

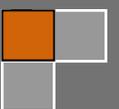
# TPP FROM TAIWAN'S VANTAGE POINT:

POLITICAL, TRADE,  
AND STRATEGIC CONSIDERATIONS



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## INTRODUCTION

Established in 2008, The Trans-Pacific Partnership (TPP) has been closely followed by the major trading nations in the Asia-Pacific. Taiwan, or the Republic of China (ROC), and other non-members have been observing the developments in the negotiation process of this "21st Century Agreement" and preparing their respective country's strategies and policies in response to the agreement. Situated at a geopolitically strategic location along the first island chain in the Pacific, Taiwan is an integral part of the global trading supply chain, due to its importance as a key producer of electronics and semiconductor components. As a member of the Asia-Pacific region, it is critical for Taiwan to join the TPP in the near future. Should Taiwan be integrated further into the increasingly intricate global supply chain, its inclusion will benefit other TPP members. In addition, TPP would help Taiwan further eliminate trade barriers for members and contribute to the evolution of rules and standards regarding intellectual property and other 21<sup>st</sup> century trade issues. At the same time, joining the TPP would also help to safeguard Taiwan's economic security as a nation with limited natural resources dependent on robust trade relations. Given that in recent years, Taiwan has become heavily dependent on China in trade, it is crucial that Taiwan's ruling administration is included in TPP as part of a larger trade diversification strategy. Politically, Taiwan's participation in TPP would offer it a golden opportunity to for the island nation to engage substantially with its neighbors through practical trade agendas, allowing it to gain ground lost on the diplomatic front due to the People's Republic of China's (PRC) exerting of political pressure on its regional neighbors.

This paper examines TPP from Taiwan's vantage point as a potential member for the second tranche. It considers the technical trade challenges and anticipated political hurdles both within Taiwan and challenges from the PRC. After a brief background on the trade pact, this paper will explore the possible conclusions; the timing of the current round of TPP negotiations; key negotiation issues; and trade policy lessons that Taiwan can consider from Japan and South Korea. The paper also factors in China's potential influence on Taiwan's participation in the TPP with a discussion comparing a number of views represented by trade scholars and regional specialists. Lastly, this paper will discuss the various domestic and international trade challenges Taiwan faces and conclude with general policy recommendations at the end of the paper.

## I. HISTORY OF THE TPP AND THE UNITED STATES

The Trans-Pacific Partnership (TPP)—originally named TEPSEC (Trans-Pacific Strategic Economic Partnership)—evolved to become the original P4, first created by Singapore, New Zealand and Chile in 2003 and later joined by Brunei in 2005. It sought to foster trade liberalization in the Asia-Pacific region and was concluded in 2006. The agreement's regional and strategic significance were bolstered when the United States joined the negotiations in 2008. <sup>1</sup> Support from both the George W. Bush Administration

and the current Obama Administration “for negotiating a TPP agreement signaled that the United States remains engaged in the regional free trade negotiations,” in particular in the Asia-Pacific region where increasing numbers of bilateral and regional Free Trade Agreements (FTAs) are being concluded.<sup>2</sup> More importantly, this trade policy serves as the economic arm of the United States’ strategic rebalance to Asia.

U.S. Trade Representative Michael Froman stated in June 2014, “TPP is as important strategically as it is economically. Economically, TPP would bind together a group that represents 40 percent of global GDP and about a third of world trade. Strategically, TPP is the avenue through which the United States, working with nearly a dozen other countries (and another half dozen waiting in the wings), is playing a leading role in writing the rules of the road for a critical region in flux.”<sup>3</sup> Many others have emphasized the strategic significance of TPP for the United States, including the U.S. Chamber of Commerce Senior Vice President, Tami Overby, during her House Foreign Affairs Committee testimony on TPP in March 2015: “The United States cannot afford to sit on the sidelines while others design a new architecture for the world economy and world trade...It would also demonstrate continued U.S. engagement and leadership across the region...It sends a clear, unmistakable message that America’s leadership in the Pacific is here to stay.”<sup>4</sup>

