

## 台灣對中共走向區域貿易協定與兩岸加入 WTO 的回應：對加拿大的意義

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關鍵字：世界貿易組織(WTO)、自由貿易協定(FTA)、  
東南亞國協(ASEAN)

### 中文摘要

台灣問題是中共整體外交政策與對外經貿政策的一項常數。與台灣的經貿關係是中共台灣策略的重要成份，因為中共領導人相信兩岸經貿互動最終將會影響與形塑台灣的大陸政策。雖然中國大陸與東協的 FTA 最初的理論基礎未必是源自北京的對台策略，但是中共必然會以中國大陸與東協的 FTA 對台灣施壓迫台早日三通以及對大陸採取更開放的政經政策。

台灣是東亞的第四大經濟體。任何東亞經濟整合不包含台灣毫無疑問地就不算是整合完成。而就台灣的政經未來而言，台灣是經不起被摒除在東亞的區域經濟整合與全球化的過程之外的。

中國大陸是加拿大的第四大出口市場，而台灣則是加國亞太地區的第五大出口市場。因此，台海兩岸加入 WTO、兩岸的區

域 FTA 協定的走向以及兩岸關係的未來發展所帶來的商業環境的變遷都會對加拿大造成實質的影響。就中國大陸言，北京在加入 WTO 時所做出的廣泛承諾將會實質減少其外貿與投資的障礙，增加其貿易規範的可預測性與透明度。中國大陸是世界第一大消費市場，且其購買力不斷提升，因而更開放的中國大陸市場將會為加國的商品與服務業貿易帶來重大的商機。同時，更開放的經濟也使大陸更能吸引加國企業前往投資。而另一方面，中國大陸致力 FTA 協定雖然可使大陸開放市場的承諾有多邊與雙邊的雙重保障，不致走回頭路，對加拿大肯定有利，不過也使加國與北京簽有 FTA 的鄰邦進行貿易競爭時居於不利的地位。同樣地，台灣的 WTO 入會也會為加國企業與貿易商帶來更多的商機，尤其是化學、醫藥、造紙業、醫學儀器、資訊、航太與農產品等業者。台灣在未來在 WTO 架構下簽訂政府採購協定將為加國企業增加更多商機。此外，由於加拿大素以維持和平與製造和平享譽國際，渥太華當局或可在台海兩岸間扮演和事佬的角色促成兩岸關係的穩定與制度化。



# **China Moving Toward Regional FTAs, Cross-Straits Mutual WTO Membership, and Taiwan's Response: Implications for Canada**

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Key Words : World Trade Organization(WTO), Free Trade Area(FTA), Association of Southeast Asian Nations (ASEAN)

A most phenomenal feature of the existing global trading system seems to be the coexistence of multilateralism as embodied in the World Trade Organization (WTO) and a growing number of bilateral and regional preferential trade arrangements as illustrated mostly in free trade areas (FTA). In the eyes of many people FTAs look quite at odds with WTO's most salient principle of "Most Favored Nation" (MFN), which implies equal treatment for all WTO members. Under WTO's Article 24, however, regional preferential trade arrangements in the form of customs unions and FTAs are openly permitted on the basis of the rationale that such regional arrangements could serve as a supplemental and practical route to the universal free trade that WTO advocates as its ultimate goal. As such, FTAs are now widely accepted as supplementary, rather than detrimental, to WTO.

Through its WTO accession and its move to negotiate a FTA with the Association of Southeast Asian Nations (ASEAN) at the end of 2001, China has actively responded to this symbiosis in the global

trading system. While China's efforts to join the General Agreement on Trade and Tariffs (GATT), which evolved into WTO in 1995, started as early as 1986, its move to explore and negotiate a FTA with ASEAN is the result of Beijing's most recent foreign economic policy adjustment. However, these two developments of 2001 in China's foreign economic relations represent a new stage of the nation's policy of opening to the outside world and are logically related to each other. They will not only substantially transform China's economic relations with the outside world, but also bring significant impact on the political economy in East Asia in general and cross-Straits relations in particular.

This article attempts to explore China's recent policy initiatives and moves toward regional FTAs with neighboring economies in the context of cross-Straits mutual WTO membership, Taiwan's responses and the implications thereof for Canada. The article is organized into six sections. The first section looks at China's recent moves to explore FTAs with neighboring economies in East Asia. The second part examines the recent decision of China and ASEAN to negotiate a FTA between them. The third section speculates on how the China-ASEAN FTA will pose a challenge to Taiwan's China policy. The fourth part discusses the effects of the mutual WTO membership of Taiwan and China on cross-Straits relations in the context of Beijing's moves toward regional FTAs. The fifth section analyzes how Taiwan is exploring its own FTAs as a response to the external imperative. The concluding section speculates on the implications of this development in the cross-Straits relationship for Canada.

