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16-7 Prospects for Taiwan's Participation in the Trans-Pacific Partnership

Jeffrey J. Schott, Cathleen Cimino-Isaacs, Zhiyao (Lucy) Lu, and Sean Miner

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1. INTRODUCTION

Over the next eight years, we must fully prepare to join the Trans-Pacific Partnership in order to seize the historic opportunity to become further integrated into the global trading system.

—President Ma Ying-jeou, inaugural address, May 20, 2012¹

The first step of reform is to strengthen the vitality and autonomy of our economy, reinforce Taiwan's global and regional connections, and actively participate in multilateral and bilateral economic cooperation as well as free trade negotiations including the TPP and RCEP.

—President Tsai Ing-wen, inaugural address, May 20, 2016²

Taiwan has been considering whether to participate in the Trans-Pacific Partnership (TPP) for years.³ Now that the deal is done and awaiting ratification in the 12 member countries, should Taiwan proceed with its preparation for future membership?⁴

Taiwan has faced declining competitiveness due to both slow domestic economic reforms and discrimination from nonparticipation in many free trade agreements in the Asia-Pacific region, which have caused (or threatened) trade and investment diversion. Joining the TPP could help address these problems.

Jeffrey J. Schott is senior fellow and Cathleen Cimino-Isaacs is a research associate at the Peterson Institute for International Economics. They are coeditors of *Trans-Pacific Partnership: An Assessment* (2016). Zhiyao (Lucy) Lu is a research analyst and Sean Miner is China program manager and research associate at the Peterson Institute. The authors thank PIIE Senior Fellows Gary Hufbauer and Theodore Moran and several external reviewers for their helpful comments on earlier drafts of this Briefing.

1. Full address available at www.roc-taiwan.org/om_en/post/37.html (accessed on May 10, 2016).

2. Full address available at <http://focustaiwan.tw/news/aip/201605200008.aspx> (accessed on June 10, 2016).

3. TPP text available at <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text> (accessed on August 29, 2016).

4. The 12 TPP members are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

It could also be a useful vehicle to promote domestic reforms, especially in services that drive productivity growth, attract investment, and boost competitiveness. Participating in the TPP could mitigate much of the discrimination faced by Taiwanese exporters and investors in Asia-Pacific markets.

The TPP has not been ratified by participating countries and the outlook for ratification in 2016 remains uncertain, particularly in the United States. For the purposes of our analysis, we assume that the deal will enter into force in the next few years, paving the way for expansion to new members.

This PIIE Briefing examines why TPP participation is important for Taiwan and assesses Taiwan's readiness to join. First we review Taiwan's trade and investment ties with top trading partners and the TPP-12 to set the context for the benefits from further engagement. Taiwan-TPP trade and investment are largely driven by the United States and Japan; the lower relative shares among remaining TPP markets suggest significant room for deepening two-way exchanges. Next we assess the potential costs of not participating in the TPP. Taiwan's top exports overlap significantly with those of Korea—another prospective member already in a favorable position thanks to existing trade pacts with China, the European Union, and the United States—which means that a TPP expansion without Taiwan would further erode Taiwanese competitiveness. Then we examine Taiwan's existing bilateral agreements with China and TPP members New Zealand and Singapore to highlight areas that conform to or diverge from TPP standards. Some areas have significant gaps with TPP standards, while others should not be as difficult to bridge.

We also consider the status of US-Taiwan trade and investment relations and outstanding bilateral irritants. Key US bilateral concerns are agricultural market access and animal health and safety regulations, Taiwanese foreign direct investment (FDI) restrictions and approval process, intellectual property issues, and exchange rate policy. Resolving such issues will be critical for US support for Taiwan's TPP participation. Last, we assess possible scenarios for negotiating TPP entry and identify factors that could arise in the course of Taiwan's prospective accession. Taiwan can ask to join the TPP but, as for any interested country, its membership needs to be approved by all current TPP parties under procedures that appear to be comparable to accession procedures for the World Trade Organization (WTO).

This PIIE Briefing leaves indepth analysis of cross-strait political relations to other experts. But in the context of the TPP, similar to WTO accession, relations with China could influence the timing of Taiwanese participation. In the past, Taiwan was able to circumvent political resistance to membership in both the Asia-Pacific Economic Cooperation (APEC) forum and the WTO by aligning its entry with that of China. But China is undecided on whether, and if so when, to pursue TPP membership.

Taiwan should base its decision on joining the TPP on its own readiness to undertake the requisite reforms, regardless of Chinese policy. Given China's willingness to deepen economic ties with Taiwan in recent cross-strait trade pacts, it is not clear that it would now oppose Taiwan's accession to the TPP. We examine this point further at the end of this paper.

Joining the TPP would provide much needed momentum to Taiwanese trade policy and domestic reform. Taiwan has not been integrated into the expansive web of bilateral and regional agreements in Asia and has trade deals with only two TPP members. This separate standing has largely to do with Taiwan's international status and past political pressures from China that discouraged engagement. TPP participation would have considerable significance since Taiwan has been excluded from most intra-Asian trade reforms. More broadly, Taiwan has actively participated in ongoing liberalization efforts in plurilateral talks on information technology, environmental goods, and services—TPP membership would complement these efforts

particularly in light of stalled liberalization in the WTO Doha Round. Over the long term, Taiwan's participation would further the goal of the TPP as a bridge to a Free Trade Area of the Asia-Pacific (FTAAP).

Given the importance of Taiwan's trade and investment relations with Asia-Pacific countries and its growing integration in global value chains, officials and business leaders have recognized that Taiwan should be taking steps to ensure that reforms are made to narrow the gap with TPP standards. The final scorecard of Taiwan's readiness to join will be linked to domestic reforms undertaken by the new government under President Tsai Ing-wen, who has reiterated that preparing for future TPP candidacy will be a cornerstone of her economic policy.⁵ A Taiwanese TPP task force has been conducting an internal review to advise on essential policy reforms, and a number of areas have already been identified for gaps with TPP standards. In addition, a TPP Communication Projects Office was established to engage with domestic stakeholders and conduct outreach on TPP-related policies. But, while the groundwork is being laid for further engagement, the new government's approach to the TPP negotiations has not fully emerged.

2. TAIWAN'S TRADE AND INVESTMENT TIES

Trade is important for Taiwanese economic growth; exports accounted for 60 percent of GDP in 2014. Taiwanese firms and technology have become critical players in electronics and information and communications technology (ICT) supply chains. The TPP would yield new opportunities for trade and investment for all TPP candidates, but for Taiwan in particular it would deepen engagement with critical regional trading partners, with which Taiwan lacks trade deals, and promote Taiwan's integration in the emerging value and supply chains in Asia.

Taiwan has limited participation in international economic organizations and regional agreements—it is a member of only APEC and the WTO,⁶ and a member of the Asian Development Bank but not the China-led Asian Infrastructure Investment Bank. As a WTO member, Taiwan enjoys most favored nation (MFN) treatment and thus benefits from the lowered tariffs and opened markets of WTO members. But with the rapid growth of bilateral and regional free trade agreements (FTAs), preferential treatment and rules of origin among subsets of trading partners cover a growing share of intra-Asian trade. Unfortunately, the WTO Doha Round has not resulted in significant liberalization—apart from the Trade Facilitation Agreement and key sectoral plurilaterals such as the updated Information Technology Agreement (ITA-2).

China, the European Union, Japan, and the United States have long dominated Taiwan's merchandise trade, accounting for about 55 percent of total exports and imports for the past decade (table 1). But China now plays a much bigger role. In 2005 China and Japan each accounted for 16 percent of Taiwan's total trade and the United States 13 percent. By 2015, China's share was almost the same as the total shares of the United States and Japan. In absolute terms, Taiwan-China trade grew 81 percent from 2005 to 2015, while the United States saw a 20 percent increase and Japan a 5 percent decrease. Of more concern, the growth of Taiwan's trade has been sluggish, increasing in value by only a third (\$128 billion) over the past decade and decreasing 3 percent in dollar terms since 2010.

Taiwan also has close trade relations with the TPP-12 (table 2). In 2015 the TPP countries accounted for 40 percent of Taiwan's global merchandise imports and 34 percent of its exports—not surprisingly, these

5. Tsai Ing-wen, "Taiwan Can Build on U.S. Ties," op-ed, *Wall Street Journal*, June 1, 2015, www.wsj.com/articles/taiwan-can-build-on-u-s-ties-1433176635 (accessed on May 3, 2016).

6. Taiwan joined the WTO formally as the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu—referred to as Chinese Taipei.

Table 1 Taiwan's leading trading partners (billions of US dollars)

Country	2005			2010			2015		
	Exports	Imports	Share of total two-way trade (percent)	Exports	Imports	Share of total two-way trade (percent)	Exports	Imports	Share of total two-way trade (percent)
China	43.6	20.1	16.7	76.9	35.9	21.5	71.2	44.2	22.7
European Union	22.5	17.6	10.5	27.4	21.3	9.3	23.7	22.8	9.1
Japan	15.1	46.1	16.1	18.0	51.9	13.3	19.3	38.7	11.4
United States	29.1	21.2	13.2	31.5	25.4	10.8	34.2	26.4	11.9
Subtotal	110.4	105.0	56.5	153.8	134.6	54.8	148.4	132.1	55.1
Global total	198.4	182.6	100.0	274.6	251.2	100.0	280.4	228.6	100.0

Note: Two-way trade defined as exports plus imports.

Source: Taiwan Customs Administration, Ministry of Finance, <https://portal.sw.nat.gov.tw/APGA/GA06E> (accessed on March 29, 2016).

shares are driven by the United States and Japan. Among remaining TPP members, Singapore and Vietnam are Taiwan's largest export markets, while Australia, Malaysia, and Singapore are the largest suppliers of Taiwanese imports. Overall, the relatively low numbers suggest significant potential for growing Taiwan's share of the TPP market.

Services constitute a small but growing share of Taiwan's global trade. In 2015 commercial service exports accounted for 11 percent of Taiwanese global goods and service exports and 8 percent of Taiwan's GDP.⁷ Service sector reform is a major priority for Taiwan as the service sector accounts for 63 percent of Taiwan's economy and Taiwan is a net service exporter.⁸

China's large share of Taiwan's total trade reflects growing cross-strait integration and Taiwan's migration of final assembly and labor-intensive production primarily in the ICT sector to China, which has generated sizable reexports of final goods to other markets (Rosen and Wang 2011). Cross-strait cooperation toward removing restrictions on direct cargo transport and logistical barriers also lowered costs and facilitated trade over the past decade.⁹ Increasing reliance on Chinese trade has also motivated Taiwan to seek TPP participation as a means of export diversification.

With the fragmentation of production across the straits, China has become Taiwan's predominant investment destination. Taiwan's investment in China reached \$155 billion in 2015 (table 3), 61 percent of its total outward FDI stock. And the official number likely underestimates actual FDI flows as investors continue to invest in China through locations such as Hong Kong (WTO 2015).¹⁰ By contrast, the TPP-12

7. Taiwan's Customs Administration does not provide detailed bilateral services data.

8. Data from Department of Economic Research, Central Bank of the Republic of China (Taiwan), www.cbc.gov.tw/public/Attachment/68239333271.pdf; and Executive Yuan, Republic of China (Taiwan), www.ey.gov.tw/Upload/RelFile/2084/309259/c4003f68-5034-48d3-9d0e-b3de014a4e54.pdf (accessed on September 23, 2016).

9. The Cross-Strait Sea Transport Agreement of 2008 opened 63 ports in China and 11 ports in Taiwan for direct shipping, and the Cross-Strait Air Transport Agreement permitted direct flights in 2009. For full texts, see www.gwytb.gov.cn/lhjl/laxy/201101/t20110105_1676990.htm (accessed on April 29, 2016); and www.gwytb.gov.cn/lhjl/laxy/201101/t20110105_1676995.htm (accessed on April 29, 2016).

10. For more discussion of estimates of FDI correcting for third-country rerouting, see Rosen and Wang (2011).

Table 2 Merchandise trade between Taiwan and TPP countries, China, the European Union, and Korea, 2015 (billions of US dollars)^a

Trading partner	Taiwan imports ^b	Taiwan exports ^b	Total trade
Australia	5.7	3.2	8.9
Brunei	0.3	0.0	0.4
Canada	1.3	2.3	3.7
Chile	1.5	0.3	1.8
Japan	38.7	19.3	58.0
Malaysia	6.5	7.1	13.6
Mexico	0.6	2.2	2.8
New Zealand	0.8	0.4	1.3
Peru	0.2	0.3	0.5
Singapore	7.1	17.3	24.4
United States	26.4	34.2	60.7
Vietnam	2.5	9.5	12.0
Total TPP-12	91.8	96.1	187.9
China	44.2	71.2	115.4
European Union	22.8	23.7	46.5
Korea	13.0	12.6	25.6
Total Taiwan global trade	228.6	280.4	509.0
TPP-12 as a percent of global trade	40.1	34.3	36.9
China as a percent of global trade	19.3	25.4	22.7
European Union as a percent of global trade	10.0	8.5	9.1
Korea as a percent of global trade	5.7	4.5	5.0

a. Values in US dollars are converted from New Taiwan dollars using the average exchange rate of the given period.

b. Free on board (FOB) for exports and cost, insurance, and freight (CIF) for imports. Reexports and reimports are included.