Within the broad strategic reasons of the U.S. rebalance, also known as the “pivot” to Asia, the United States’ economic and trade strategy seeks to not only establish the U.S. as a key player in regional trade and commerce, but also to lead the pack in rewriting the rules for a 21<sup>st</sup> century trade agreement. Such a trade pact would position the United States and global partners to adequately face the challenges posed by globalization, picking up where the World Trade Organization (WTO) Doha rounds failed to move forward. The Wall Street Journal reported that, “After 13 years, the World Trade Organization’s Doha round of talks has failed to secure a comprehensive deal and reached just one modest agreement on trade facilitation last December [2013].”<sup>5</sup> It is also the only other multilateral trade pact of which the United States is a negotiating party,<sup>6</sup> highlighting the significance of the TPP as a torchbearer for upgrading trade regimes since the General Agreement on Tariffs Trade (GATT). It has been argued that TPP can move forward at a comparatively more productive pace because members involved are self-selected and aware of the high standards of trade liberalization that is required among the TPP members.<sup>7</sup>

### **TPP and Taiwan: A Win-Win Solution for All**

Today, there are 12 members negotiating in the first round of the TPP, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States. Among the 12 members, Taiwan has signed FTAs with New Zealand (ANZTEC) and Singapore (ASTEP). If admitted, TPP would offer Taiwan the opportunity to be an active member of regional economic integration and provide it with the chance to benefit from lower trade barriers, particularly with the United States, Vietnam and Malaysia, as well as Mexico, Australia and Canada (in descending order of gains).<sup>8</sup> Taiwan’s close trade relations with Japan could result in mixed consequences including major winners and losers; further analysis is pending the finalized version of the TPP when the outstanding market access issues for Japan are to be resolved.<sup>9</sup> Regardless of the results of the ongoing negotiations, the overall trade and political gains for Taiwan for joining TPP is irrefutable.

Taiwan's unique political situation frequently limits its participation in the international arena due to China's opposition. Thus, Taiwan's participation in TPP would not only fortify its regional economic integration, it would also bear significance beyond trade liberalization. TPP members would benefit from Taiwan's participation due to its integral role in the global supply chain as a manufacturer of semiconductors, electronics and other goods. Moreover, Taiwan's agriculture industry is a high-potential import market that would benefit from lowered tariffs. Putting political sensitivities aside, Taiwan's participation in TPP is a win-win trade situation for all parties concerned. The reality, however, is that Taiwan's accession may hinge on China's position on this matter. Beijing is generally opposed to Taiwan signing bilateral FTAs and joining international organizations. The China factor will be further explored later in this paper.

Taiwan must seize the opportunity to join TPP in the second tranche, and its best bet is to be well prepared to overcome the potential challenges in trade technicalities and political obstacles—at home and abroad—to ensure the best possible outcome.

## II. REACHING A CONCLUSION: FACTORS AT PLAY

Five years into the negotiations, with Japan joining the TPP in early 2013, the recent rounds of talks zeroed in on market access issues between the U.S. and Japan, and there are indications that TPP may finally reach a conclusion. As the time draws closer to a possible conclusion of the first round of negotiations, Taiwan must vigilantly track TPP developments and be prepared to address the potential market access and non-trade barrier (NTB) issues that may arise regarding its eligibility and readiness as a viable and attractive candidate for the second round of TPP negotiations.

The current key issues that will determine the conclusion of the first round of negotiations are market access issues—namely the agricultural and automobile sectors—between the United States and Japan. For U.S. agriculture exports, while Japan is the TPP member with the most promising market, Japan's highly protective agricultural tariffs remain a substantial challenge. For Japan, due to domestic pressures calling for the protection of the five sacred agricultural goods—rice, wheat, beef and pork, dairy products and sugar—it is likely that high tariffs and restrictive quotas remain.<sup>10</sup> As such, bottom line concessions from the Japanese negotiators will be far more feasible now that President Obama has been granted Trade Promotion Authority (TPA).

TPA “establishes a co-equal partnership between the president and the Congress to expedite passage of legislation implementing trade agreements... [Under TPA], the president agrees to negotiate trade agreements pursuant to objectives and priorities established by the Congress; in return the Congress agrees to an expedited up-or-down vote on the agreement and implementing legislation, without amendment.”<sup>11</sup> The recent passing of the TPA reassures the other 11 TPP members—especially Japan—that the United States can actually meet the final concessions the two governments are negotiating and provide Tokyo with the confidence to deliver its bottom line and offer its most favorable concessions. Prior to the recent passing of the TPA, officials from six TPP member countries stated that “the lack of clarity over the conditions Congress would impose on U.S. negotiators was a stumbling block for the talks.”<sup>12</sup> In addition, TPP

members such as Japan and Canada openly demanded a TPA in order for negotiations to go forward.

