

# Taiwan's Bid for TPP Membership and the Potential Impact on Taiwan-U.S. Relations\*

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## Preface

Having been isolated from most of the international government-to-government occasions, the Republic of China (ROC, hereafter Taiwan) has made a great deal of effort to strike economic cooperation agreements with major trading partners and larger diplomatic allies. In spite of the free trade pacts with Panama (2004), Guatemala (2006), Nicaragua (2006), and El Salvador/Honduras (2007), the Chen Shui-bian administration was unsuccessful with its attempts to sign any similar pacts with Taiwan's major trading partners. After May 2008, the Ma Ying-jeou administration that alters the nature of cross-Taiwan Strait relations from conflict to mutual accommodation finalized the Economic Cooperation Framework Agreement (ECFA) negotiation with mainland China in mid-2010, followed by an investment protection and promotion agreement (February 2013), a customs cooperation agreement (February 2013), and a trade-in-service agreement (TiSA, signed in June 2013 but not yet effective mainly due to the ongoing dispute within the legislative branch of Taiwan). Ironically, the very first economic cooperation agreement signed between Taiwan and its major trading partner is mainland China – a political entity that always denies the existence of the ROC and would like to seek national unification with Taiwan by any possible means.

Meanwhile, owing to the amelioration of cross-Strait relations, Taiwan finally has had two free trade agreements (FTAs) with New Zealand<sup>1</sup> and with Singapore<sup>2</sup> in the end of 2013 and in spring of 2014, respectively. With a generally murky view of

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\* Draft to be delivered at the Conference on the Politics of Polarization: Taiwan in Comparative Perspective, October 17-18, 2014, Bechtel Conference Center, Encina Hall Stanford University, organized by The Taiwan Democracy Program at the Center on Democracy, Development, and the Rule of Law (CDDRL), Stanford University. Do not quote without the author's permission. Comments are welcome.

Taiwan's next primary bilateral FTA in 2015, Taiwan is still working on a "building block" approach to reduce tariff and non-tariff barriers and to facilitate economic cooperation with key trading partners – one of the major objectives of Taiwan's external economic policy. Furthermore, Taiwan has given attention to two merging forces of economic cooperation in the Asia-Pacific region, i.e., the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). For the Ma administration, participating in either one or both of them has been considered extremely crucial for Taiwan's economic development in the future.

This paper will examine the politico-economic reasons for Taiwan's bid for TPP membership – both international and domestic contexts will be considered. Then it will touch upon Taiwan-U.S. relations vis-à-vis TPP, a key U.S. economic cooperation strategy in the Asia-Pacific. In the analysis, the role of mainland China will be taken into account as well, not only because it is playing a vital role in the formation of RCEP but also because its attitude towards TPP – participating or not – would more or less influence the decision of some of TPP members about Taiwan's admission.

### **Taiwan's Bid for TPP: Key Politico-economic explanations**

A member economy of the Asia-Pacific Economic Cooperation (APEC), Taiwan feels very insecure because it cannot act like the other major state actors in the region to participate in other "games" of multilateral economic cooperation that could enhance their own competitiveness and facilitate their external trade when the driving force brought up by APEC is not dependable to reach a regional free trade pact in 2020. Taiwan's major trading partners, except mainland China, have not negotiated or signed any agreement of economic cooperation with Taiwan, either because of the political pressure of Beijing or because of their own economic interest and calculations.

Mainland China appears willing to grant significant economic concessions in negotiations with Taiwan under the ECFA in the hope that all concessions it has made would be of help to foster and enhance cross-Strait ties which eventually pave the way for peaceful unification. Examples include the application of the "first among equals" policy to Taiwanese businesses in mainland China since the Jiang Zemin period, as well as the so-called "yielding profits" strategy on Taiwan in cross-Strait economic and trade-related agreements. That there seems to be a very slow

“peaceful evolution” out of increased exchanges between Taiwan and mainland China also leads some in Taiwan to the re-examination and reflection of the state of cross-Strait relations. All these have triggered the concern and worry of some Taiwanese people, particularly when President Ma Ying-jeou pushed the cross-Strait TiSA full speed ahead at the Legislative Yuan (LY) this March. For every government of Taiwan, it is always extremely urgent and necessary to keep the fruits of independence and democracy from being pressurized by the forced integration initiated from across the Strait. Now the political scheme of Beijing behind the scene is very clear – the pursuit of national unification by tempting people of Taiwan with the “both sides of one family” and economic benefits and isolating hardliners of Taiwan independence adherents. Regardless of Kuomintang’s “no unification, no (Taiwan) independence, and no use of force” policy or Democratic Progressive Party’s “proactive liberation with effective management” policy, to remain or regain the economic momentum, Taipei cannot avoid engaging Beijing over economic deals because the fact is that Beijing has been using political means to limit Taiwan’s external economic activities to a certain extent.