Source: Taiwan Customs Administration, Ministry of Finance, <https://portal.sw.nat.gov.tw/APGA/GA06E> (accessed on March 29, 2016).

account for \$42 billion or 17 percent of Taiwan's outward FDI, driven by Singapore and the United States, which account for nearly 70 percent of Taiwan's FDI in TPP countries, or 10 percent of Taiwan's total.

The TPP-12 and the European Union are major sources of foreign investment in Taiwan—\$56 billion and \$34 billion in 2015, respectively. Of the individual TPP countries, the United States and Japan are the major sources of FDI, at \$42 billion or about one-third of total FDI stock in Taiwan. By contrast, Chinese investment is minimal, only \$1.4 billion, or 1 percent of total FDI. The negligible Chinese FDI in Taiwan was in large part due to Taiwan's tight control on direct investment by Chinese firms prior to 2008, after which cross-strait investment began to normalize with several economic cooperation agreements.

Overall, Taiwan remains a net investor abroad. In 2015 its outward global FDI stock reached \$256 billion, almost double inward FDI of \$137 billion. Although Taiwan scores in the top 15 of the World

Table 3 Taiwan's foreign direct investment (FDI) stock in TPP countries, China, and the European Union, 2015 (billions of US dollars)

Trading partner	Outward FDI stock	Inward FDI stock
Australia	2.0	1.8
Brunei	n.a.	n.a.
Canada	0.4	0.6
Chile	n.a.	n.a.
Japan	3.8	18.7
Malaysia	2.7	2.9
Mexico	n.a.	n.a.
New Zealand	0.0	0.1
Peru	n.a.	n.a.
Singapore	11.0	7.9
United States	14.2	23.6
Vietnam	8.0	0.1
Total TPP-12	42.2	55.7
China	154.9	1.4
European Union	5.4	34.1
Total Taiwan global FDI stock	255.6	136.9
TPP-12 as a percent of global FDI stock	16.5	40.6
China as a percent of global FDI stock	60.6	1.1
European Union as a percent of global FDI stock	2.1	24.9

n.a. = data not available

Note: Data are on an approval (approved investment) basis. Except for China, data are an accumulation of flows since 1952. Outward FDI stock to China is an accumulation of flows since 1991, and inward FDI stock from China is an accumulation of flows since 2009.

Sources: Investment Commission, Ministry of Economic Affairs, www.moeaic.gov.tw/system_external/ctrl?PRO=PublicationLoad&lang=1&id=245 (accessed on March 29, 2016); Mainland Affairs Council, Republic of China (Taiwan), 表7 臺商對中國大陸投資金額統計 [Table 7 Taiwan Investment in Mainland China], www.mac.gov.tw/public/MMO/MAC/274_7.pdf (accessed on March 29, 2016), and 表11 核准陸資來臺投資統計 [Table 11 Permitted Mainland China Investment in Taiwan], www.mac.gov.tw/public/MMO/MAC/274_11.pdf (accessed on March 29, 2016).

ing queue of countries examining the TPP to determine whether to ask to join once the pact enters into force. In the meantime, interested countries should be taking steps to lay the groundwork for tough reforms to signal their seriousness in wanting to participate.

Economic Forum's Global Competitiveness Index, it continues to face difficulties attracting FDI.¹¹ This struggle in part reflects slowing global growth but has also been attributed to the declining price competitiveness of Taiwan's manufacturing sector, stagnant trade liberalization, and failure to address regulatory concerns of foreign investors, such as restricted access to the service sector (WTO 2015).

Participation in the TPP would improve the Taiwanese investment climate, both directly through the removal of sticky barriers to investment and services and indirectly through related rules that improve the consistency and transparency of regulatory regimes across TPP markets (Moran and Oldenski 2016).

3. TPP AND TAIWAN'S EXPORT COMPETITIVENESS

The TPP, signed in February 2016 between the United States and 11 countries making up 36 percent of the global economy, is the most comprehensive trade deal to be concluded in several decades. It lowers barriers to trade and investment and establishes new benchmarks for "21st century" trading rules in areas such as ecommerce, state-owned enterprises, labor, and the environment. The TPP intends to be a "living agreement" and, in principle, allows any country to join that is able and willing to adopt, implement, and enforce its obligations—and is approved by all members. There is a grow-

11. The WEF defines competitiveness as the "set of institutions, policies and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can achieve." A country's competitiveness is analyzed along 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. For more on methodology, see <http://reports.weforum.org/global-competitiveness-report-2015-2016/faqs/> (accessed on April 29, 2016).

Table 4 Statistics on Taiwan and comparable TPP candidates, 2014

Country	GDP (billions of dollars) ^a	Total population (millions) ^a	Human Development Index ^b	Ease of Doing Business rank (out of 189 countries) ^c	Total imports (billions of dollars) ^d	Total exports (billions of dollars) ^d	Total trade (billions of dollars) ^d
Korea	1,410.40	50.4	0.898	4	525.6	573.1	1,098.6
Indonesia	888.5	254.5	0.684	109	178.2	176.0	354.2
Taiwan	530.0	23.4	0.882	11	274.0	313.7	587.7
Thailand	404.8	67.7	0.726	49	227.9	227.6	455.5
Colombia	377.7	47.8	0.720	54	64.0	54.8	118.8
Hong Kong	290.9	7.2	0.910	5	600.6	524.1	1,124.7
Philippines	284.8	99.1	0.668	103	67.7	61.8	129.5

a. Total population and GDP for Taiwan from National Statistics, Republic of China (Taiwan); other country data from the World Bank.

b. The United Nations Human Development Index (HDI) is a summary measure of achievements in key dimensions of human development: a long and healthy life, access to knowledge, and a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. HDI data for Taiwan are from the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan); for other countries, data are from the United Nations Development Program.

c. The ease of doing business index measures how conducive a country's regulatory environment is to business operations, with the ranking based on 189 countries (rank 1 being the best). The index averages the country's percentile rankings on 10 topics (e.g., starting a business, dealing with construction permits, getting credit), with each topic's rank measured as the simple average of percentile rankings on its component indicators.

d. Trade data for Taiwan from Customs Administration, Ministry of Finance; other country data from the International Trade Centre.

Sources: World Bank's *World Development Indicators* database,

<http://data.worldbank.org/data-catalog/world-development-indicators>; National Statistics, Republic of China (Taiwan), <http://eng.stat.gov.tw>; International Trade Centre, www.trademap.org; Customs Administration, Ministry of Finance, <https://portal.sw.nat.gov.tw/APGA/GA06E>; United Nations Development Program, Human Development Reports, <http://hdr.undp.org/en/data.2014> data; World Bank, *Doing Business 2016*, www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf; and Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan), www.dgbas.gov.tw/public/Data/611416492990V10W9I.pdf, all accessed on March 10, 2016.

Since the TPP negotiations began in March 2010 and concluded in October 2015, Pacific Rim countries such as Indonesia, Korea, the Philippines, Taiwan, and Thailand have expressed interest in joining.¹² How does Taiwan compare with these and other TPP aspirants?

Table 4 resents basic development indicators of Taiwan and other prospective applicants for TPP membership. Taiwan, Hong Kong, and Korea stand out as the most developed economies. Similar to most of the TPP-12 countries, they score high on the United Nations' Human Development Index (HDI), based on indicators of per capita income, education, and life expectancy. And on the World Bank's Ease of Doing Business index, where a higher rank indicates that the regulatory environment is more conducive to the startup and operation of a local firm, Taiwan ranks 11th out of 189 countries, much higher than other TPP candidates, except Korea, which ranks fourth, and Hong Kong (fifth).

12. Cathleen Cimino-Isaacs, "Eyeing the Expansion of the TPP: Too Soon?" PIIE Trade and Investment Policy Watch blog, October 31, 2015, <https://piie.com/blogs/trade-investment-policy-watch/eyeing-expansion-tpp-too-soon> (accessed on April 27, 2016).

Broadly, TPP candidates' motivation to join the pact is bound by a common thread: Adopting the TPP's high standards would promote domestic economic reforms and help boost productivity growth across the economy. The trade and investment liberalization and reforms required by TPP obligations would create new export opportunities, encourage two-way flows of FDI, and support improvements in the quality and governance of economic institutions.¹³ For Taiwan, participation in the TPP would have a positive competitive impact on its export sectors, including integrated electronic circuits and other electronic platforms, through technology spillovers and competitive pressures to improve performance. Increased trade and investment via the TPP will push resources toward more efficient firms in Taiwan's leading industries.

To be sure, TPP disciplines will also mean politically difficult adjustments. The TPP requires enforcement of WTO-plus rules in labor, environment, state-owned enterprises, and intellectual property rights, as well as agricultural market opening with no product exclusions. Adhering to these obligations and market access expectations will be a challenge for prospective members with tepid and uncertain domestic political support for reforms that would bring national policies in line with TPP standards.

Taiwan is already suffering from trade discrimination because of its nonparticipation in regional FTAs. The TPP will compound that problem. And prospective new members, especially Korea, would create an even bigger challenge. To analyze one dimension of the cost of nonparticipation in the TPP, we examine the export patterns of Taiwan, Japan, and Korea. Japan is one of the TPP-12 signatory countries and Korea announced its interest in joining in November 2013 (see Schott and Cimino-Isaacs 2014), reaffirmed by President Park Geun-hye in 2015.

Table 5 shows Taiwan's merchandise export similarity indices with Japan and Korea in the world market in 2015. The high indices confirm Taiwan's large overlap in global exports with the two countries. Table 6 breaks these relationships down further with the three countries' top ten exports, disaggregated at the Harmonized System (HS) 4-digit tariff level. Seven of Taiwan's top ten exports overlap with those of Japan and Korea. Consistent with a higher similarity index with Korea, six products among Taiwan's top ten exports overlap with Korea versus only four with Japan, confirming Korea as a major competitor in key industries.

Both Korea and Taiwan depend on exports, but several important differences exist.¹⁴ Taiwan's merchandise exports are highly concentrated in electronic integrated circuits, which accounted for a quarter of total exports in 2015. No other single product accounted for more than 4 percent of its total exports. By contrast, Korea's exports are more diversified. Although electronic integrated circuits also make up a large share of Korea's exporting profile, accounting for 10 percent of total exports, other products such as motor vehicles (8 percent), petroleum oils (6 percent), and telephones (6 percent) also hold significant exporting shares.

In addition to a more diversified exporting profile, Korea has deeper trade and investment ties with the TPP-12 countries. It has bilateral FTAs with 10 of the TPP countries, including the high-standard Korea-US (KORUS) FTA, and is attempting to resume stalled trade talks with Japan and Mexico. High-standard

13. For Taiwan, other motivating factors include lessening its "dependency" on cross-strait trade and promoting trade and investment diversification (Nealer and Fimbres 2016), and deepening integration in production value chains in Asia to better compete in the region, particularly as more countries seek to join the TPP (Bush and Meltzer 2014).

14. For context, both Taiwan and Korea have continued to run global trade surpluses over the past decade. In 2005 Taiwan's current account surplus accounted for 2.7 percent of its GDP. Since 2012, the number has been above 7 percent, and it rose to 12 percent in 2015. Until 2012, Korea's current account surplus remained between 1 and 3 percent and rose above 6 percent in 2013.