Trade experts varied in their opinions regarding TPP conclusion based on their projection on the timing of TPA passage. In early 2015, Scott Miller, senior advisor at Center for Strategic & International Studies (CSIS), remained optimistic in seeing the Congress pass TPA by mid-2015, especially given the “strategic stakes” in which the Administration has made TPP a “cornerstone of its plan to rebalance towards East Asia... Failure to conclude would amount to foreign policy malpractice.”<sup>13</sup> Miller also added that for the TPA to be successfully passed, it would require bipartisan efforts. He reiterated that Republican votes will not be enough; President Obama would have to “engage in retail politics,” and sell the TPA and TPP within his own party.<sup>14</sup> Other experts in the field also echo his view that TPA passage depended on President Obama’s leadership with the Democrats in Congress. On June 23, 2015, 13 Democratic Senators voted for the stand-alone TPA bill to pass alongside Republican Senators. On the following day, the Senate approved the final passage of the fast track authority with a 60-38 vote.<sup>15</sup> On June 25, 2015, the House passed the TAA bill with a final vote of 286-138. Despite the challenges from the Democratic Party in Congress, both bills were eventually passed and President Obama signed the both bills on June 29, 2015.<sup>16</sup>

Although opinions diverge on the exact timing of TPP’s conclusion, most experts assume that the agreement will eventually be concluded despite the multiple hurdles posed by U.S. and Japanese domestic politics. Experts stress that it is imperative that TPP concludes, not only for the U.S. rebalance to Asia and its credibility as a leader in the region, but also for the vitality of the U.S.-Japan alliance as well. As early as May 2014, Shihoko Goto pointed out the vital importance for TPP’s conclusion, stating that “an inability for the United States to adhere to its commitments at the negotiation table runs the risk of antagonizing some of its most critical allies in a region.” He added that it is the “nation’s own interest that it remains a counterbalance to the ever-growing economic and military presence of China in the Asia-Pacific and beyond,” echoing the opinion of several other aforementioned experts.<sup>17</sup> In fact, during the visit of then-senior vice minister of Japan’s Cabinet Office, Yastsutoshi Nishimura, to Washington in April 2014, he stated that he “often gets asked” by fellow parliamentarians about whether the United States will be able to follow through on the commitments USTR negotiates at the table on behalf of the government.<sup>18</sup> These recurrent questions signaled the domestic concerns from Japan on the lack of presidential TPA at the time. When TPA moved forward in Congress, Japan also responded positively in public. On June 24, 2015, Japan’s Economy Minister Akira Amari told the press in Tokyo that “there would be no major obstacles in the formation of the 12-nation TPP if the Senate grants Obama trade promotion authority (TPA)... It is necessary for each nation to have determination to reach an agreement within July...” and “once Obama signs the TPA, Japan and the U.S. will resume talks on a bilateral trade deal.”<sup>19</sup>

As Japan’s anticipated progress comes to fruition, it is likely TPP will be concluded in the foreseeable future. Indeed, TPP’s conclusion would serve U.S.’ strategic interests in the region, particularly the economic component of the U.S. rebalance to Asia. For Japan, TPP will allow Japan to strengthen the U.S.-Japan alliance beyond the security realm and to take on a greater leadership role within the Asia-Pacific. Considering these factors and the recent passage and signing of the TPA and TAA in the United States, it is fair to argue that TPP will be concluded, most likely within the limited time frame that remains prior to the next presidential election cycle.

### III. TRADE LESSONS FROM TAIWAN'S ASIAN NEIGHBORS

Many of Taiwan's potential market access and non-tariff barrier (NTB) issues with the U.S. and other TPP members are similar to core issues in U.S.-Japan and U.S.-South Korea trade negotiations. By reviewing the Japanese and South Korean experiences in joining TPP and KORUS negotiations, respectively, Taiwan can become a better-prepared and more viable candidate for the second round of TPP accession.

#### **Confidence Building Measures for Entry: Beef and Pork Issues**

To join the TPP, Taiwan is expected to demonstrate resolve to the USTR by lifting the Taiwanese ban on pork imports with ractopamine. The ban was preceded by a temporary beef ban due to "mad cow disease" in the U.S. which was also considered another major trade barrier by the USTR. Japan and South Korea both encountered similar beef and pork market access challenges when they were seeking to commence TPP and U.S.-South Korea FTA (KORUS FTA) trade negotiations respectively. Taiwan should review Japanese and South Korean experiences with their respective pork and beef market access adjustments as it seeks to move forward with TPP.