Should Taiwan continue to engage mainland China economically and proactively if mainland China gives away substantial economic profits to Taiwan? If Taiwan should, then supporting measures of national security must be established in an efficient way in order to prevent further dependence on the mainland. If Taiwan shouldn’t, then Taiwan must come up with a few alternatives for sustainable development in lieu of economic interactions with mainland China. So far, constructive and realistic discourse on this question seems to be lacking in Taiwan. No matter what the answer will be, Taiwan cannot ignore the “China factor” in its economic strategy, given the fact that Taiwan currently relies on the mainland market (excluding Hong Kong) for roughly 26-27 percent of its exports and that the business activities and people-to-people exchanges between the two sides of the Taiwan Strait continue to increase. That being said, a rational approach Taipei can undertake is to continue its political and economic engagement with Beijing while strengthening its economic ties with other major trading partners and building up every possible defense line of national security to deny Beijing’s will to take Taiwan back without the consent of the Taiwan people.

President Ma certainly understands and firmly believes that Taiwan’s negotiations on economic and trade cooperation with other major trading partners rely partially on the healthy development of cross-Strait relations. A complex set of risks and opportunities has resulted in what can be called a two-tiered policy toward regional economic integration. First, even as it faces great political, economic, and military

pressure from mainland China, the Ma administration has chosen to tackle the problem head-on and develop relations with Beijing in a hopefully reciprocal way. Second, as enhanced relations with Beijing entail certain domestic political risks, the Ma administration is attempting to create a positive association between cross-Strait relations and Taiwan's participation in major efforts at regional economic integration – that is, it intends to develop economic cooperation with other major trading partners at the same time it is increasing economic ties with mainland China. There are three key politico-economic factors explaining Taiwan's bid for TPP membership under the leadership of President Ma. First, Taiwan feels urgent to diversify its external economic activities to better safeguard its national security in the face of a rising mainland China. Second, Taiwan needs to maintain or even increase its economic competitiveness by participating in regional economic integration mechanisms other than APEC, and such participation must be managed in a timely and mutually confident manner. Last, but not least, it could be easier for Taiwan, an APEC member economy under the name of “Chinese Taipei,” to join TPP that is technically under the framework of APEC.

First,

The higher the trade dependence rate with mainland China, the greater danger there will be if mainland China always possesses a political intention of unifying Taiwan with no due (democratic) process. The lack of applicability and feasibility make Xi Jinping's “One Country, Two Systems” formula less appealing, not to mention that the mainstream of the Taiwan public has demonstrated obvious resistance against any political integration if the government in mainland China remains an authoritarian regime under the Communist Party. As a consequence, a well diversified external economic and trade strategy will save Taiwan from being controlled by mainland China with various political and economic means.

Second,

The APEC members include the 12 TPP members and Russia, mainland China, South Korea, Taiwan, Hong Kong, Papua New Guinea, Indonesia, the Philippines and Thailand. Taiwan will become the 6<sup>th</sup> largest economy in TPP once it joins the trade bloc. The US government has already welcomed Taiwan's interest in participating in TPP.

Last,

The economic development stage is more equal among TPP members. The ideological aspect is relatively more convergent which make the institution of TPP, a

legally binding arrangement under the APEC framework, more stable than that of APEC. (The coverage of the trade agreement is also wider...)

### **Government's Eagerness and Dimming Consensus in Taiwan?**

Taiwan's civic groups, political parties, and government must collectively confront the immediate economic challenges associated with the afore-mentioned two-tiered policy. These challenges can be divided into four major categories. First, as implied earlier, the complicated nature of cross-Strait economic interactions has brought up the "trust issue" between the Ma administration and some of the general public in Taiwan, which has created a persistent political struggle in Taiwan and further weakened the government's capacity to act. Under conditions of weak governance and possibly messy domestic politics, Taiwan's economic growth will encounter severe challenges.