Table 5 Taiwan export similarity indices with Japan and Korea in world market, 2015

HS tariff section	Major products	Percent of total exports		
		Taiwan	Japan	Korea
1	Live animals; animal products	0.63	0.25	0.29
2	Vegetable products	0.24	0.11	0.15
3	Animals or vegetable fats and oils	0.03	0.02	0.02
4	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	0.63	0.48	0.89
5	Mineral products	4.25	1.97	6.42
6	Products of the chemical or allied industries	6.38	7.51	6.55
7	Plastics and articles thereof; rubber and articles thereof	7.49	5.25	6.65
8	Raw hides and skins, leather, furskins and articles thereof	0.30	0.04	0.23
9	Wood and articles of wood	0.06	0.03	0.02
10	Pulp of wood	0.58	0.59	0.59
11	Textile and textile articles	3.85	1.25	2.66
12	Footwear, hats, wigs, umbrellas	0.14	0.03	0.13
13	Articles of stone, plaster, cement, asbestos, mica or similar materials	0.81	1.06	0.48
14	Natural or cultured pearls	0.80	1.61	0.62
15	Base metals and articles thereof	8.97	8.56	8.37
16	Machineries, electrical machinery and equipment and parts thereof, sound recorders and reproducers, television and parts thereof	52.48	34.12	38.05
17	Vehicles, aircraft, vessels and associated transport equipment	4.19	24.24	20.91
18	Optical, photographic instruments and apparatus, watches, musical instruments	5.80	5.97	6.21
19	Arms and ammunition	0.03	0.02	0.08
20	Miscellaneous manufactured articles	1.72	0.90	0.60
21	Works of art	0.60	5.98	0.08
Taiwan-Japan export similarity index ^a				72.19
Taiwan-Korea export similarity index ^a				80.21

HS = Harmonized System

a. The export similarity index in the world market is defined as: $XS(j,k) = \sum [\min(X_{ij}, X_{ik})]$, where $XS(j,k)$ denotes the export similarity index between country j and country k in the world market; X_{ij} and X_{ik} are industry i 's export share in country j 's and country k 's total exports, respectively.

Sources: Taiwan trade data from Customs Administration, Ministry of Finance, <https://portal.sw.nat.gov.tw/APGA/GA03E>; other data from International Trade Centre, www.trademapp.org.

Table 6 Top 10 exports of Taiwan, Japan, and Korea, 2015

Rank	Taiwan		Japan		Korea	
	HS code	Percent of total exports	HS code	Percent of total exports	HS code	Percent of total exports
1	8542 ^a	24.8	8703	13.8	8542 ^a	9.9
2	2710 ^b	4.0	9999	5.9	8703	7.9
3	9013 ^c	3.1	8708 ^g	4.6	2710 ^b	5.8
4	8541 ^d	3.0	8542 ^a	3.8	8517 ^e	5.7
5	8517 ^e	2.4	8486	2.1	8708 ^g	4.4
6	8523	2.0	8901	1.8	8901	4.1
7	8534	2.0	8443	1.7	9013 ^c	4.1
8	8473	1.9	8704	1.5	8905	3.1
9	8529 ^f	1.8	2710 ^b	1.5	2902	1.6
10	8708 ^g	1.4	8541 ^d	1.3	8529 ^f	1.1
Percent sum		46.27	38.02		47.72	

HS = Harmonized System

a. Electronic integrated circuits

b. Petroleum oils, not crude

c. Liquid crystal devices; lasers; other optical appliances and instruments not elsewhere specified

d. Diodes, transistors, and similar semiconductor devices; photosensitive semiconductor devices; light emitting diodes; mounted piezoelectric crystals

e. Telephone sets, including telephones for cellular networks or for other wireless networks

f. Parts suitable for use solely or principally with the apparatus of headings 85.25 to 85.28 (e.g., transmission, radar, reception apparatus for radio and television)

g. Parts and accessories of the motor vehicles of headings 87.01 to 87.05

Note: HS commodity codes at the 4-digit level based on HS Nomenclature 2007.

Sources: Taiwan data from Customs Administration, Ministry of Finance, <https://portal.sw.nat.gov.tw/APGA/GA03E> (accessed on March 10, 2016); other country data from International Trade Centre, www.trademap.org (accessed on March 10, 2016).

agreements with the United States and European Union suggest that Korea would be largely ready to meet TPP requirements (albeit with some key exceptions; Schott 2015). Korea has FTAs that in effect cover more than 40 trading partners, including with the Association of Southeast Asian Nations (ASEAN) and China, and is concurrently pursuing trilateral China-Japan-Korea talks and the Regional Comprehensive Economic Partnership (RCEP).¹⁵

Korea's FTAs cover more than 60 percent of its global trade (exports plus imports), and Korean exporters benefit from substantial tariff concessions in those markets—markets that are also important for Taiwan, where Taiwanese exporters “only” receive “normal” (MFN) tariff treatment. Taiwanese officials have voiced concern about the urgent need for “catch-up” vis-à-vis Korean market advantages.¹⁶ **Box 1** offers detail on the estimated impact of Korean FTA participation on the Taiwanese economy.

These competitiveness concerns are at the center of Taiwanese interest in joining the TPP. Interestingly, however, initial estimates by Peter Petri and Michael Plummer (2016) suggest that the TPP as concluded would have limited adverse economic effects on Taiwan. When the agreement is fully implemented in 2030, on net Taiwan would marginally benefit, with \$1 billion in real income gains or 0.2 percent of baseline GDP and \$4 billion in export gains or 0.8 percent of exports over baseline projections (*table 7*). Petri and Plummer (2016) find that potential trade and investment diversion was offset by spillover effects from TPP countries' liberalization of some nonpreferential, nontariff barriers, thereby benefiting non-TPP trading partners as well.

15. The RCEP participants are the ASEAN member countries—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam—and Australia, China, India, Japan, Korea, and New Zealand.

16. “South Korea is actively seeking to sign FTAs, and Taiwan should endeavor to catch up,” Taiwan Industrial Development Bureau, Ministry of Economic Affairs, August 1, 2014, www.moeaidb.gov.tw/external/ctrl?lang=1&PRO=news.NewsView&id=15570 (accessed on May 17, 2016).

Box 1 Korean FTAs and Taiwan

Taiwan's Ministry of Economic Affairs (MOEA) has commissioned several assessments of Korean FTA impacts on Taiwan. The analyses are based on computable general equilibrium (CGE) models built from the Global Trade Analysis Project (GTAP) and the estimated impacts are small in relative terms—the modeling simulates tariff elimination without fully capturing services and investment liberalization. The Chung-Hua Institution for Economic Research estimated that the Korea-EU FTA would result in a 0.02 percent decrease in Taiwan's real GDP and export losses of \$76 million due to trade diversion, or 0.04 percent.¹ Textiles, plastic and rubber products, machinery, and chemical products were the most affected sectors. Chung-Hua's analysis of the Korea-US FTA found a larger relative impact—a 0.04 percent decrease in Taiwan's real GDP and export losses of \$140 million or 0.06 percent, with the largest impact in textiles and plastic and rubber products. The estimates of impacts due to the US and EU FTAs were smaller than those associated with the Korea-China FTA.

The CGE analysis of the Korea-China FTA by MOEA (2015) estimated a 0.2 percent decrease in Taiwan's real GDP after the agreement is fully implemented, with the largest sectoral impact on liquid crystal display (LCD) panels, petrochemicals, optical sheets and plates of polarizing material, textiles, and autos. The analysis did not estimate total trade effects but provided a dollar range of exports, \$2 billion to \$6 billion, that might be replaced by Korean exports in eight key industries. The analysis was conducted before the Korea-China FTA was concluded and signed in June 2015—some affected industries were either slowly or not fully liberalized in the final outcome, likely mitigating the impact on Taiwan. For example, in the iron and steel sector, most high-end products were either partially liberalized or exempt from liberalization. Tariffs on LCD panels and sheets and plates of polarizing material will phase out in 10 years, and in petrochemicals most products have long phaseouts (up to 15 years). In the textile industry, China maintained tariffs on a number of products, including a 38 percent tariff on certain wool products and a 5 percent tariff on synthetic filament yarns. Certain cotton yarns and apparels and accessories also have long phaseouts, ranging from 10 to 20 years.

Taiwan's participation in the revised Information Technology Agreement (ITA-2), a plurilateral pact among 25 WTO members concluded in December 2015, was a counterbalance to the Korea-China deal and more broadly a boon to the competitiveness of Taiwan's information and communication technology (ICT) sector. In 2014 China was Taiwan's largest exporting market for products covered by the ITA. According to MOEA analysis, 136 Taiwanese products—including parts and accessories of liquid crystal devices, electronic integrated circuits, optical sheets and plates of polarizing material, and GPS devices—will benefit from the 201 technology products covered by the agreement.² The debate over which products to liberalize was a fractious one and nearly derailed the talks. In the end, Taiwanese and Korean firms acquiesced to China's request to exempt flat panel displays for televisions, a key Taiwanese export, from coverage.³

1. Ying-Hua Ku, "歐韓及美韓FTA對我產業之衝擊影響及因應措施" [An Assessment of Korea-EU and US-Korea FTAs: Impact on Taiwan's Industries and Policy Recommendations], Presentation of summary of results, May 26, 2011, Chung-Hua Institution for Economic Research, www.cieca.org.tw/ConferenceData.aspx?mrid=336 (accessed on May 17, 2016).

2. 審查行政院函請審議「資訊科技協定擴大核可關稅減讓表」案 [Executive Yuan's Submission to the Legislative Yuan for Reviewing the Expanded Information Technology Agreement], Ministry of Economic Affairs, May 2, 2016, www.moea.gov.tw/MNS/otn/content/submenu.aspx?menu_id=7552 (accessed on May 26, 2016).

3. "Taiwan Caves, Says It Will Accept ITA Deal Without Flat-Panel Displays," *Inside US Trade*, July 27, 2015, www.insidetrade.com (accessed on July 1, 2016).

Table 7 Trade and real income effects of the TPP, 2030

Grouping/country	Annual real income gains/losses		Annual real export gains/losses	
	Billions of 2015 dollars	Percent change from baseline	Billions of 2015 dollars	Percent change from baseline
Total world	492	0.4	1,106	3.1
Total TPP-12	465	1.1	1,025	11.5
Total non-TPP members	27	0.0	81	0.3
China	-18	-0.1	9	0.2
Indonesia	-2	-0.1	-4	-1.0
Korea	-8	-0.3	-11	-1.0
Philippines	-1	-0.1	-1	-0.4
Taiwan	1	0.2	4	0.8
Thailand	-7	-0.8	-9	-1.6

Source: Petri and Plummer (2016).

The potential impact of the TPP on Taiwan would change should the trade deal expand to Korea, Indonesia, the Philippines, and Thailand, under a so-called TPP-16. Petri and Plummer (2016) have not released revised estimates based on this scenario; but earlier estimates by Petri, Plummer, and Fan Zhai (2013) found that the participation of Korea and major ASEAN economies would lead to an additional \$5 billion in real income losses and \$14 billion in export losses for Taiwan compared with their 2013 TPP-12 scenario.

4. EXISTING TRADE PACTS

This section considers what Taiwan's existing pacts reveal about its readiness to undertake and enforce TPP obligations. Taiwan has trade or economic cooperation agreements in force with eight countries—five small, developing countries in Central America and, more recently, three Asia-Pacific countries (year in parentheses indicates entry into force): Panama (2004), Guatemala (2006), Nicaragua (2008), El Salvador (2008), Honduras (2008), China (2010), New Zealand (2013), and Singapore (2014). These eight economies accounted for 28 percent of Taiwan's global merchandise trade in 2015—of course, the bulk of that trade, 22 percent, is with China. Excluding China and TPP members New Zealand and Singapore, the rest of Taiwan's FTA partners accounted for only \$0.8 billion (0.2 percent) of Taiwan's global trade in 2015. The agreements primarily reinforced bilateral diplomatic relations.

Most of Taiwan's FTA partners are relatively marginal economies in terms of size and represent minimal trade coverage, thus the agreements had limited capacity to incentivize deep domestic reforms in Taiwan (Rosen and Wang 2011). Indeed, Taiwan's early FTAs had few substantive commitments beyond traditional trade barriers (see appendix [table A.1](#)). Built-in flexibility for developing countries meant some limited liberalization—El Salvador and Honduras start with low percentages of duty-free tariff lines and exempt a high percent from liberalization—although Taiwan generally committed to liberalize 97 percent tariff lines or more. The coverage of these bilateral FTAs is limited in scope—for example, most include provisions on intellectual property rights but do not cover major areas such as government procurement. Moreover, there are exceptions for key sectors such as financial services and telecommunications and few commitments to reduce nontariff barriers in the form of domestic policies and regulations that can distort trade and investment.

Economic engagement between Taiwan and China in the late 2000s was a major turning point in setting a new baseline for Taiwanese trade and investment policy. And cross-strait engagement was seen as creating momentum for the possible inclusion of Taiwan in the broad network of agreements in the region (Rosen and Wang 2011). Subsequent agreements with New Zealand and Singapore were small stepping

stones toward this end. The following sections summarize the main features of these agreements to identify potential gaps with standards and liberalization outcomes of the TPP.

Cross-Strait Trade and Investment Pacts

In 2008 President Ma Ying-jeou called for the “normalization of economic and cultural relations” with China, stating that both sides were ready to resume negotiations based on the “1992 Consensus.”¹⁷ Subsequent talks between Taiwan’s Straits Exchange Foundation and China’s Association for Relations Across the Taiwan Straits led to agreements on air and sea transport, tourism, food safety, and financial cooperation, among other areas. This set the stage for deepening trade ties through the Economic Cooperation Framework Agreement (ECFA) signed in June 2010. The ECFA essentially served as a roadmap for economic cooperation through four follow-up agreements on trade in goods, trade in services, investment protection, and dispute settlement (WTO 2015). Appendix [table A.2](#) presents a summary of the status and coverage of the main cross-strait pacts. Negotiations on investment and services have concluded, and the investment provisions came into effect in 2013, but the services agreement has yet to be ratified. Parallel talks on goods trade began in February 2011 and negotiations are ongoing.