Richard Bush and Joshua Meltzer point out that, "As a first step and before formally joining the TPP, Japan agreed to a number of confidence building measures designed to demonstrate its willingness and ability to deliver economic reform."<sup>20</sup> In addition to the U.S.-Japan Economic Harmonization Initiative launched in November 2010 to address copy protection extension, other measures included Japan Post reform and, most importantly, the further opening of the beef market. "In December 2003, Japan banned U.S. beef and beef products following the detection of a bovine spongiform encephalopathy (BSE)-positive animal in the United States. In July 2006, Japan partially reopened its market to allow imports of some U.S. beef from animals aged 20 months or younger produced under a special program for Japan."<sup>21</sup> Tokyo eventually revised the import requirements, raising the age limit for U.S. beef imports from 20 months to 30 months old. It also revised the definition of SRM (specific risk materials) to be in line with the World Organization for Animal Health (OIE).<sup>22</sup> Similarly, when South Korea decided to enter into trade talks with the United States in 2006 for KORUS, "it had agreed to four preconditions, including screen quota, beef imports, drug price review mechanisms and car emissions."<sup>23</sup>

#### **Japan's Beef and Pork Issues under TPP Negotiations**

In 2013, when Prime Minister Abe formally announced that Japan's desire to seek entry into TPP negotiations, he was met with domestic opposition. Japanese farmers were the most vocal among them. However, he "acknowledged those domestic sensitivities, but also insisted that Japan needed to take advantage of this 'last window of opportunity' to enter the negotiations, if it is to grow economically."<sup>24</sup>

By January 2015, the *Nikkei* reported that Japan was willing to lower its tariff on beef and pork over a period of 10 years, so that it would have time to respond to domestic opposition. The U.S. beef tariff is expected to be cut from the current 38.5% to about

10%, and a lower levy on cheap U.S. pork from 482 yen (\$4.04) per kilogram to below 100 yen. At the time of the report, the safeguard measures for import influx for beef and pork are pending negotiation, but this concession, despite the extended transition period, was deemed satisfactory to the U.S. National Pork Producers Council, who called it "significant progress ...made with respect to Japan's market access offer on pork."<sup>25</sup> However, the Japan Pork Producer's Association (JPPA) "will continue to lobby the government to retain the current pork tariffs" and called the agreed reduced tariff for pork over 10 years "premature."<sup>26</sup>

### **Beef, Pork, and Rice Issues under KORUS**

Prior to KORUS, South Korea had a 40% tariff on beef muscle meat imports from the U.S., 18% tariff on beef offals and tariffs between 22.5% to 72% on other beef products, and under the KORUS agreement, they will be eliminated over a transition period of 15 years; safeguards in response to import surge of beef meats can be imposed during this 15-year period.<sup>27</sup> As for U.S. pork imports, the 25% tariff on frozen pork, which comprises about 75% of all U.S. pork exports to South Korea (in 2010 value), will be phased out by January 1, 2016, while other pork product tariffs were phased out by January 1, 2014 or over the course of 10 years; there is a safeguard in place for import influxes of fresh pork imports for a period of 10 years.<sup>28</sup>

In spite of the eventual tariff eliminations, South Korea managed to secure a relative long transition period and a significant number safeguards during this period to protect domestic industries from import influx of beef and pork products. In addition, it has implemented safeguard measures for 30 agricultural and food products that will be effective ranging from 8 to 24 years with varying trigger levels.<sup>29</sup> South Korea managed to exclude U.S. rice in the agreement, reflecting its prime objective of self-sufficiency in rice production.<sup>30</sup> Mireya Solís pointed out that "Korea's shift [from guarding its agricultural protects to] jealously guarding on its core commodity (rice), allowed it to achieve very large liberalization ratios and to negotiate trade agreements with important agricultural nations."<sup>31</sup>

### **Trade Negotiation Bodies: Farm Lobbies and TAA**

Japan and South Korea's agriculture sector share several similarities, namely an aging farmer population, with average ages both above 60 years old, each represented by robust farm lobbies vehemently opposing the trade liberalization of agricultural imports. However, due to their different trade policy and negotiation institutions and related approaches, progress in trade liberalization has varied significantly for the two Asian nations.

