global production chain to the extent that it can still do well in the world economy even without the benefits conferred by FTAs. Of course, just like microwave oven in the kitchen, the “3D printing” production technique can be complement with but not to substitute the long existing production techniques for mass production in all manufacturing industries.

## **IV.3. b. Innovate new technology-“3D printing” manufacturing technique**

While the role of government on industrial policies is highly contentious, its role to internalize the externality to avoid the “coordination failure” for multiple equilibriums along the line of the theory of “Big Push” is highly recommended.

## Government serves as a coordinator

For economic transformation, the government can serve as a coordinator to transform the economic structure from the conventional OEM to newly innovative production technologies. Industrial policies using the government-funded enterprises to support sector-specific development are no longer regarded as desirable.

## Venture capital to social the risks

New approaches to accelerating industrial transformation now center on “functional” support in R & D and incentives for research institutes to amplify technology spillover effects. **Venture capital, be it private or public or joint, can be a good vehicle as it can socialize the risk of creating new production technology. The government in Taiwan has actually begun to use this device to promote the biotech and biomedical research and product development.**

## **c. Exploit the untapped trade potential: Identifying the niche products in niche markets**

Another potential big point is for Taiwan to exploit its untapped trade potentials by identifying yet-to-develop niche products in niche markets. Based on the TradeSim model which simulated the export performance for Taiwan's exports, Chow and Ciuriak (2008) calculated the gap between the actual and the potential exports from a modified gravity model simulations.

## **c. Exploit the untapped trade potential: Identifying the niche products in niche markets**

Export potentials for Taiwan were estimated for 15 sectors and 30 major trading partners in the world. Export potentials are interpreted as “potentials within the specified model set-up”. They represent the “relative trade potentials”, which are “independent of the absolute value of exports”. Hence, “highly untapped potential does not imply that this potential is high in absolute terms but that is high compared to the current export”. In spite of the caveats, simulation results from TradeSim, in conjunction with a deeper sector-specific analysis, could capture the trade complementarities between countries.

## c. Exploit the untapped trade potential: Identifying the niche products in niche markets

The results are reported in Appendix I. Relative trade potential in each sector is ranked into 5 classifications in an ascending order of trading opportunities:

1. very strong current trade that is above predicted value
2. strong current trade, that is also above the predicted value
3. predicted values equal to current values or are low
4. untapped trade potential; and
5. highly untapped trade potential.

## **c.Exploit the untapped trade potential: Identifying the niche products in niche markets**

In terms of trading partners and considering aggregate trade flows, the main simulation results are as follows:

- Taiwan has high untapped export potential in Korea, and moderate untapped potential in Japan, Malaysia and the Philippines.
- Predicted values are either in line with current levels or low for Hong Kong, Indonesia, Singapore, Thailand and the United States.
- Taiwan has strong current trade above the predicted values for China and Vietnam.

### **c. Exploit the untapped trade potential: Identifying the niche products in niche markets**

Taiwan's strong export performance in China and Vietnam may reflect the importance of Taiwan's outward FDI in these destination economies in inducing exports. TradeSim model has two sets of sample countries where FDI data are available at aggregate (29 exporting and 165 importing countries) or disaggregate levels (7 exporting and 65 importing countries).

### **c. Exploit the untapped trade potential: Identifying the niche products in niche markets**

Since the model of simulations for Taiwan's export potentials does not belong to either set, the simulation results reported here may underestimate Taiwan's trade potential by ignoring the contribution of its outward FDI on export potentials.

### **c. Exploit the untapped trade potential: Identifying the niche products in niche markets**

As one can find from those tables in Appendix I, the significant untapped potential sectors and markets from the simulation can be summed up as follows: In the U.S. market, Taiwan has relative trade potentials in coke, petroleum and nuclear fuel, but the absolute potential probably lies in chemicals and chemical products.

### **c. Exploit the untapped trade potential: Identifying the niche products in niche markets**

Taiwan's trade potential in Hong Kong barely exists in one (residual) sector. Malaysia and the Philippines are two promising markets for Taiwan's electrical and electronic products. For Japanese markets, there is room for expansion for Taiwan's precision machinery, electric and electronic products, and to a less extent, textile goods. These simulation results help Taiwan to identify high value destination for its free trade negotiators, and, should no FTA is inked, the promise land for Taiwanese external trade.

# **Summary and Conclusions**

# Summary and Conclusions

Along with South Korea, Taiwan used to be a super exporter and a most often cited model of export-led industrialization before the advent of the spaghetti bowl of FTAs.

# Summary and Conclusions

Thanks to the “competitive trade liberalization’ between the TPP and the RCEP, Taiwan sees a glimpse of hope of returning to regional FTA blocs, as well as going for more bilateral FTAs. Given domestic partisan politics and external harsh reality (the whim of China, an economic power house), this study has contended that Taiwan cannot afford picking and choosing a regional FTA to join, but rather is obliged to knock on all doors that may be open to it. Prioritizing should not be on its menu.