The ECFA jumpstarted liberalization with an Early Harvest Program for lowering tariffs and services restrictions. Under the schedule, China cut tariffs on 539 product categories, covering \$14 billion of Taiwanese exports, and Taiwan cut tariffs on 267 product categories, covering \$3 billion in Chinese exports.¹⁸ Despite the progress, several barriers continue to restrict cross-strait trade. Taiwan maintains three lists regulating imports from China: a positive list, a negative list, and a list with conditionally restricted goods (Rosen and Wang 2011). As of April 26, 2016, more than 2,200 Chinese products at the HS 10-digit level remain prohibited imports—the Early Harvest did not include any product groups from this list.¹⁹

The ECFA also entails service sector commitments, though coverage was limited. The Early Harvest Program facilitated small achievements in opening cross-border trade in services and investment. By 2015, Taiwan and China made \$746 million and \$232 million approved investments in nonfinancial service sectors, respectively. A more comprehensive services agreement was signed in June 2013, with goals of further opening banking, health care, tourism, film, and telecommunications; streamlining visa issuance to Chinese professionals; and cutting red tape in setting up offices for local service providers. Taiwan made 64 market access commitments, including opening hotels, social services, and transport sectors to investment, and China made 80 commitments. About a third of Taiwan’s commitments were deeper than its commitments under the General Agreement on Trade in Services (GATS); the rest were either the same level of liberalization as under the GATS schedule or lower, as in telecommunications. Notably, professional services

17. The “1992 Consensus” was that “both sides of the (Taiwan) Straits adhere to the ‘One China’ principle.” See “Full text of President Ma’s Inaugural Address,” *China Post*, May 21, 2008, www.chinapost.com.tw/taiwan/national/national-news/2008/05/21/157332/p1/Full-text.htm (accessed on April 29, 2016); and “Backgrounder: 1992 Consensus on one-China principle,” Taiwan Affairs Office of the State Council PRC, www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790114.htm (accessed on April 29, 2016).

18. “No such thing as a free trade,” *Economist*, June 25, 2010, www.economist.com/blogs/newsbook/2010/06/taiwan-china_trade (accessed on April 29, 2016).

19. These include 70 prohibited imports on an MFN basis. See 大陸物品管理:大陸物品彙總表 [Regulation on Imports from China], Bureau of Foreign Trade, www.trade.gov.tw/Pages/List.aspx?nodeID=749 (accessed on April 29, 2016).

remained restricted. However, the agreement has not entered into force due to widespread protests in 2014 that prevented ratification by the Legislative Yuan.²⁰

Service trade often relies on extensive local presence facilitated by FDI. Ratification of the services agreement would be a useful complement to the Cross-Strait Bilateral Investment Protection and Promotion Agreement (BIA), which entered into force in February 2013. The agreement protects investments, including those made before entry into force and investments in China made via third locations, with common guarantees: “fair and equitable treatment,” national treatment (but notably not applicable to the preestablishment phase of investment), MFN treatment, and protection against expropriation. However, no restrictions on performance requirements are noted. Both parties broadly agreed to “gradually reduce or eliminate restrictions on investments” and any existing nonconforming measures.

The BIA also establishes investment dispute resolution mechanisms.²¹ Only investment disputes related to expropriation have recourse to formal mediation via “cross-strait dispute resolution institutions”; international arbitration is not expressly called for.²² As of year-end 2015 Taiwan’s Department of Investment Services had accepted 251 investment disputes raised by Taiwanese investors, most involving land administration, expropriation, and the right to use state-owned lands.²³

Under the ECFA, Taiwan and China signed a number of other agreements, including cooperation on intellectual property (IP) issues. Broadly, the IP agreement recognizes patents, trademarks, and plant variety rights, establishes protections against trademark infringement, and calls for cooperation to combat piracy, counterfeiting, and other IP infringements (MAC 2012). As of 2015 China had processed over 26,000 Taiwanese applications for patents, trademarks, and plant variety rights, and verified hundreds of copyrights for audiovisual products. While the agreement provides specific protections for Taiwanese firms, it falls far short of the WTO-plus standards of US FTAs, including the TPP.

New Zealand and Singapore FTAs Versus TPP Outcomes

The ECFA was intended to facilitate the normalization of cross-strait economic relations, largely to ensure implementation of MFN obligations (Rosen and Wang 2011). But implementation of the ECFA is still in progress, pending completion of the goods talks and ratification of the services agreement, so the liberalization “scorecard” is incomplete.²⁴

20. In March 2014 student protesters occupied the debating chamber of the Legislative Yuan and claimed that the agreement was negotiated in secret, demanding a new bill to regulate cross-strait negotiations. See “Sunflower Sutra,” *Economist*, April 8, 2014, www.economist.com/blogs/banyan/2014/04/politics-taiwan (accessed on May 28, 2016).

21. Dispute resolution is specified for (1) investment disputes between the investor and host country (expropriation claims are distinct from other disputes) and (2) investment-related commercial disputes between an investor of one party and natural persons, juridical persons, or other institutions of the other party.

22. “Dispute Resolution Mechanisms under the China-Taiwan Bilateral Investment Protection Agreement,” Herbert Smith, August 23, 2012, <http://hsfnotes.com/arbitration/wp-content/uploads/sites/4/2012/08/2012.08.23-China-Disputes-e-bulletin.pdf> (accessed on May 19, 2016).

23. China’s investment dispute settlement offices received 155 disputes and more than half have been resolved. See “Implementation Statuses of 23 Cross-Strait Agreements [兩岸二十三項協議執行成效],” Mainland Affairs Council, Republic of China (Taiwan), www.mac.gov.tw/public/Attachment/622515305221.pdf (accessed on May 19, 2016).

24. This section draws from Schott, Cimino-Isaacs, and Jung (2016).

The ECFA and BIA nonetheless paved the way for Taiwan's engagement with other Asia-Pacific trading partners; the fact that China has existing FTAs with these countries was likely a facilitating factor. New Zealand and Taiwan signed a bilateral FTA (known as ANZTEC) in July 2013 and ratified it by the end of the year.²⁵ Taiwan then negotiated an FTA with Singapore (known as ASTEP), which was ratified in August 2014.²⁶ Both agreements were seen by Taipei officials as helping pave the way for Taiwan's eventual participation in the megaregional trade agreements, the TPP and RCEP (Fensom 2013).

Like the ECFA, Taiwan's two recent bilateral FTAs cover goods, services, and investment, but they are broader in scope, addressing government procurement, competition policy, and ecommerce. We do not cover every issue, but in the following sections summarize the main achievements and provide a comparison with key TPP outcomes. Some areas have significant gaps with TPP standards, while others should not be difficult to bridge.

Goods Market Access

Taiwan committed to high liberalization of goods trade in its deals with New Zealand and Singapore. In ANZTEC, 94.5 percent of tariff lines were liberalized by Taiwan on entry into force and nearly 100 percent during the subsequent 12 years in multiple stages. Nearly all agricultural tariffs are eliminated, with rice the only product excluded (Scott et al. 2013). In ASTEP, 83 percent of tariff lines were liberalized on entry into force—including chemicals, pharmaceuticals, electronics, machinery, and transport equipment—and 99.5 percent within 15 years via 5-year staging periods (IE Singapore 2014). Forty sensitive agricultural products were exempted from liberalization, including rice and rice products, deer velvet, liquid milk, ground nuts, and certain sugar products.

The TPP also achieves a high level of liberalization: When fully implemented, 99 percent of tariff lines will be liberalized (Freund, Moran, and Oliver 2016). The majority of tariffs are quickly eliminated—with a few notable exceptions for autos, textiles and apparel, and certain agricultural products. There was some progress in cutting agricultural protection, especially in sensitive Japanese products, but less in some major sectors like sugar and dairy. But for most countries, most notably Japan, the TPP resulted in the highest liberalization rates of any agreement so far.

Taiwan's simple average MFN tariff rate of 6.5 percent is on par with that of TPP members Mexico (6.9 percent) and Chile (6.0 percent) but higher than the TPP average of 4.2 percent.²⁷ But Taiwan's tariff peaks, in agriculture in particular, can be substantial—with maximum MFN applied ad valorem duties of 494 percent (fruits, vegetables, plants), 349 percent (cereals), and 338 percent (oilseeds, fats, and oils). The ad valorem equivalents for certain products are prohibitively high, such as certain rice products at 800–1,000 percent and certain nuts at 700–900 percent (WTO 2015). For the most sensitive products, TPP members were flexible in accepting tariff rate quotas, longer transition periods that delayed liberalization, and, in limited cases, tariffs that will not ultimately go to zero. Like Japan, Taiwan will be expected to

25. For the ANZTEC text, see www.moea.gov.tw/TNE/main/content/ContentLink.aspx?menu_id=3629 (accessed on May 1, 2016).

26. For the ASTEP text, see www.moea.gov.tw/Tse/main/content/ContentLink.aspx?menu_id=3601 (accessed on May 1, 2016).

27. Chinese Taipei, Tariff Profile, 2015, World Trade Organization, http://stat.wto.org/TariffProfiles/TW_e.htm (accessed on May 17, 2016).

address the protections on its sensitive agricultural goods (e.g., rice, beef, and pork) for which it maintains high tariffs, tariff rate quotas, and, in the case of rice, ceiling price mechanisms.

The TPP also reforms a variety of nontariff barriers related to market access, including local content requirements and rules of origin for autos and parts and for textiles and apparel. Rules of origin requirements are cumulated across the TPP-12 markets, creating some flexibility in sourcing inputs, even though the TPP countries adopted the highly restrictive US “yarn forward” rule for apparel (see Elliott 2016). This rule means that, with some exceptions, only apparel made from fabric and other inputs produced by TPP partners is eligible for tariff reductions. Because Taiwan (after China and Korea) is a major source of textile inputs for Vietnamese apparel exports, this rule incentivizes participation in the TPP to preserve its position in the Vietnamese market (Elliott 2016). Some Taiwanese textile firms have already moved to expand investment in Vietnam in order to take the advantage of tariff liberalization under the TPP and to adapt to the US yarn forward rule.²⁸ According to Taiwan’s Investment Commission, cumulative Taiwanese investment in Vietnam’s textile and apparel industry reached \$652 million in 2015.²⁹

Services

The New Zealand and Singapore deals establish similar, customary obligations on services market access: limiting qualitative restrictions such as the number of suppliers and requirements to establish residence or local offices as a precondition to access local markets; and ensuring that national and MFN treatment is extended to service suppliers (i.e., granting foreign firms the same rights and benefits as local or TPP third-country firms). These obligations are subject to a negative list of nonconforming measures (the negative list approach means that markets are fully open in all sectors except those explicitly excluded). In ANZTEC, notable sectors liberalized by Taiwan were select education services and aviation services; in ASTEP, Taiwan agreed to GATS-plus coverage of telecommunications, environmental, transport, and entertainment services. Neither agreement covers financial services beyond commitments in the GATS. In ASTEP, Taiwan reserved rights to impose restrictions in 35 sectors, including transport, business, and health services; in ANZTEC it reserved rights to impose restrictions in 34 sectors, including finance, telecommunications, air transport, and professional services (MOEA 2013a, 2013b).

The TPP has its share of country-specific reservations, but it opens new opportunities for services trade, where nontariff barriers can generally be quite high (see Hufbauer 2016a), and would add pressure on Taiwan to open insulated sectors to a significant extent. GATS-plus commitments were notable in Japan, Malaysia, and Vietnam in particular. But continuing services barriers in the United States, such as those affecting maritime transport and state licensing requirements in professions like legal and engineering services, limited reciprocal commitments in this area (Hufbauer 2016a). Other TPP countries set reservations in broadcasting and audiovisual services, health care, and legal services (Lincicome and Picone 2016).

TPP financial services commitments include greater access for portfolio management and payment/clearing services and place some constraints on state-run postal insurance systems (Gelpner 2016). But data localization requirements are still permitted in this sector (unlike electronic commerce), which elicited criti-

28. For example, in 2013 Makalot Industrial Co. Ltd. invested \$4.5 million in Vietnam’s Namtex Co. Ltd. and another \$9 million in its Vietnam-based subsidiary and yarn producer Tainan Spinning Co. to expand its production base in Southeast Asia. See “Makalot plans Vietnamese investment,” *Taipei Times*, October 4, 2013, www.taipeitimes.com/News/biz/archives/2013/10/04/2003573717 (accessed on May 26, 2016).