Japan has a decentralized trade negotiation body, with each ministry equally responsible for trade negotiations that pertain to their respective ministry, which makes them far easier targets for single-issue lobbies. "[The] very institutional setup...in which the involved ministries had equal status and effective mechanisms for bureaucratic coordination was lacking" and made the decision-making process "cumbersome."<sup>32</sup> In particular, the Ministry of Economy, Trade and Industry (METI) is seen as pro-market while the farm ministry is known as the "staunch protector of Japan's farmers."<sup>33</sup>

While the existing structure allows ministries to pursue different interests, Prime Minister Abe attempted new negotiation tactics, deploying 30 out of 100 officials in

charge of TPP negotiations to “diffuse domestic opposition.”<sup>34</sup> While he attempted to cultivate domestic support by promising that the “sacred five” agricultural products would be off-limits, the administration was concurrently reviewing concessions within these product categories to meet TPP requirements. He also created an interagency team, drawing from more than a hundred members from relevant government ministries and bodies to “set aside their own ministry’s interests and develop a unified set of objectives and negotiating position.”<sup>35</sup> The degree of efficacy for this interagency leadership remains to be seen as the negotiations are still in progress and the details have not been not fully disclosed to the public.

South Korea’s trade policy centralization traces back to its preparation for KORUS negotiations. President Roh Moo Hyun took full political responsibility for the ambitious trade policy and offered the Ministry of Trade a substantial level of autonomy for negotiation. In fact, only President Roh and MOFAT (Ministry of Foreign Affairs and Trade) were aware of KORUS prior to the formal announcements, which left the other government agencies uninformed. It is precisely this centralized trade administration, “efficient coordination between ministries,” and strong political leadership that pushed forth Korea’s leap in trade liberalization. However, leaving out the legislature and civil society during the decision-making process also made ratification challenging.<sup>36</sup>

#### IV. ACCESSION ISSUES

Since TPP is still under negotiation, the details of the actual accession clause for future members after the conclusion of the first round remains to be seen. Between the possibility of unanimous consent, which was stipulated in the original P4—TEPSEC among Singapore, Chile, Brunei and New Zealand, and the potential option of qualified majority for accepting new members, it would be to Taiwan’s advantage to hope for the latter option. For other nations, the details of the accession clause may not be an issue; but for Taiwan, due to the potential obstruction and influence from China towards other TPP members, the accession method becomes another critical area to follow in the future.

##### **Unanimous Consent**

The accession clause, based on the original TEPSEC, was modeled after APEC and required unanimous consent among existing members. According to Article 20.6 of the TEPSEC Accession protocol, “The agreement is open to accession on terms to be agreed among the Parties, by any APEC Economy or other State. The terms of such accession shall take into account the circumstances of that APEC Economy or other State, in particular with respect to timetables for liberalization.”<sup>37</sup> For unanimous consent to be feasible, each current member would take into account the bilateral considerations with the potential member.

But in Taiwan’s case, these members would likely face political repercussions and pressures from China. For instance, in response to Taiwan considering Malaysia as a potential FTA partner after signing ASTEP with Singapore, Chinese ambassador to Malaysia openly stated in 2014: “China is against any move by Malaysia to sign a free

trade agreement with Taiwan...as this is a government-level activity.”<sup>38</sup> Malaysia is one of the TPP’s current negotiating members, and if it is pressured by China to veto Taiwan’s application for accession into the second round of membership and negotiations, its single vote could deny Taiwan’s entry into TPP.

### **Qualified Majority**

As Richard Bush and Joshua Meltzer pointed out in a Brookings report, a qualified majority may be an alternative mode of accession. This approach would stipulate that TPP members that represent a certain majority in trade or GDP among the whole group would agree to the accession, while the members that do not consent to the new member’s participation can opt to not offer their TPP market access concessions to the new TPP member while preserving the commitments to the original members.<sup>39</sup> If this were the case, the United States and other major TPP members with strong market access interest in Taiwan would more likely be able to form a qualified majority, while those pressured by China would be able to opt out and demonstrate their political choice in this matter.

### **China Accession Factor**

Another factor that may affect Taiwan’s accession is whether or not China enters the TPP, and if so, whether or not Taiwan would join. Derek Scissors of AEI explored the scenarios that may occur. In the event of a strong TPP, Beijing may never join since China would have to undergo years of substantial reform and recognize reforms already made by existing TPP countries to match TPP’s high trade standards. In this case, Taiwan should try to join sooner without waiting for TPP accession at the same time with China as it did with the WTO. If TPP concludes with weak provisions, China will try to push for early accession, and it will most likely join no earlier than the second round of talks in 2019. Scissors advises that while Taiwan could join the weak TPP sooner than China, it may not be worth the risk Taiwan’s joining would pose to cross-strait relations.<sup>40</sup> In the event that Taiwan has difficulty joining in a timely manner, Scissors also suggested that bilateral FTAs with major trade partners in the TPP, such as the United States, Japan and Vietnam and others that are critical to Taiwan’s survival in the global supply chain will be imperative.<sup>41</sup>