The second challenge is mainland China's approach toward Taiwan's engagement with regional economic mechanisms. The question for Taiwan is whether economic cooperation with mainland China will facilitate greater involvement for Taiwan in regional economic integration. This question cannot be answered simply by observable political statements issued by Beijing. Leaders of the Communist Party of China have not explicitly made that argument, but it is logical and reasonable to infer that the economic cooperation agreements Taiwan signed with New Zealand and Singapore in 2013 are in part products of the improvement in cross-Strait relations after May 2008. The possibility of using economic cooperation between Taiwan and mainland China, under the ECFA rubric, to create space for Taiwan's participation in the Regional Comprehensive Economic Partnership (RCEP) needs further discussion between Taipei and Beijing, followed by some special arrangements agreed by both parties. In the meantime, in Taiwan, more controversies and anxieties about the possibility of being treated like Hong Kong under the "One Country, Two Systems" model will surface and create some instability in cross-Strait relations.

The third challenge comes from RCEP again. To avoid Taiwan's further isolation and possible trade diversion that would be generated by its absence from RCEP, President Ma has expressed the desire to join RCEP as soon as possible. The agreement will include trade in goods and services, investment, rules for dispute settlement and so on. RCEP negotiations are scheduled to conclude by 2015 among ASEAN member states and their Asia Pacific dialogue partners – Australia, mainland China, India, Japan,

New Zealand, and South Korea. It is widely believed that mainland China is one of the leading and influential participants in RCEP. If Taiwan is going to have a chance to join RCEP, it must begin negotiating with the founding members of RCEP respectively after the signing of the agreement, and therefore will be almost unable to alter the agreement in its favor. In short, Taiwan will be forced to accept most of the agreements reached by the founding members and will have to deal with the unilateral power exercised by the existing member states in the accession process.

Obviously, the domestic concern over the TiSA with mainland China, which was demonstrated clearly in the protests in Taiwan, will loom large again if Taiwan finds a way to join RCEP. From this perspective, it can be argued that the current attempt of the pan-green parties and of some of the protesters to escape from mainland China's influence might be in vain. Although in the process of Taiwan's involvement in RCEP mainland China will become merely one of the major factors impacting Taiwan's economic future, it will be an immense one. At any rate, if Taiwan decides to participate along with all other major economies in RCEP, it will be unable to break away from mainland Chinese influence as some in Taiwan wish.

Taiwan as a whole has to encounter inevitably is the tremendous difficulty in liberalizing its economy in a timely manner to meet the standards of TPP as the Ma administration has pursued since 2009. Currently, TPP is under the framework of the Asia Pacific Economic Cooperation (APEC), of which both Taiwan (under the name of Chinese Taipei) and mainland China (using its national title) are member economies. The United States views TPP as "the cornerstone of the Obama Administration's economic policy in the Asia Pacific" and basically leads the development of the TPP in negotiations among the 12 member economies, in the hope that the final negotiation can be completed by this year. Given the rigorous standards of this "high-quality" agreement, if it is to participate Taiwan will have to make more adjustments or modifications in its internal laws, rules, and regulations than what it is doing in the ECFA negotiations or in the free trade negotiations with New Zealand and with Singapore. Is Taiwan ready for that? The answer does not seem very positive, partially because Taiwan, with very limited experience in negotiating with and liberalizing economically with its trading partners, is not accustomed to the rapidly changing economic and trade environment in the region of the Asia Pacific.

But a general impression about Taiwan's readiness is that the general public of Taiwan does not know, or does not care, whether Taiwan has been ready but just

wants to find some other possible and useful alternatives to reduce the level of economic dependence on mainland China.

Even though mainland China is not currently engaged in TPP negotiations, the “China factor” still looms large for Taiwan. It is likely that neither Taiwan nor mainland China will join TPP negotiations before the initial agreement is reached among the current 12 parties. Regardless of mainland China’s intent on TPP membership in the future, understandably it will not be glad to see Taiwan join TPP while it has not been admitted. In other words, it is possible that Taiwan’s hope to participate in TPP will hinge partially on the political attitude of mainland China, a giant political and economic actor which may or may not choose to become a member of TPP in the foreseeable future. Despite the fact that the U.S. Deputy Assistant Secretary of State Kin Moy clearly stated in March that the United States welcomes Taiwan’s interest in TPP, and that U.S. Assistant Secretary of State Daniel Russel affirmed in April that the United States supports Taiwan “to participate in the international community in a manner befitting a large economy and modern society with a great deal to contribute,” the “China factor” obviously remains an unpredictable variable for Taiwan’s application to TPP so long as mainland China upholds the “One China” principle and tries to exert influence on the original TPP member economies.