29. This figure includes investment in textile mills and in apparel and clothing accessory manufacturing.

cism in the United States. However, following a compromise between the Obama administration and the US financial industry, additional obligations on data localization will be required in future negotiations, including those for new entrants to the TPP.³⁰ Taiwan has mandated local data storage requirements in the past—in 2011 its Financial Supervisory Commission regulations required that consumer financial data be moved and processed “onshore,” but in May 2014 requirements for onshore data centers were lifted for local and foreign banks (USTR 2016).

Through its FTAs Taiwan has committed to incrementally improve on its GATS schedule, but it maintains broad restrictions in finance, telecommunications, and certain professional services—USTR (2016) flagged such restrictions in its latest *National Trade Estimate Report*. The WTO (2015) notes that there have been limited efforts by Taiwan to further open market access to foreign suppliers. Additional services liberalization may result from Taiwan’s participation in the plurilateral Trade in Services Agreement (TiSA), which held its 18th round in May 2016,³¹ although Taiwan had not submitted its revised market access offer because of the timing of its domestic elections; a second round of TiSA offers is expected in October 2016.³²

Investment

The New Zealand and Singapore deals both establish standard investment protection guarantees, including national and MFN treatment, which cover the preestablishment phase of investment (unlike China’s current practice), grant foreign firms “fair and equitable” treatment, and ensure freedom of cross-border capital flows. Performance requirements, including local content requirements, are prohibited—ASTEP largely replicates the terms of the US-Singapore FTA. Both agreements include investor-state dispute settlement (ISDS) provisions and recourse to international arbitration.³³ ISDS procedures generally follow standard practice, mandating transparency and building in safeguards for domestic regulations. In ASTEP investors have recourse to ISDS only for disputes related to articles on expropriation, transfers, and denial of benefits.

The TPP seeks to bolster cross-border investment by reducing FDI barriers via a negative list approach, targeted disciplines on use of local content requirements and other performance requirements, and limits on state-owned enterprises to prevent unfair advantages vis-à-vis other firms and investors (see Moran and Oldenski 2016). Most core obligations of the US model bilateral investment treaty (BIT) and investment chapter of the KORUS FTA are incorporated in the TPP (Lincicome and Picone 2016).

Regarding ISDS, the TPP improves on past US FTAs by incorporating lessons learned from cases brought under the North American Free Trade Agreement (NAFTA) in particular. Specifically, the TPP

30. Specifically, data localization requirements would be broadly prohibited for financial services firms as long as “financial regulators have access to information stored abroad.” See Doug Palmer and Victoria Guida, “Treasury unveils financial data fix to build TPP support,” *Politico*, May 25, 2016, <https://www.politicopro.com/financial-services/story/2016/05/treasury-unveils-financial-data-fix-to-build-tpp-support-115844> (accessed on May 25, 2016).

31. The TiSA members are Australia, Canada, Chile, Colombia, Costa Rica, the European Union, Hong Kong, Iceland, Israel, Japan, Korea, Liechtenstein, Mauritius, Mexico, New Zealand, Pakistan, Panama, Peru, Norway, Switzerland, Taiwan, Turkey, and the United States. China has expressed interest in joining but the United States has blocked its participation.

32. “New TISA Round Kicks Off in Geneva, To Include Ministerial Review,” *Inside US Trade*, May 27, 2016, www.insidetrade.com (accessed on June 1, 2016).

33. Taiwan is not a member of the International Center for Settlement of Investment Disputes (ICSID), therefore claims must be submitted under either the United Nations Commission on International Trade Law (UNCITRAL) or International Criminal Court (ICC) rules. Taiwan was a signatory of the ICSID Convention in 1966, but after China assumed representation of both countries in the World Bank, Taiwan’s related World Bank affiliations were effectively rescinded, according to Ku (2013).

ISDS mechanism respects the right to regulate for environmental, health, and safety reasons; narrowly defines “fair and equitable treatment”; clarifies minimum standard of treatment obligations; and eliminates forum shopping, in an attempt to discourage frivolous cases by investors (Hufbauer 2016b). The TPP also mandates more transparency in proceedings and allows greater participation for civil society organizations and others not party to the dispute. The terms are more extensive and specific than those of ANZTEC and ASTEP.

As of June 2013, Taiwan’s revised negative list for foreign investment included 10 fully prohibited sectors (e.g., certain types of chemical, metal, and machinery manufacturing) and 16 restricted (e.g., certain types of agriculture and animal husbandry, water and air transport, telecommunications, and some manufactures).³⁴ In the TPP, Taiwan would be expected to produce a smaller negative list. USTR (2016) has flagged Taiwan’s continued restrictions in certain industries like telecommunications, as well as the lack of transparency and consistency in its internal investment review process.

Government Procurement

Taiwan’s earliest FTAs did not cover government procurement. ANZTEC reiterates the importance of the APEC Non-Binding Principles on Government Procurement, while ASTEP reaffirms rights and obligations under the WTO Agreement on Government Procurement (GPA), including all relevant annexes. Taiwan acceded to the GPA in 2009 and opened access to procurement for more than 30 central and 70 subcentral entities, including Taipei City and Kaohsiung City governments. For goods and services, the thresholds for central and subcentral government contracts are \$194,000 (130,000 SDR) and \$296,000 (200,000 SDR), respectively. A threshold of \$7.45 million (5 million SDR) is set for construction services. The WTO (2015) reports that the total value added awarded to nonlocal suppliers—who accounted for 11 percent of contracts awarded—was 26.5 percent in 2013. Taiwan was part of the GPA expansion in 2014 and expanded new market access equivalent to NT\$3 billion (WTO 2015). ANZTEC maintains the GPA thresholds, but ASTEP includes GPA-plus market access for Taiwan, lowering the monetary threshold for central government contracts and expanding market access to special municipalities—new market access was estimated at NT\$40 million (MOEA 2013b).

The TPP government procurement chapter does not require substantial new reforms for countries already a party to the GPA; its novelty is in establishing the first commitments for several non-GPA countries, most notably Malaysia and Vietnam (see Moran 2016). The TPP does improve existing commitments for some countries, such as Canada, that had already agreed to open procurement. But there are several exceptions on the basis of national security and preference programs, and unfortunately there was little expansion of coverage of subnational contracts—most notably by the United States. The TPP terms would push Taiwan to expand on its existing GPA commitments and would narrow related exceptions.

Competition Policy and SOEs

ANZTEC and ASTEP have short chapters on competition policy. In ANZTEC, both sides commit to increase regulatory transparency, to uphold the principle of nondiscrimination, and to promote cooperation and exchange between regulatory authorities. ASTEP reiterates the objectives of fair market competition

34. For the full list, see “Negative List for Investment by Overseas Chinese and Foreign Nationals (Amended on June 17, 2013),” www.moeaic.gov.tw/system_external/ctrl?PRO=LawsLoad&lang=1&id=32 (accessed on May 1, 2016).

and restriction of anticompetitive practices and, like ANZTEC, calls for transparency and information sharing. Like the TPP, none of the provisions are subject to dispute settlement.

The TPP competition policy chapter does not depart much from past US FTA practice, but its notable contributions are in protections of procedural fairness in competition law enforcement and binding rules on the behavior of state-owned enterprises (SOEs) (Gadbaw 2016). A separate chapter designates disciplines on SOEs and, unlike the competition policy chapter, is subject to TPP dispute settlement procedures. The TPP imposes constraints on financial and other preferences, like subsidies, provided by TPP governments and prohibits discrimination against TPP firms in the buying or selling of goods and services (see Miner 2016). In addition, the TPP mandates broad transparency regarding the degree of state influence (e.g., percentage of government shares). The TPP goes a long way in establishing a baseline for SOE rules, but the chapter does not cover all SOEs; among those exempted are subcentral entities, certain specially designated SOEs, and sovereign wealth funds. SOEs are prominent in TPP countries Vietnam and Malaysia, but the TPP rules were also designed with future members in mind, like China.

Taiwan's SOE sector is limited in number, but some SOEs exert significant influence and power, most notably in electricity and water distribution, aerospace, energy, railways, and finance (US State Department 2015a). Over the past few decades, many SOEs have been privatized but the process has been slow. Taiwanese SOEs normally have an independent board of directors, with less control from policymakers, than, for example, China. But the Taiwanese government has retained minority control in some privatized SOEs. Complying with SOE terms in the TPP should be relatively straightforward for Taiwan. Based on the leaked negotiating documents, Taiwan appears to have agreed to some conditions on SOEs in the TiSA negotiations, which appear to draw on the TPP SOE disciplines.³⁵

Intellectual Property Rights

ANZTEC primarily reaffirms commitments of the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and its associated enforcement framework (e.g., ensuring civil judicial procedures, criminal laws for copyright piracy and trademark counterfeiting). ASTEP establishes a broad, non-binding framework for IP cooperation and exchange of information but does not commit to additional standards.

By contrast, the TPP is extensively TRIPS-plus. Among other obligations, the TPP commits members to establish extra patent protection for pharmaceuticals, such as a patent linkage system; expanded periods of data exclusivity for agricultural chemicals and pharmaceuticals, including most notably biologics; and longer periods of copyright protection based on US practice of 70 years (see Branstetter 2016a). Data exclusivity means that countries must preserve the confidentiality of "marketing data" (scientific evidence that a product is safe and efficacious) of pharmaceutical drugs for at least five years; for biologics, a minimum standard of eight years must be met or at least five years combined with other measures, such as regulatory procedures.³⁶ The TPP also calls for more extensive enforcement for copyright infringement, including for

35. See leaked text of TiSA annex on SOEs, https://wikileaks.org/tisa/document/20151006_Annex-on-State-Owned-Enterprises/ (accessed on May 26, 2016).

36. These provisions help pharmaceutical companies recoup research and development costs by preventing the early introduction of generic and biosimilar drugs based on original marketing data.

online and media products. It strengthens protection of trade secrets and requires criminal procedures and penalties for theft, including cybertheft.

IPR has been a major priority for reforms in Taiwan, whose internal TPP review flagged its trademark, copyright, and pharmaceutical patents laws for divergences from TPP standards. Effective enforcement for copyright infringement and online piracy in particular has long been flagged by US officials as a concern in Taiwan. However, in the latest *National Trade Estimates Report*, USTR (2016, 407) lauded Taiwan's "important steps in recent years to address key concerns" related to "protecting and promoting pharmaceutical innovation, trade secrets protection" in particular. For example, amendments to Taiwan's Trade Secrets Act, which became effective in 2013, increased criminal and civil penalties for corporate IP theft. Given TPP controversy over data protection for biologics in particular, there will be heightened scrutiny of Taiwanese reforms related to pharmaceuticals. Under Taiwan's current law, five years of data exclusivity is ensured but only for certain drugs. Taiwan has drafted amendments to its Pharmaceutical Affairs Act to address the terms of a patent linkage system and data protection.³⁷

Electronic Commerce

Ecommerce provisions in trade agreements have become increasingly important as nearly every industry now relies on services and data exchanged over the internet (Branstetter 2016b). "Digital trade" covers a range of ecommerce issues, from online commercial transactions to cross-border data flows and data privacy. Taiwan's deals with New Zealand and Singapore address basic aspects of ecommerce, including commitments to provide nondiscriminatory treatment for digital products and to not impose customs duties on electronic transmissions. In ANZTEC, both sides commit to promote the "efficient functioning" of ecommerce, improve transparency, and safeguard consumer and business confidence through privacy protections. ASTEP lays out cooperative activities that, among other things, promote access for small and medium-sized enterprises.

The TPP establishes more extensive rules in this area than any previous FTA and could set precedents for future trade deals (see Branstetter 2016b). Its provisions promote an open market for digital trade and require members to permit cross-border data flows.³⁸ The TPP prohibits data localization—the required establishment of local computing and data storage facilities as a condition for doing business in nonfinancial services sectors. The TPP also protects proprietary technologies and source code from involuntary disclosure. TPP members commit to establish laws protecting consumers from online fraud and junk mail and safeguarding online privacy more broadly.

In its internal TPP review, Taiwan flagged its Electronic Communications Act for reforms related to these issues. But Taiwan has not imposed data localization requirements on foreign companies, nor does it restrict cross-border data flows (US State Department 2015a). Moreover, it was not among the countries

37. For detail see, Teng-Yuan Liu, Kate Shu-Yin Chu, and Katherine Juang, "Taiwan Seeks to Join TPP with Draft Pharma Law Amendments," April 1, 2016, www.lexology.com/library/detail.aspx?g=58b17033-e51f-4838-808b-502c9036981d (accessed on June 1, 2016).