Jeffrey Schott offered a slightly different view on China’s considerations. Currently, China may not be ready for the high standards required by TPP, and their short-term loss of benefits from the current TPP-12 members is minimal. However, at the time of the second tranche of TPP-17—which may potentially include the Philippines, Thailand, Korea, and Indonesia—China’s non-inclusion may result in a far greater loss. It may be time for China to consider reform now in preparation for joining in the near future. <sup>42</sup> Richard Bush also puts forth that China’s potential accession into TPP may also depend on the degree of progress it makes with its domestic economic reforms. He suggests that, “Taiwan must hope for a sweet spot in Beijing’s calculus concerning economic reform,” where “China’s reformist leaders sincerely want to carry out fundamental change but faces stiff resistance from domestic interests,” and an external pressure for reform, in the form of TPP would be required to propel the changes.<sup>43</sup>

## V. IMPLICATION FOR TAIWAN

### **Timely and Proactive Response to TPP Conclusion**

Following TPA's recent passage in the U.S. Congress, TPP conclusion is expected in the foreseeable future. For Taiwan, it is essential to not miss this narrow window of opportunity for joining the TPP in the second round. Taiwan does not have much time left to prepare as a viable trade partner candidate, not to mention the unique political obstacles due to its cross-Strait issues with the PRC. It should first examine the trade irritants, potential domestic challenges and deregulatory issues. In addition, through proactive communication with the concerned parties in Taiwan, the administration should arrive at an acceptable domestic consensus to communicate with the USTR and the 11 other TPP members, in particular those that would be interested in Taiwan as an export market with lowered tariffs.

In terms of deregulatory efforts, Taiwan's Minister of Economic Affairs (MOEA) at the time, Woody Duh, expressed the administration's interest in preparing Taiwan as viable candidate for the TPP in August 2014. He stated that by studying the KORUS as a potential template for TPP, the government ministries identified over 50 items that regular deregulation or regulation harmonization in Taiwan in order for it to be on par with potential TPP standards. These were viewed as concrete measures on Taiwan's part in preparing itself as a viable candidate for the TPP. However, information and details of the 50 items were not publicized as the Ministry considers them future negotiation leverages,<sup>44</sup> which impedes the administration's ability to address potential issues that may arise due to the impending deregulation. A year has passed, the efforts have yet to be publicized or communicated with the Legislative Yuan. Moreover, American Chamber of Commerce Taipei (AmCham) recently urged "that Taiwan should not view membership of the partnership as an abstract concept any longer. Taiwan needs to demonstrate its determination to become a dedicated proponent of trade liberalization as well as an adherence to international norms."<sup>45</sup> The current administration would benefit from communicating with the both major parties at the Legislative Yuan and potentially affected industries regarding trade liberalization and deregulation efforts. This is to ensure that domestic consensus on contentious issues can be reached, in order to prepare Taiwan for an optimal "door knock" that would ensure entry into TPP's second group of negotiating members.

### **Learning from Japan and Korea**

Taiwan's restrictions on both beef and pork have remained a negotiation barrier for the USTR. It began with the banning of beef and beef products in 2003 in response to the mad cow disease in the United States. This restriction was loosened in 2006 to allow for deboned beef from animals that were under 30 months of age while a 2009 U.S.-Taiwan agreement called for the full reopening of U.S. beef and beef products. However, further restrictions on beef were imposed by the Taiwan legislature's amendment of the Food Sanitation Act in 2010, which banned U.S. ground beef, internal organs, etc. and tightened border inspection. The latest *2015 National Trade Estimate Report on Foreign Trade Barriers* reiterated its goal to "continue to urge Taiwan to open its market

fully to U.S. beef and beef products based on science, the OIE guidelines, and the United States' negligible risk status."<sup>46</sup> In the same report, it highlighted the lack of MRL (minimum residual level) established for pork and beef products (such as offal's) despite having adopted a MRL for ractopamine in beef since 2012.<sup>47</sup> As for pork imports since 2012, Taiwan allows ractopamine-free pork from the United States, and by 2013, Taiwan became the 13<sup>th</sup> largest U.S. pork export market despite the ractopamine ban, importing USD\$26 million worth of pork that year.<sup>48</sup>