To look at Taiwan itself, it does not make sense that the two sides of the Taiwan Strait could reach the “1992 Consensus,” which has undeniably paved the way for risk reduction in and the enhancement of cross-Strait relations since President Ma was inaugurated in May 2008, while Taiwan’s own people and political parties, even if they may have different ideas about TiSA and cross-Strait and regional economic strategies, can’t attain some kind of sensible consensus as to how the current dispute can be shelved or dealt with constructively. If the “1992 Consensus” reflects a realistic consideration of shelving disputes and negotiating practically between Taipei and Beijing, then a somewhat idealistic but not totally unfeasible thought is that all parties in Taiwan can have a “2014 Consensus” or something like that aimed at temporarily shelving political and legal disputes and discussing economic and external trade issues together in a timely, sensible, and practical way.

Such a “2014 Consensus” would not attempt to solve the ultimate question of Taiwan’s future, or to address the inadequacy of the ROC Constitution. To do so would take time that Taiwan does not have as it faces immediate economic challenges, and a constitutional conference to be held now may create more political and social instability than it solves. Rather, all parties concerned in Taiwan should try their best

to look at a shared interest: Taiwan's survival in the wave of regional integration and in the face of a rising mainland China. To do this the parties must play down the importance of mutual differences in politics and make some concessions as a gesture of goodwill, in the hope that a workable consensus can be established to find a widely acceptable way to pull together.

A "2014 Consensus" is not impossible in current democratic struggles and domestic politics of Taiwan. Just as the "1992 Consensus" is a tacit understanding between the two sides of the Taiwan Strait and makes good use of the beauty of political ambiguity to find the greater commonalities, the "2014 Consensus" can be reached verbally or in words by the political parties and civic groups engaged in the demonstrations recently. Once reached, with any luck, such a consensus could put on hold the unification-independence argument, the long-standing but hard-to-define issue of so-called "generational injustice," and the debate over the justification and legitimacy of the "occupying the Legislative Yuan" movement in Taiwan. It would help concerned groups and parties that are really willing to find a way out to work on pressing economic and trade issues which are central to Taiwan's prosperity and survival. The process of forming such a consensus is very difficult, but it deserves immediate joint action.

### **TW-US Relations Vis-à-vis TPP**

Taiwan is in a tight spot both domestically and internationally, and has little time to manage or conquer the afore-mentioned challenges as regional economic integration is speeding ahead without it. At the same time, Taiwan must manage cross-Strait relations and its own contentious and complicated domestic politics.

A mutually beneficial condition for both Taiwan and the US could be: Taiwan can join TPP without strong opposition of mainland China, no matter mainland China is or is not a member of this partnership. From Taiwan's angle, it is hoped that Taiwan's strategy for entering TPP will be able to help the US advance the rebalancing strategy in Asia.

The U.S. Asia Pacific strategic map cannot neglect Taiwan. In this sense, a robust tie between Taiwan and the U.S. will benefit the both. Bonnie Glaser, Nancy Tucker, and Shelly Rigger, for instance, have called for the continuity of the US policy toward Taiwan.<sup>3</sup> In line with such a strategic thinking, the Ma administration, despite the



fierce domestic political struggles, has attempted to build up solid relations with the U.S. and upholds the principle of self-preservation in the context of limited international recognition and support. It is implausible that in Taiwan such an argument that Taiwan should side with mainland China and play down the importance of the U.S. in shaping Taiwan's future will prevail; nor is it a welcome opinion that Taiwan can give up U.S. assistance if cross-Strait relations continue to grow steadily and peacefully.

So, what are Taiwan's expectations for the U.S. as TPP constitutes a chance for Taiwan to better safeguard its national interest with more diversified economic programs? What are the expectation of the U.S.? Actually the answers for Taiwan and for the U.S. may not vary too much when President Ma and President Obama are in power.

The foremost expectation of Taiwan for the U.S. is probably that *the contemplation and mapping of the US Asia Pacific Strategy are not at the expense of Taiwan-U.S. relations at various levels.* With a "rapprochement" approach to mainland China and a restoration of the relationship with the U.S., the Ma administration hopes to see both Taipei-Beijing and Taipei-Washington ties as two sets of parallel relations that do not conflict with each other. The U.S. may want to see a non-provocative and non-confrontational policy of Taiwan toward mainland China on the strategic front while for Taiwan making no concession for its free and independent status.