38. The TPP defines a digital good as "a computer program, text, video, image, sound recording, or other product that is digitally encoded, produced for commercial sale or distribution, and that can be transmitted electronically"—for example, downloaded software.

flagged by USTR for trade barriers and localization requirements faced by US suppliers of digital goods and services in other countries.³⁹

Sanitary and Phytosanitary Measures (SPS)

Both ANZTEC and ASTEP essentially reaffirm commitments under the WTO SPS Agreement: SPS measures that protect human, animal, or plant life or health must not constitute arbitrary discrimination or disguised restrictions on trade, and their use must be supported by scientific evidence. ANZTEC also establishes a mechanism for consultation and information exchange and a fast track system for resolving certain disputes.

The TPP SPS chapter also recognizes rights and obligations under the WTO SPS Agreement, but its specifications are much more extensive than the Taiwanese agreements. It establishes rules on import checks, certification requirements, and risk analysis, and specifies extensive transparency requirements. For SPS measures that rely on science and risk analysis, “Each [TPP] Party shall ensure that its sanitary and phytosanitary measures either conform to the relevant international standards, guidelines or recommendations or, if...not..., that they are based on documented and objective scientific evidence” (Article 7.9). Moreover, risk assessments must be “appropriate to the circumstances of the risk at issue and [take] into account reasonably available and relevant scientific data.” Dispute settlement procedures apply to the SPS chapter, but TPP members must first seek to resolve any dispute through a consultative mechanism. The chapter was also supplemented with side letters between the United States and individual TPP members to address outstanding SPS issues for certain US products.

The strong focus on science-based risk assessments was a priority of US negotiators. USTR (2016) has long flagged SPS concerns about Taiwan’s use of import licensing and special inspection requirements for beef; long-standing ban on pork imports based on use of the feed additive ractopamine; and slow process of approving residue limits for pesticides. From the US standpoint, resolving such issues related to pork and beef trade will be linked to Taiwanese TPP participation, discussed in the next section on US-Taiwan trade talks.

Environment and Labor Standards

In ANZTEC both sides agreed to adhere to international labor standards and establish a consultative mechanism. Regarding the environment, ANZTEC lays out primarily nonbinding, soft obligations, but it does include market access commitments to eliminate tariffs on environmental goods, facilitate services, and address nontariff barriers in the sector. None of these obligations are subject to dispute settlement. ASTEP does not cover environmental issues or labor standards.

The TPP establishes several protections in both areas and they are the most comprehensive standards of US FTAs to date. Regarding labor, in addition to enforcing core rights of the International Labor Organization (ILO)—such as freedom of association and the right to collective bargaining, elimination of forced and child labor—TPP members agree to establish “acceptable conditions of work,” including minimum wages and occupational and safety regulations; to refrain from lowering standards in special trade or export processing zones; and to discourage trade in goods made by forced labor (Cimino-Isaacs 2016). All labor provisions are subject to dispute settlement.

39. “Fact Sheet: Key Barriers to Digital Trade,” USTR, March 2016, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2016/march/fact-sheet-key-barriers-digital-trade> (accessed on June 1, 2016).

Regarding the environment, TPP countries make the first major international commitment to curb fishery subsidies, including those provided to illegal, unreported, and unregulated (IUU) fishing vessels—the pact prohibits subsidies where stocks are overfished and discourages subsidies that can contribute to overfishing (see Schott 2016). TPP members also commit to the conservation of sharks and other marine mammals threatened by overfishing, illegal fishing, or bycatch. In addition, the TPP includes obligations to rein in the taking, trade, and transshipment of endangered wildlife and illegally harvested logs. The TPP does not mandate ratification of core multilateral environment agreements (MEAs), but countries do commit to enforce MEAs to which they are already a party.

Taiwan has not covered labor or environmental issues extensively in other agreements. It is not a member of the ILO or various MEAs, the baseline for TPP commitments in these areas, though many Taiwanese practices generally follow relevant core standards.⁴⁰ But there are some key exceptions.

Where environmental standards are concerned, Taiwan still provides subsidies to fisheries, and Taiwan's internal TPP review has flagged its fisheries policy as inconsistent with TPP rules.⁴¹ In late 2015, the European Union threatened trade sanctions against Taiwan regarding IUU fishing, citing “serious shortcomings in the fisheries legal framework, a system of sanctions that does not deter IUU fishing, and lack of effective monitoring, control and surveillance of the long-distance fleet.”⁴² In addition, although Taiwanese law bans shark finning, reports of illegal trade and ineffective enforcement persist.

Taiwanese domestic laws and regulations largely comply with core standards of the ILO with some exceptions—for example, restrictions on the right to strike and the exclusion of some types of workers from collective bargaining.⁴³ Forced labor and trafficking involving migrant labor are widely reported in the fishing industry, although Taiwan is not designated on the State Department's human trafficking watch list (US State Department 2015b).

In sum, Taiwan's limited participation in trade agreements outside of the WTO has meant limited coverage of 21st century issues in its existing FTAs. Beginning with incremental liberalization under the ECFA, followed by broader deals with New Zealand and Singapore, Taiwan has begun to narrow the gap. For the TPP, Taiwan will be expected to narrow its exceptions across the board for goods market access, services, government procurement, and investment. In particular, Taiwan will face pressure to liberalize high tariffs and protection of certain agricultural products, such as rice. Taiwanese FTAs generally follow WTO practice and do not include WTO-plus requirements, for example, in areas like SPS measures. Moreover, Taiwanese deals do not go as far in addressing innovative trade rules in areas like state-owned enterprises, e-commerce, environment, and labor standards; but adjustment to many of these areas seems relatively

40. Prior to 1971, Taiwan had officially ratified four of the eight core ILO conventions, related to the right to organize and collective bargaining, equal remuneration, nondiscrimination, and abolition of forced labor. For details see ITUC (2010).

41. Despite past efforts of WTO members, there is no international regime for regulating fishery subsidies. During the Doha Round, Taiwan, along with Japan and Korea, pushed for limiting the scope of subsidy prohibition to a narrowly defined list of programs to primarily target “poorly managed” fisheries. For details, see [www.europarl.europa.eu/RegData/etudes/note/join/2013/513978/IPOL-PECH_NT\(2013\)513978_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/note/join/2013/513978/IPOL-PECH_NT(2013)513978_EN.pdf) (accessed on June 1, 2016).

42. “Fighting illegal fishing: Commission warns Taiwan and Comoros with yellow cards and welcomes reforms in Ghana and Papua New Guinea,” European Commission press release, October 1, 2015, http://europa.eu/rapid/press-release_IP-15-5736_en.htm (accessed on June 1, 2016).

43. For details on Taiwanese worker rights, see US State Department (2015b).

straightforward for Taiwan, with some key exceptions, such as reforms in fishery management. In the area of intellectual property rights, Taiwanese trade deals have not been extensively TRIPS-plus, but Taiwan has indicated plans to pursue several reforms that should help narrow the gap.

5. STATUS OF US-TAIWAN TRADE AND INVESTMENT TALKS

The United States works with Taiwan bilaterally, in APEC, and in the WTO. Bilateral trade relations are friendly but underdeveloped. Long-standing talks to establish a trade and investment framework agreement (TIFA), which would provide a regular forum for bilateral dialogue, began in 1995 but stalled in 2007, primarily over disputes related to US beef and pork imports. TIFA talks resumed in March 2013 but have progressed slowly, and the majority of agricultural issues remain unresolved.

The TIFA talks faltered after Taiwan banned US beef and pork imports based on concerns over bovine spongiform encephalopathy, or mad cow disease, and the use of ractopamine, a chemical feed additive used to promote growth. Taiwan loosened its beef restrictions in 2009, permitting imports of certain products, but continued import barriers on ground beef, offal, and other products as well as restrictive border inspections. Reducing these problems would clear a path toward broader US-Taiwan trade relations.

The main source of contention is the continued ban on pork imports. From the US standpoint, Taiwanese restrictions are unjustified as US products comply with the maximum residue level (MRL) for ractopamine set by the Codex Alimentarius Commission (specified by the WTO SPS Agreement as the relevant standard-setting body for food safety). However, in addition to Taiwan, many major trading partners, including China, the European Union, and Russia, contest the international MRL “consensus” as invalid and continue to restrict imports with traces of the chemical. Like many agricultural disputes, this issue may have small economic ramifications, but it looms large politically. Interest groups like the US National Pork Producers Council have already urged the United States not to support Taiwanese participation in the TPP.⁴⁴

More broadly, many see resolution of SPS issues as a signal of Taiwan’s political commitment to take on difficult reforms. As Joshua Meltzer (2014, 10) reflects, “the political capital that President Ma Ying-jeou had to expend domestically to follow through on his government’s commitment to allow increased US beef imports, combined with the ongoing ban on pork treated with ractopamine, have sowed significant doubt in the US administration and in Congress over the capacity of the Taiwan political system to undertake the type of economic reform that membership...would require.” The challenge for President Tsai is to regain political momentum for new economic reform.

SPS issues will be a priority concern for US officials, but others will also need to be addressed. USTR (2016) cites a number of technical barriers to trade (TBT) and services and investment barriers, including Taiwan’s restrictive FDI approval processes. TBT issues cited include mandatory biotechnology labeling for food products; duplicative cosmetics labeling requirements; requirements to register chemical substances used in production, which can compromise confidential business information; and new requirements for organic labeling. The American Chamber of Commerce White Paper on Taiwan echoed similar concerns. The AmCham Taipei (2015) review of Taiwan’s business climate gave it high marks for openness to foreign firms and investors but flagged an overall lack of regulatory transparency as well as cumbersome, “unique-to-Taiwan” rules that increase costs of doing business.

44. “NPPC Wants to Lift Ractopamine Ban,” press release, July 30, 2012, www.nppc.org/nppc-wants-taiwan-to-lift-ractopamine-ban/ (accessed on May 19, 2016).

At the ninth TIFA Council meeting in October 2015, the two sides discussed TBT issues in addition to agriculture, intellectual property rights, and investment. US officials lauded Taiwan's steps to "improve trade secrets protection, follow through on important 2014 TIFA commitments related to pharmaceuticals, address regulatory complexities for the registration of chemical substances, and relax restrictions on offshore data centers for financial institutions."⁴⁵ Progress toward addressing concrete TBT and IP issues through the TIFA will be a significant test of Taiwan's readiness to join the TPP. This has also been the case for prospective TPP members such as Korea, which is taking steps to address outstanding implementation issues of the KORUS FTA (see Schott 2015).

Last, due to recent developments, exchange rate policies of prospective TPP members will be subject to close congressional scrutiny. The Trade Facilitation and Trade Enforcement Act, signed in February 2016, requires US officials to examine exchange rate policies of prospective FTA partners.⁴⁶ Taiwan's currency policies are being monitored by the US Treasury and will attract closer scrutiny if Taiwan asks to join the TPP.

The TPP countries adopted the Joint Declaration of the Macroeconomic Policy Authorities of Trans-Pacific Partnership Countries in parallel with the trade pact and not subject to its dispute settlement procedures (Bergsten and Schott 2016).⁴⁷ In the declaration, each TPP member commits to "avoid persistent exchange rate misalignments" and "refrain from competitive devaluation." Foreign exchange reserves and interventions in currency markets must also be disclosed. New entrants to the TPP would have to adhere to this declaration as well.

As a parallel to the TPP, Title VII of the Trade Facilitation and Trade Enforcement Act sets three criteria for determining the existence of currency manipulation to be monitored by the US Treasury,⁴⁸ and based on these criteria the US Department of the Treasury (2016) flagged several major trading partners in its latest semiannual foreign exchange report. No country was indicted for "currency manipulation," but Taiwan was among a group of five countries (with China, Japan, Korea, and Germany) on a "monitoring list." Taiwan was cited for its "material current account surplus and its persistent, one-sided intervention in foreign exchange markets" (page 2). As mandated by the new statute, currency practices will be a key factor in determining whether Congress approves new TPP participants.

From the standpoint of the United States, resolving major bilateral irritants—agricultural market access in pork, beef, and rice; FDI restrictions and approval process; cross-cutting SPS and TBT issues; intellectual property issues; and exchange rate policy—will be necessary to advance both bilateral and TPP initiatives. However, bilateral consultations between Taiwan and *all* TPP members will be a requirement for its accession.

45. "United States and Taiwan Deepen Dialogue on Trade and Investment Priorities," USTR press release, October 2015, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/united-states-and-taiwan-deepen> (accessed on May 15, 2016).

46. Title VII, Sec. 701, subsection (c)(1)(D) states that USTR must "take into account, in consultation with the [Treasury] Secretary, in assessing whether to enter into a bilateral or regional trade agreement with that country or to initiate or participate in negotiations with respect to a bilateral or regional trade agreement with that country, the extent to which that country has failed to adopt appropriate policies to correct the undervaluation and surpluses...." For the full text, see www.congress.gov/114/bills/hr644/BILLS-114hr644enr.pdf (accessed on May 15, 2016).