### **Current Administration's Challenges**

The current administration is aware that pork and beef issues remain a major trade irritant that prevents U.S. and Taiwan from trusting each other in trade negotiations. In turn, these issues have created a barrier for the Trade and Investment Framework Agreement (TIFA) talks to progress and also a challenge for Taiwan to receive substantial backing from the USTR in joining the TPP. A March 2015 report in Taiwan's *Economic Daily* indicates that an "informed Ministry of Economic Affairs (MOEA) official" revealed that the ministry plans to fully communicate with the Taiwanese public on the pork ractopamine MRL by the first half of 2016 as its ultimate goal. It hopes that after the pork issue is no longer tied with the 2016 presidential elections after its conclusion, MOEA would be able to establish a MRL and make it in time for the "window of opportunity" for joining the second round of TPP.<sup>49</sup> Other concrete gestures from MOEA, indicating its willingness to resolve the beef and pork issues, emerged in February 2015. It redefined six types of beef by-products as "non-internal organs," so that the 11-year-old import ban could be lifted for these 6 items.<sup>50</sup> This attempt of establishing greater trust with USTR was countered by domestic pressure through a Legislative Yuan Economic Committee's impromptu resolution.<sup>51</sup> As of May 2015, the MOEA issued a statement indicating it is still communicating with the concerned parties, with equal proportions supporting and opposing the measure.<sup>52</sup> Despite the setbacks, MOEA is demonstrating greater resolve to communicate with the legislature and the public, and in the meantime offering greater concessions to the USTR to show that it is ready to make the changes.

### **Democratic Progressive Party's Policy Direction**

Taiwan's largest opposition party, the Democratic Progressive Party, has been openly supportive and proactive in joining TPP and other regional trade agreements. In her June 2015 Wall Street Journal op-ed, DPP presidential candidate, Dr. Tsai Ing-Wen explicitly stated that, "Ensuring that Taiwan is ready for the future candidacy into the Trans-Pacific Partnership and other regional economic agreements will be an important cornerstone of my economic policy."<sup>53</sup> In concrete measures, DPP has been communicating with pork producers in southern Taiwan, encouraging them to consider the benefits of international marketing for their pork products. As early as 2013, Thinking Taiwan, Tsai's policy foundation, invited experts from Denmark, a leading pork exporting country, to Taiwan to share their experiences regarding marketing pork products, utilizing pork waste to generate energy, and other more efficient ways of managing the pork industry.<sup>54</sup> More recently, Tsai also praised a Taiwanese pork producer employing innovative methods from Denmark and other foreign countries to improve on their pork products,<sup>55</sup> serving as an example for the possible agricultural innovation and transition into higher value products in the face of future competition due to lowered tariffs from the TPP and other free trade agreements.

## VI. CONCLUSION

TPP, armed with its hefty goal of writing the trade rules for the 21<sup>st</sup> century with high standards, presents a challenge for the existing 12 members working to conclude the agreement. Each member, in particular the United States and Japan, will have to answer to their domestic audience and interest groups, thus making it a daunting feat for all. However, as described earlier, it is strategically imperative for the United States' "rebalance to Asia" that TPP successfully concludes, and it is also critical for the U.S.-Japan alliance to remain strong and credible through the signing of the TPP.

For Taiwan, given its limited participation in the international organizations, it should first assume that TPP will conclude and prepare to be ready to join when TPP is ready to receive applications for the second tranche. Even if TPP does falter, if Taiwan is domestically prepared through deregulation and other trade liberalization policies, it would be in a better position to push forth a Bilateral Investment Agreement (BIA) with the United States and other major trading partners, such as Japan and Vietnam. Taiwan should learn from South Korea's political behind a strong trade agenda and its administration's decision to take leadership in mapping out its ambitious FTA negotiations with major trading partners such as the United States and with the European Union. This would require Taiwan to consolidate domestic consensus and deal with the painful challenges of agricultural oppositions through trade adjustment assistance.

Taipei should continue to demonstrate its determination to meet USTR halfway with trade irritants, particularly regarding beef and pork imports. The MOEA has attempted to make some progress in this regard, and it has openly stated that it would like to take the next year and a half to communicate domestically with interested parties such as the pork farmers and other agencies, including the Ministry of Health and Welfare, to establish a MRL for pork. While the litmus test conducted on the public through the attempt to "redefine" 6 parts of the beef offals to remove them from the banned internal organs list has received backlash from consumer groups and the Legislative Yuan, it is imperative that MOEA and the Executive Yuan continue to keep the dialogue open and attempt to find a middle ground with greater transparency with the public and also its counterparts at the Legislative Yuan.