Second, while the Three Communiqués between the U.S. and mainland China serve as a foundation of Washington-Beijing political relations, *Taiwan expects in a realistic consideration that the U.S. can insist on the Taiwan Relations Act (TRA) and the "Six Assurances" drafted and endorsed by the Ronald Reagan administration and followed basically by the ensuing ones.* The Ma administration understands the political reality where Taiwan's "substantive relations" with the U.S. will not be advanced to official ones in the near future, so it accepts, obviously reluctantly, the U.S. government's line of argument that conflicts in nature – i.e., "the position of the U.S. on Taiwan is reflected in the Three Communiqués and the TRA" – and welcomes the U.S. insistence on Taipei-Beijing constructive dialogues and the peaceful resolution of cross-Strait differences.

Third, *Taiwan would like for the U.S. to recommence bilateral economic talks on the basis of the Trade and Investment Framework Agreement (TIFA) as soon as possible in order to make Taiwan-U.S. free trade agreement more possible, and at the same*

*time to create some room for Taiwan to join in the appropriate capacity the U.S.-driven economic integration of the Asia Pacific* which is now termed as TPP. Rather than rounds of consultations and negotiations on economic issues that the U.S. appeared to feel more interested, future TIFA talks should be viewed as a pathway to an at least free trade-like agreement between Taiwan and the U.S. Taiwan and the US can plan a government-supported feasibility study of bilateral FTA in association with the building blocks of such an agreement from TIFA talks. Taiwan and the U.S. can sign a bilateral investment agreement and also an agreement to avoid double taxation, both of which will help improve trade ties between the two parties.

Meanwhile, if the rebalancing strategy really has to do with economic affairs, the U.S. may consider helping Taiwan, an important player in regional economy, persuade the other TPP member economies to consider Taiwan as part of TPP in the near future, or for Taiwan, failing to join a U.S.-driven regional free trade bloc in which even Vietnam has participated not only signifies a possibly unaffordable loss but is also like a blow to the face and a sign of the U.S. ditching Taiwan economically.

Last, but not least, Taiwan's urgent expectation for the U.S. also involves *the continued commitment of the U.S. to Taiwan's effort for greater international space in major functional international organizations*. With the backing of the U.S. and quite a few countries, Taiwan has been invited to the assembly of the International Civil Aviation Organization (ICAO) in 2013. The other major functional organizations or regimes such as the United Nations Framework Convention on Climate Change (UNFCCC) or some others which may not be United Nations-based but Taiwan can contribute to are also on the radar screen of the Ma administration, so long as such efforts do not come up with unnecessary struggles between the two sides of the Taiwan Strait over sovereignty, state recognition, or reunification/independence. Put moral explanations aside, there are two main factors for the U.S. to consider supporting firmly Taiwan's appeals in the international community. The first factor comes with the abundant zealotry and expertise of Taiwan's government and civil society in such fields as public health, humanitarian relief and assistance, environment protection, small and medium enterprise growth, scientific and technological cooperation, education, humanity and cultural exchanges, and agricultural and aquacultural development, which can benefit certain specific international organizations and arrangements. The second factor is suggested by the practical need of the U.S. in promoting global democracy and eliminating roots of terrorism, including poverty reduction and cultural and religious misunderstandings and misperceptions, for the sake of U.S. national interest. With the proper status and role

in relevant international organizations, Taiwan is more than willing to work with the U.S. and other major stakeholders to achieve the afore-mentioned objectives that aim at real world peace and true human dignity and values.

On a final note of U.S. supporting gestures for Taiwan, their effects can be short-term or long-term. Taiwan appreciates U.S. assistance and cooperation in every possible area that can further bilateral relations. While such progress in bilateral functional cooperation as the visa waiver program (to ROC passport holders) and the extradition agreement initiative may simply serve as a short-term boost for the upgrade of Taiwan-U.S. relations, it is particularly important to note that these four areas will result in long-term effects that promote a more solid foundation of Taiwan-U.S. ties.

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<sup>1</sup> The Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation (ANZTEC) was signed in July 2013 and became effective in December 2013.

<sup>2</sup> The Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP) was signed in and became effective in April 2014.

<sup>3</sup> See Nancy Bernkopf Tucker and Bonnie Glaser, "Should the United States Abandon Taiwan?" *The Washington Quarterly* 34:4 (2011) 23-37; and Shelly Rigger, *Why Taiwan Matters: Small Island, Global Powerhouse* (Lanham, MD: Rowman and Littlefield, 2011), particularly Chapter 8.