47. For the full text, see www.treasury.gov/initiatives/Documents/TPP_Currency_November%202015.pdf (accessed on August 29, 2016).

48. The three criteria are (1) a significant bilateral trade surplus with the United States, (2) a material current account surplus, and (3) engagement in persistent one-sided intervention in the foreign exchange market. For analysis see C. Fred Bergsten and Joseph E. Gagnon, "The New US Currency Policy," PIIE RealTime Economic Issues Watch blog, April 29, 2016, <https://piie.com/blogs/realtime-economic-issues-watch/new-us-currency-policy> (accessed on May 11, 2016).

6. TAIWAN'S OPTIONS TO JOIN THE TPP

The clear conclusion from the preceding analysis is that Taiwan would benefit from TPP participation but would need to undertake significant policy reforms to meet TPP requirements for liberalization of goods, services, investment, and other areas including the environment and IPR. This concluding section examines the procedures and strategies for negotiating TPP membership if the new Taiwanese government decides to pursue this course of action.

TPP Article 30 sets out procedures for the application and approval of new members once the TPP has entered into force. The TPP is open to all APEC members as well as “any other State or separate customs territory as the Parties may agree” that accepts TPP obligations (Article 30:4.1(b)).

As a member of APEC, Taiwan can ask to join the TPP but it needs to be approved by all current parties to the TPP under procedures that appear comparable to WTO accession procedures. Any TPP country can block or delay acceptance of a new member until it is satisfied that the candidate meets TPP standards in terms of both its ability to adopt, implement, and enforce TPP obligations and its commitments to open its markets to goods, services, and investment from TPP countries.

The TPP accession process gives existing members leverage to negotiate broad-ranging market access commitments from newcomers. It also rewards “first movers” since countries that join quickly can then negotiate bilateral deals with aspiring TPP members.

US negotiators often require “down payments” on reform commitments to be undertaken in advance of and/or in the final negotiated agreement before accepting new participants to ongoing negotiations or existing pacts. For example, before the United States supported the participation of Japan in the TPP talks, US and Japanese officials negotiated a series of what could be called “prenuptial” agreements covering both immediate policy reforms and commitments to comprehensive liberalization of both agricultural and manufactured goods in the final TPP agreement. In April 2013 Japan announced that it would not approve applications by Japan Post Insurance to offer new/modified cancer insurance and other medical insurance until competitive conditions improve in the Japanese market and that the number of imported US vehicle types eligible for Preferential Handling Procedures would be increased. In addition, both sides committed to pursue parallel bilateral talks on nontariff measures (NTMs) affecting motor vehicle trade to be completed before the end of TPP negotiations and appended to TPP market access schedules, as well as bilateral talks on NTMs in other areas (insurance, investment, trade facilitation, IPRs, standards, government procurement, competition policy, express delivery services, and SPS measures). Other TPP countries also conducted bilateral consultations with Japan before supporting its TPP entry. Japan joined the TPP negotiations in July 2013.

When will the TPP be open to new members? Article 30 sets out the criteria. For two years after February 4, 2016—the date the TPP was signed—if all 12 countries ratify the agreement, it will become effective 60 days after the last country submits its documentation—that could occur as early as spring 2017. If all 12 countries have not ratified the pact by February 4, 2018, at least six original signatories representing 85 percent of TPP GDP in 2013 must do so before entry into force. As a practical matter, that means that the United States and Japan have to complete their domestic procedures before the TPP “goes live.” Japan is likely to ratify the pact before the United States, probably by the end of 2016.

The date of US ratification is less certain. It is still possible, and highly desirable, for Congress to act before the end of the year; to do so, President Obama and Republican leaders in the House and Senate will have to move quickly to finalize implementing legislation that both meets US TPP commitments and responds to key concerns of members of Congress about the pact. If the vote is deferred to the next Congress,

then the next US president probably will seek to revise the pact, though Republican candidate Donald Trump has vowed to “tear it up.”^{49,50} If the new president conducts an extensive review of the agreement, and as a result requests modifications and additions (such as enforceable provisions to deter currency manipulation), TPP activation could be pushed back a year or longer, thus also delaying the time when new members could be considered.

If Taiwan decides to pursue TPP membership, it will probably face a two-step negotiating process in some ways similar to the one Japan followed after asking to join the TPP in early 2013. Prompted by members of Congress from agricultural districts, before agreeing to negotiate Taiwan’s accession, US officials would seek resolution of some long-standing bilateral trade frictions on pork and other products as evidence of Taiwan’s commitment to comprehensive TPP reforms and ability to make and enforce tough political decisions. In addition, Taiwan would have to satisfy the requirement that it is not manipulating the value of its currency for commercial advantage (see Bergsten and Schott 2016). Without such preclearance, US officials would not be able to negotiate new FTA arrangements, either bilaterally or as part of the TPP, with Taiwan and other trading partners. Other bilateral trade frictions, in areas such as services, may not pose a substantial obstacle to the start of negotiations on TPP accession, especially if Taiwan participates constructively and signs the prospective TiSA.

Several other APEC members have expressed interest in accession, including Korea, Indonesia, the Philippines, and Thailand; other countries, including China and Colombia, are closely examining the TPP to assess the benefits and adjustment costs of possible participation and the range of policy reforms they would have to undertake to meet TPP norms. With the exception of Korea, whose FTAs with the United States and European Union are largely comparable to TPP provisions, prospective candidates face numerous challenges in meeting the TPP’s high standards across a range of issues. Our brief assessment of Taiwan’s most comprehensive trade accords concludes that Taiwan also has to bridge a significant divide between its FTA best practice and TPP standards. Doing so will require sustained political support for domestic reforms that to date have provoked heated debate in the Legislative Yuan.

The TPP accession provisions are ambiguous with regard to how multiple applications would be handled. Officials from the signatory countries have begun to discuss whether to process applications individually or to group candidates cleared to negotiate accession once the pact enters into force. Most likely there will be a backlog of applications at the start, so the signatories are exploring strategies to avoid negotiation bottlenecks.

This procedural issue has substantive and political considerations that are especially important for Taiwan. Take, for example, the likelihood that Korea will ask to join the TPP as soon as the application period opens. A sequential approach to negotiating accessions would put Korea at the front of the queue and Taiwan and others further back. The talks with Korea would probably establish precedents that would be applied to talks with other candidates. However, if Taiwan and Korea are both ready to negotiate accession when the door opens to new members, TPP countries may want both to assume comparable obligations with respect to the broad range of products in which their companies directly compete in order to minimize the risk of trade and investment diversion.

On the other hand, some TPP members may want to defer consideration of Taiwan’s application to

49. Vicki Needham, “Trump vows to ‘rip up’ all trade agreements,” *The Hill*, March 3, 2016, <http://thehill.com/policy/finance/271723-trump-vows-to-rip-up-all-trade-agreements> (accessed on August 29, 2016).

50. We believe that a Hillary Clinton administration would give priority to US national security and foreign policy objectives in the Asia-Pacific over protectionist considerations.

avoid possible friction in their relations with China. Such caution has kept Taiwan isolated from most intra-Asian trade arrangements, though not from plurilateral trade initiatives such as the Environmental Goods Agreement, ITA-2, and TiSA. As noted earlier, the cost to Taiwan of nonparticipation in the TPP, in terms of reduced real income and exports, could rise sharply if TPP membership expands to Korea and other ASEAN countries.

In the past Taiwan was able to overcome political resistance to membership in both APEC (1991) and the WTO (2002) by aligning the timing of its entry with that of China (and Hong Kong in the case of APEC). This linked strategy facilitated Taiwan's entry into both organizations in a timely manner. But are these precedents relevant to TPP accession?

Unlike the APEC and WTO efforts, China today is undecided on whether, and if so when, to pursue TPP membership. To be sure, the charge that the TPP was designed to "contain China" no longer echoes through the corridors of power in Beijing as it did a few years back. Chinese economic leaders are carefully examining the TPP text to determine which rules complement and reinforce their own domestic reform efforts and which require changes that cross "red lines" for Chinese policymakers. But this evaluation process is likely to take some time. Moreover, ongoing US-China political frictions could pose additional obstacles and color US and Chinese views about China's participation in the TPP. Taiwanese officials voice understandable concern about deferring TPP participation until China is ready to join.

But there are other possible TPP entry scenarios, given the growing queue of countries interested in joining the trade pact. TPP countries could pair or group prospective applicants to expedite substantive negotiations and promote political support for the entry of new members. Such an approach presents other advantages and a few drawbacks for prospective TPP members. At a basic level, there is safety in numbers. If Taiwan negotiated alone, every wart and blemish in its trade policy would be closely examined by US and other trade officials seeking narrow commercial gain. Joint talks would not preclude such detailed negotiating demands but there would be more flexibility in tailoring the final commitments to secure the overall agreement with multiple applicants. On the other hand, as a group deal is put together each applicant loses to some extent control over the timetable of the talks and the achievement of specific negotiating priorities.

What would make sense for Taiwan when it is ready to meet the TPP's extensive obligations? One interesting possibility would be for TPP members to encourage Hong Kong to apply at the same time. Negotiating simultaneously with Taiwan and Hong Kong would allow TPP countries to focus on the extensive trade and investment that links these economies with China and the rest of the region. TPP content rules could be augmented for this particular situation, providing incentives for Chinese policies to adapt to TPP standards.

The pairing of Hong Kong with Taiwan might avoid Chinese censure and even provide an avenue for future Chinese participation, since Hong Kong is a separate customs area but closely linked with the Chinese economy. And, as shown in [table 4](#), Hong Kong's level of development and business-friendly policies are higher than those of many TPP signatories and comparable to those of Korea. Hong Kong officials have not discussed TPP participation publicly to any extent. It would be useful to start diplomatic overtures on the topic.

Finally, whether Taiwan moves forward with the TPP or not, another Asia-Pacific integration initiative is advancing, albeit at a crawl, via APEC: the Free Trade Area of the Asia-Pacific. Taiwan is participating in the APEC strategic collective study on an FTAAP, but no agreement has been reached on whether and when negotiations would begin. Substantive results are unlikely before the next decade at the earliest.

Asia is too dynamic and globally important a region to wait to see whether the FTAAP turns out to complement or substitute for the TPP. Better for Taiwan to accelerate its readiness for the TPP during this decade.

APPENDIX A SUMMARY OF TAIWAN'S TRADE AGREEMENTS

Table A.1 Summary of coverage of Taiwan's free trade agreements (FTAs)

Partner	Date signed	Entry into force	Year fully implemented	Trade and tariff liberalization	Tariff rate quota (TRQ)	Cross-border trade in services and investment ^a	Other provisions
Panama	8/21/2003	1/1/2004	2013	<p>Panama: In 2004, 29.7 percent of tariff lines were already duty free on an MFN basis. Upon the agreement's entry into force, 19 percent additional tariff lines became duty free. By the end of 2013, 95.1 percent of all tariff lines were liberalized. Most products exempt from liberalization fall under HS sections IV (prepared food), I (live animals and animal products), and XVII (transport equipment).</p> <p>Taiwan: In 2004, 31 percent of tariff lines were duty free on an MFN basis. On entry into force, 42.9 percent additional tariff lines became duty free. By 2013, 97.4 percent of all tariff lines were eliminated. Most exempt products fall under HS sections I (live animals and animal products), II (vegetable products), and IV (prepared food).</p>	<p>In addition to TRQs on an MFN basis, Taiwan maintains quotas for some agricultural and fish products.</p>	<p>Panama: 24 existing reservations, of which 4 are horizontal, and 7 future reservations.</p> <p>Taiwan: 19 existing reservations, of which 1 is horizontal, and 3 future reservations. GATS+ commitments in medical services.</p> <p>Specific sectors: Financial and telecommunication services are covered.</p>	<p>Covers environment and intellectual property rights. Government procurement is not covered.</p>

Guatemala	9/22/2005	7/1/2006	2020	<p>Guatemala: In 2006, 48.9 percent of tariff lines were duty free on an MFN basis. Upon the agreement's entry into force, 16 percent additional tariff lines became duty free. 26.4 percent of tariff lines remain following full implementation in 2020. Most products exempt from liberalization fall under HS sections XI (textiles), VII (plastics and rubber), and XV (base metals).</p> <p>Taiwan: In 2006, 31.3 percent of tariff lines were duty free on an MFN basis. On entry into force, 32.6 percent additional tariff lines became duty free. By 2020, 97.4 percent of tariff lines will be liberalized. Most exempt products fall under HS sections I (live animals and animal products), II (vegetable products), and IV (prepared food).</p>	<p>Taiwan commits to a TRQ of 60,000 metric tons (MT) for sugar (refined sugar not to exceed 35 percent of total). Annual quota will increase or decrease from year 2 onward. In quota duty is zero and out of quota duty applied on an MFN basis.</p>	<p>Guatemala: 29 existing and future reservations, of which 6 are horizontal. A reservation is listed for the State. Full liberalization of distribution, educational, environmental, and health-related services, subject to horizontal reservations and future reservations. GATS+ commitments to partially liberalize construction and related engineering services and recreational, cultural, and sporting services.</p> <p>Taiwan: 26 existing and future reservations, of which 1 is horizontal, with a reservation for the State in 3 subsectors. Full commitments in distribution services, tourism and travel-related services, and environment services.</p> <p>Specific sectors: Financial services are not covered. Follow-up agreements in maritime transport (2005) and air services (2007).</p>	<p>Covers intellectual property rights. Government procurement is not covered.</p>
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(table continues)