Rather than threatening the public that Taiwan cannot live without TPP, MOEA should highlight the potential gains in trade and frame TPP as Taiwan signing FTAs with 10 new significant trading partners (in addition to New Zealand and Singapore), a task which would be otherwise difficult. Offering confidence-building measures to TPP members, particularly the United States should not be seen as a concession, but as the first step Taiwan should take to join this significant trade agreement. At the same time, the government must begin to reach out to the vulnerable sectors to provide trade adjustment assistance (TAA) or advance industries to a competitive level. In short, it would be easier to convince the public and the legislative branch if the MOEA can communicate with its domestic audience with more transparency and offer more concrete action plans in response to TPP and other FTAs.

To sway TPP members, instead of stressing Taiwan's need to join the TPP, Taiwan should highlight its critical role as a part of the global supply chain, especially its semiconductor and computer industries. Having Taiwan as a part of TPP would raise trade efficiency via lower tariffs and greater harmonization of rules. Moreover, for TPP members with significant agricultural export interests such as the United States, Canada, Australia and Japan, Taiwan's agricultural sector is a high-potential import market. While Taiwan's current agricultural tariff averages 27.91% and ranks second to Japan's average of 28.64% tariff, TPP would open Taiwan's agricultural sector to TPP members and allow Taiwan to capitalize on its agricultural market potential. Policymakers and trade specialists should identify particular attractive products or services that may have room for tariff reduction in Taiwan to demonstrate the potential gain for the TPP members. As Richard Bush also aptly concluded in his paper, Taiwan should forge domestic consensus, enhance credibility of its economic commitments, and develop its own negotiating strategy.<sup>56</sup> Due to the limited space in the international arena, Taiwan has grown into the habit of selling itself short of its accomplishments and leverage as a trading nation, global supply chain powerhouse and a highly educated workforce. It is time that Taiwan musters the domestic resolve to join the TPP, armed with bipartisan consensus and determination to make this work.

As a long-time ally and friend to the United States, Taiwan's membership to the TPP should not be only calculated based on the trade benefits. Not only is it in the national interest of the U.S., it is also important for rebalance to Asia comprehensive policy that emphasizes both security and economic measures. By participating in a high caliber free trade agreement, Taiwan would be interacting with not only the United States but also other TPP members in the region in a substantial manner. It will solidify and enhance the level of partnership and communication within this select group of likeminded nations.

## POLICY RECOMMENDATIONS

### **For Taiwan:**

- Taiwan should continue to demonstrate determination in resolving the trade irritants listed by the U.S. Trade Representative (USTR) to garner greater trust as a trade partner both for the TPP and also for the potential bilateral FTA with the U.S.
- The Ministry of Economic Affairs (MOEA) should work closely with the Ministry of Health and Welfare to establish a viable maximum residue limits (MRL) for pork.
- The administration should communicate openly with the public and the Legislative Yuan regarding its plans in dealing with pork, other major agricultural market access concerns as well as deregulatory efforts to garner stronger domestic consensus.
- The government should reframe TPP by highlighting its potential benefits while devising comprehensive Trade Adjustment Assistance (TAA) schemes to instill trust in the public.
- The government should highlight how Taiwan would be a beneficial addition to TPP members through potential lowered tariff barriers and clearly demonstrate potential trade gains for these members.
- Taiwan should enhance its trade commitments and strengthen its negotiation tactics.

### **For the United States:**

- The U.S. Trade Representative (USTR) should consider greater room for flexibility and creative measures for dealing with pork and other agricultural issues, weighing the other potential benefits with Taiwan joining the TPP.
- Taiwan's membership to the TPP should be viewed not only as a trade policy, but also as a part of the U.S. rebalance to Asia policy by strengthening the bilateral partnership.
- Regularly scheduled Trade and Investment Framework Agreement (TIFA) talks between the U.S. and Taiwan will help foster the normalization and progress for this bilateral trade relationship.

### **For Taiwan and the United States:**

- Taiwan and the United States should both recognize that having Taiwan joining the TPP is a strategic imperative and interest for both countries.
- Both countries should proactively engage in TIFA talks and strive toward the establishment of the Bilateral Investment Agreement (BIA). This will strengthen the substantial bilateral trade agenda and help solve the pre-existing trade irritants and issues for both parties, and potentially expedite the process of Taiwan joining the TPP.

- Given Taiwan's ongoing unilateral lobbying effort with the 11 other TPP members, the United States should actively engage TPP members to support Taiwan's entry as a strategic and indispensable addition to the regional free trade agreement.

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