# Summary and Conclusions

With *fortuna* and the support of TPP members, especially the U.S., Taiwan may be able to have a double play. But should Taiwan continue to be excluded from the two emerging free trade blocs, the TPP and the RCEF, it would not be the end of the world for Taiwan. The Pacific Alliance could be a good substitute, and an aggressive pursuit of bilateral FTAs can also keep Taiwan alive and kicking.

# Summary and Conclusions

Whatever scenario is going to unfold, Taiwan would be doing itself a big favor by overhauling its economic structure, with or without membership in major regional trade pacts.

## Summary and Conclusions

Thank you very much

End

# Appendix 1

In the U.S. market, untapped export potential is identified in the following sectors:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Chemicals and chemical products	1.2	8.3%	0 to 5%
Coke, petroleum products and nuclear fuel	0.1	4.5%	0 to 5%

potential in coke, petroleum products and nuclear fuel, the absolute level of trade potential is small. In chemical and chemical products, however, the scale of existing trade is sufficiently large to warrant exploration of whether in reality some market expansion is possible.

In the Hong Kong market, untapped export potential is identified in only one sector:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Other manufacturing	0.3	8.0%	0 to 5%

Tariffs do not, of course, pose a barrier in the Hong Kong market but the scale of Taiwan's exports to Hong Kong in this sector is sufficiently low to excite little interest.

In the Malaysian market, untapped export potential is identified in only one sector:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Electrical and electronic equipment	1.9	2.9%	0 to 5%

This would appear to be one area where Taiwan could explore possibilities to expand exports through trade promotion.

In the Philippines market, untapped trade potential is identified in:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Electrical and electronic equipment	0.9	1.3%	0 to 5%
Metal and metal products	0.1	1.0%	0 to 5%

Philippines market but the scale of potential trade expansion would be interesting only in the case of electrical and electronic equipment.

In the Japanese market, high untapped export potential is identified in three sectors:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Chemicals and chemical products	0.9	5.9%	0 to 5%
Precision instruments	0.5	8.0%	0 to 5%
Textiles, clothing and leather	0.3	2.8%	20 to 25%

The first two sectors face low tariffs from zero to 5% but the textile/clothing/leather products sector faced relatively high tariffs in the sample period between 20% and 25%.

In several other Japanese sectors, moderate untapped export potential is identified:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Electrical and electronic equipment	6.4	9.5%	0 to 5%
Machinery and equipment	0.6	5.8%	0 to 5%
Rubber and plastic products	0.4	8.7%	0 to 5%
Motor vehicles and other transport equipment	0.4	7.0%	0 to 5%
Wood and wood products	0.1	10.8%	0 to 5%
Coke, petroleum products and nuclear fuel	0.1	5.9%	> 50%

In each of these markets, Taiwan faces low tariffs from zero to 5% implying that it may not have yet fully exploited its trade potential. The scale of trade would point to electrical and electronic equipment as being the major sector on which to focus.

In the Korean market, three sectors are identified as having high untapped trade potential:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Chemicals and chemical products	0.4	2.6%	5 to 10%
Metal and metal products	0.2	1.7%	5 to 10%
Machinery and equipment	0.1	1.3%	5 to 10%

In all three sectors, Taiwan faces moderate tariffs from 5% to 10% which could represent a significant factor in diverting trade away from Taiwan.

Taiwan also has moderate untapped trade potential in several other Korean markets.

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Electrical and electronic equipment	2.8	4.2%	0 to 5%
Metal and metal products	0.2	1.7%	5 to 10%
Precision instruments	0.2	3.6%	5 to 10%
Machinery and equipment	0.1	1.3%	5 to 10%
Rubber and plastic products	0.04	1.0%	5 to 10%
Food, beverages and tobacco	0.04	2.4%	35 to 40%
Motor vehicles and other transport equipment	0.02	0.5%	5 to 10%
Wood and wood products	0.02	1.5%	5 to 10%

Tariffs are an issue in most of these sectors, especially in the food, beverages and tobacco sector in which Taiwanese exporters face tariffs of 35-40%. The scale of existing trade in electrical and electronic equipment makes this an important sense on which to focus.

In the Singapore market, five sectors are identified as having untapped trade potentials:

Sector	Level of Exports in 2002-2003 (USD billions)	Share of Taiwan's exports in that sector	Tariff level in the destination market
Chemicals and chemical products	0.2	1.4%	0 to 5%
Metal and metal products	0.2	1.5%	0 to 5%
Machinery and equipment	0.2	1.4%	0 to 5%
Precision instruments	0.1	1.2%	0 to 5%
Motor vehicles and other transport equipment	0.1	1.5%	0 to 5%

As can be seen, the scale of trade is low despite low tariffs, implying little in the way of quantitatively significant gains in these sectors.