Table A.1 Summary of coverage of Taiwan's free trade agreements (FTAs) (continued)

Partner	Date signed	Entry into force	Year fully implemented	Trade and tariff liberalization	Tariff rate quota (TRQ)	Cross-border trade in services and investment ^a	Other provisions
Nicaragua	6/16/2006	1/1/2008	2022	Nicaragua: In 2008, 46.8 percent of tariff lines were duty free on an MFN basis. Upon the agreement's entry into force, 4.9 percent additional tariff lines became duty free. At the end of implementation in 2022, 4.8 percent of tariff lines will remain dutiable and most fall under HS sections IV (prepared foods), XI (textiles), and XII (footwear and headgear). Taiwan: In 2008, 31.7 percent of tariff lines were already duty free on an MFN basis. On entry into force, 34 percent additional tariff lines became duty free. By 2022, 97.3 percent of tariff lines will be liberalized. Most exempt products fall under HS sections I (live animals and animal products), II (vegetable products), and IV (prepared foods).	Taiwan commits to TRQs on peanuts (250 tons), raw sugar (5,000 tons), and refined sugar (25,000 tons). Quotas for raw and refined sugar are granted starting in 2009.	Nicaragua: 36 existing and future reservations. Taiwan: 36 existing and future reservations. Specific sectors: Telecommunication services, financial services, and ecommerce are covered.	Covers labor, environment, and anticorruption.

El Salvador	5/7/2007	7/15/2008	2027	<p>El Salvador: In 2008, 47.1 percent of tariff lines were duty free on an MFN basis. Upon the agreement's entry into force, 10.4 percent additional tariff lines became duty free. At the end of implementation in 2027, 26.9 percent of tariff lines will remain dutiable. Most exempt products fall under HS sections XI (textiles), XV (base metals), and XVII (vehicles, aircraft, and vessels).</p> <p>Taiwan: In 2008, 31.7 percent of tariff lines were duty free on an MFN basis. On entry into force, 32.7 percent additional tariff lines became duty free. By 2022, 97.4 percent of Taiwan's tariff lines will be liberalized. Most exempt products fall under HS sections I (live animals and animal products), II (vegetable products), and IV (prepared food).</p>	<p>Taiwan commits to duty-free quota for sugar: 35,000 MT for raw sugar (10 percent of total raw sugar imports in 2007) in year 1, 50,000 MT in year 2, 60,000 MT in year 3 and onward. Annual quota for refined sugar is 5,000 MT (4 percent of total refined sugar imports in 2007).</p>	<p>El Salvador: 28 reservations, 3 of which are horizontal. Compared with GATS, it liberalizes construction and related engineering services, and recreational, cultural, and sporting services with some reservations. Full commitments made in distribution, education, environmental, health-related and social services, subject to horizontal reservations.</p> <p>Taiwan: 31 reservations, of which 1 is horizontal. Full commitments made in distribution services, tourism and travel-related services, and environmental services, subject to horizontal reservations.</p> <p>Specific sectors: Financial, air (with some exceptions), and telecommunication services not covered.</p>	<p>No provisions on government procurement and intellectual property rights.</p>
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(table continues)

Table A.1 Summary of coverage of Taiwan's free trade agreements (FTAs) (continued)

Partner	Date signed	Entry into force	Year fully implemented	Trade and tariff liberalization	Tariff rate quota (TRQ)	Cross-border trade in services and investment ^a	Other provisions
Honduras	5/7/2007	3/1/2008	2027	<p>Honduras: In 2008, 47.1 percent of tariff lines were duty free on an MFN basis. Upon the agreement's entry into force, 14.9 percent additional tariff lines became duty free. 22.2 percent of the tariff lines are exempt from liberalization, most fall under HS sections XI (textiles), XV (base metals), and XVII (vehicles, aircraft, and vessels).</p> <p>Taiwan: In 2008, 31.7 percent of tariff lines were duty free on an MFN basis. On entry into force, 37.8 percent additional tariff lines became duty free. By 2022, 97.4 percent of Taiwan's tariff lines will be liberalized. Most exempt products fall under HS sections I (live animals and animal products), II (vegetable products), and IV (prepared food).</p>	<p>Taiwan commits to duty-free quota for sugar: 35,000 MT for raw sugar (10 percent of Taiwan's total raw sugar imports in 2007) in year 1; 50,000 MT (14 percent) in year 2; 60,000 MT (17 percent) in year 3 and onward. The annual quota for refined sugar is 5,000 MT (4 percent of total refined sugar imports in 2007).</p>	<p>Honduras: 54 existing and future reservations, of which 5 are horizontal. Honduras does not make commitments in education services. Unlike GATS, full commitments made in environmental services, health-related services, and tourism and travel services, subject to reservations. GATS+ commitments in recreational, cultural and sporting services, with some reservations.</p> <p>Taiwan: 31 reservations, of which 1 is horizontal. Full commitments made in distribution services, tourism and travel-related services, and environmental services, subject to horizontal reservations.</p> <p>Specific sectors: Financial, air (with some exceptions), and telecommunication services not covered.</p>	<p>No provisions on government procurement and intellectual property rights.</p>
China ^b	6/29/2010	9/12/2010	—				

New Zealand	7/10/2013 12/1/2013	2025	<p>New Zealand: In 2013, 58.3 percent of tariff lines were duty free on an MFN basis. Upon the agreement's entry into force, 41.3 percent additional tariff lines were eliminated, and all tariff lines will be removed by the end of 2017.</p> <p>Taiwan: In 2013, 29.5 percent of tariff lines were duty free on an MFN basis. On entry into force, 65 percent additional tariff lines became duty free. By 2025, 99.9 percent of tariff lines will be liberalized. Nine tariff lines under HS section I (live animals and animal products) are exempt.</p>	<p>Taiwan establishes transitional TRQs on liquid milk and deer velvet over a 12-year period. Products imported under TRQs are not counted toward other quotas under Taiwan's WTO schedule.</p>	<p>New Zealand: 37 existing and future reservations, of which 10 are horizontal. No reservations listed under construction and related engineering service sectors. GATS+ commitments in health-related and social services and recreational, cultural, and sporting services, with some reservations. No commitments made in environmental services. Commitments in financial services do not go beyond GATS schedule.</p> <p>Taiwan: 44 reservations, of which 6 are horizontal. No reservations in construction and related engineering, distribution, and tourism and travel services.</p> <p>Specific sectors: Ecommerce, air transport services, and film and television coproduction are covered.</p>	<p>Covers government procurement, competition policy, ecommerce, intellectual property rights, as well as labor, environment, and cooperation on indigenous issues.</p>
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(table continues)

Table A.1 Summary of coverage of Taiwan's free trade agreements (FTAs) (continued)

Partner	Date signed	Entry into force	Year fully implemented	Trade and tariff liberalization	Tariff rate quota (TRQ)	Cross-border trade in services and investment ^a	Other provisions
Singapore	11/7/2013	4/19/2014	2028	<p>Singapore: In 2014, 99.9 percent of all tariffs were already duty free. Upon the agreement's entry into force, Singapore eliminated the remaining 6 lines, granting market access for all goods.</p> <p>Taiwan: In 2014, 29.5 percent of tariff lines were duty free on an MFN basis. On entry into force, an additional 53.6 percent of tariff lines were liberalized. 46 tariff lines (or 0.5 percent) in agriculture remain subject to duties (HS sections I, II, and IV).</p>	<p>The agreement does not establish TRQs.</p>	<p>Singapore: 68 reservations for existing and future services, of which 12 are horizontal. No reservations listed under construction and engineering services. New GATS+ commitments in distribution, educational, and environmental services, with some reservations. Commitments in financial services and health-related and social services do not go beyond GATS.</p> <p>Taiwan: 39 reservations, of which 7 are horizontal. No reservations under construction and related engineering, distribution, and tourism and travel services. Compared with GATS, broader commitments in all 11 sectors except finance.</p> <p>Specific sectors: Ecommerce and telecommunication services are covered.</p>	<p>The agreement also covers government procurement, competition policy, ecommerce, and intellectual property rights.</p>

GATS = General Agreement on Trade in Services; HS = Harmonized System; MFN = most favored nation

a. Liberalization commitments in all FTAs except China follow a negative list approach.

b. Detail on Taiwan-China trade pacts is provided in table A.2.

Sources: WTO Regional Trade Agreements Information System (RTA-IS) database, <http://rtais.wto.org/ui/PublicMaintainRTAHome.aspx> (accessed on April 7, 2016); MOEA (2013a, 2013b).

Table A.2 Summary of cross-strait trade pacts

Agreement	Date signed	Entry into force	Current status	Content covered
Cross-Strait Economic Cooperation Framework Agreement (ECFA)	6/29/2010	9/12/2010	In force	<p>* The agreement covers liberalization of tariff and non-tariff barriers to goods and services trade, investment, and economic cooperation in various areas.</p> <p>* Under the Early Harvest Program for trade in goods, 267 tariff lines for Taiwan and 539 for China were to be eliminated over 3 phases within 2 years. Liberalization began in January 2011 with final group of “early harvest” items tariff free by 2013.</p> <p>* Under the Early Harvest for trade in services, Taiwan committed to liberalize 8 subsectors in business, communication, distribution, transport, and recreational, cultural, and sporting services, with 1 commitment in financial services. China committed to liberalize 9 subsectors in business, communication, health, and transport services, with 3 commitments in financial services.</p> <p>* The agreement also covers trade rules including rules of origin, trade remedies, and dispute settlement procedures.</p> <p>* Requires establishment of a Cross-Strait Economic Cooperation Committee.</p>
Cross-Strait Bilateral Investment Protection and Promotion Agreement (BIA)	8/9/2012	2/1/2013	In force	<p>* The agreement aims to facilitate investment by reducing investment restrictions and ensuring fair and equitable treatment.</p> <p>* The agreement protects all investments (including investors who invest in China via third countries) and covers transparency requirements, notification and dispute settlement mechanisms, protection against expropriation, compensation for losses, subrogation rights, and capital transfers.</p> <p>* The agreement includes carveouts for restrictive measures in financial services for prudential reasons, as well as a balance of payments exception for temporary safeguard measures.</p>

(table continues)

Table A.2 Summary of cross-strait trade pacts (continued)

Agreement	Date signed	Entry into force	Current status	Content covered
Cross-Strait Agreement on Trade in Services	6/21/2013	—	Currently unratified by the Legislative Yuan of the Republic of China	<p>* The agreement covers trade rules, including transparency requirements, administration of regulatory measures, prevention of unfair competition, emergency negotiation mechanism, free movement of payments and capital transfers, and fair and equitable treatment.</p> <p>* In addition to commitments made under the ECFA, Taiwan made 64 commitments (55 nonfinance and 9 finance) in services liberalization and China made 80 commitments (65 nonfinance and 15 finance). Banking, health care, tourism, film, communications, and publishing industries are to be opened.</p> <p>* Commitments to open access to Chinese financial service firms were limited, but several state-owned commercial banks were permitted to open branches in Taiwan. For Taiwan, 13 banks were approved to establish branches in China; select asset management and securities companies were permitted to open local offices; and 20 Taiwanese investment trusts, 10 insurance companies, and 5 banks were certified by the China Securities Regulatory Commission and granted investment quotas.</p>
Cross-Strait Agreement on Trade in Goods	—	—	Negotiations ongoing; talks started February 2011 with 12th round held November 2015.	

Sources: 認識ECFA: 大事紀[Events], www.ecfa.org.tw/Event.aspx?nid=26 (accessed on March 29, 2016); 認識ECFA: 協議文本及附件[Official documents and legal texts], www.ecfa.org.tw/RelatedDoc.aspx?nid=14 (accessed on March 29, 2016); and Ministry of Commerce of the People's Republic of China, Department of Taiwan, Hong Kong and Macao Affairs, 海峡两岸经济合作框架协议[ECFA], http://tga.mofcom.gov.cn/article/zt_ecfa/ (accessed on March 29, 2016); 最新消息: 新聞資料 [Latest News], www.ecfa.org.tw/ShowNews.aspx?nid=2&id=2153&year=all (accessed on March 29, 2016).

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