### **China Exploring Regional FTAs**

Together with its WTO accession, China's ongoing moves toward regional FTAs represents a most recent stage of its "opening to the outside world" policy, reflecting Beijing's active response to the changing conditions of the global and regional economy as well as the

changing conditions of its domestic economy in its drive for rapid economic development. As a matter of fact, the issue of participation in regional as well as global multilateral cooperation had long been very sensitive for the Chinese leadership, not only because it would involve the sensitive issue of state sovereignty, but also because China had a strong sense of isolation in the regional and global community and feared the loss of maneuverability in multilateral diplomacy. It is only since the early 1990s that China has gradually changed its perspective on the issue of institutionalized economic cooperation in East Asia.

China's changing attitude toward institutionalized regional economic cooperation is largely attributed to the changed external conditions in the global economy and changed regional economic relations in East Asia since the early 1990s. Particularly, like their counterparts elsewhere in East Asia, Chinese leaders have been showing growing concern over economic regionalism in the world economy, especially in Western Europe and North America. On the other hand, the Chinese economy has become so integrated with the regional economy over the past two decades that the fortune of the East Asian economy will directly affect the Chinese economic development.<sup>1</sup>

The first sign of China's changing attitude toward regional economic cooperation was illustrated by its participation in APEC in the early 1990s. However, a most radical change of China's perspective came in the wake of the Asian financial crisis of 1997-

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<sup>1</sup> Song Deling and Li Guanghui, "Economic cooperation in East Asia Region enhanced to promote economic development in China [sic]," *International Economic Cooperation*, No.5, 2002, pp.27-30; Tong Fuquan, "A Just-in-Concept: The blueprint of China-ASEAN free trade zone [sic]," *Intertrade*, No.2, 2002, pp.24-25.

78.<sup>2</sup> Seeing the devastating consequences of the rapid contagion of the Asian financial crisis, China has realized the very importance of a regional mechanism for close economic policy coordination and cooperation among the region's governments in an increasingly interdependent regional economy. It is under such circumstances that China has shown growing interest in institutionalized regional economic cooperation in general and regional FTAs in particular.

Reflecting this increasing interest in regional economic cooperation, China has taken several major policy initiatives and moves for exploring FTAs with neighboring economies, specifically regarding a Greater-China FTA, a Northeast Asian FTA, a Chinese-Southeast Asian FTA, and a FTA for the whole East Asian region.

For understandable political, economic and nationalistic reasons, a Greater-China FTA that would involve China, Taiwan, Hong Kong, and Macao is most appealing to Chinese decision-makers. In China's eyes, the formation of a Greater-China FTA will not only promote the economic integration and competitiveness of these Chinese economies,<sup>3</sup> but also, more importantly, be able to serve as an effective vehicle to circumvent the existing political deadlock between China and Taiwan and to improve cross-Straits relations so as to pave the way for eventual political unification of the mainland and the

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<sup>2</sup> Li Xiang-yang, "The Feasibility of Establishing a Free Trade Area among Japan, South Korea and China," *China & World Economy*, Vol.10, No.1, 2002, p.13.

<sup>3</sup> See, for example, Chi Fulin, "'The free trade area of China' will form step by step," *China Reform*, No.2, 2002, pp.22-23; Wei Yanshen, "A Wise Option: Tentative ideas on the establishment of China free trade zone [sic]," No.5, May 2002, pp.29-32; Cao Xiaoheng, "China's Economic Trend and Perspective of the Economic Cooperation between the Both Sides of the Taiwan Straits [sic]," *Taiwan Studies*, No.2, 2002, pp.15-22.

island.<sup>4</sup> However, given the political distrust between Taipei and Beijing, it is unlikely that Taiwan is willing to be part of this Chinese economic community. As such, China has decided to form FTAs with Hong Kong and Macao as initial steps of a Greater-China economic grouping in the wake of its WTO entry. On June 29, 2003, Beijing formally signed with Hong Kong the Closer Economic Partnership Arrangement (CEPA) after more than a year of negotiations. Under the China-Hong Kong CEPA, tariffs and no-tariff barriers on trade in both goods and services will be phased out and facilitation measures will be adopted to promote trade and investment. What is more significant, the China-Hong Kong CEPA is seen by Beijing only as a starting point of creating a Grand-Chinese Economic Zone, which will eventually involve Macao and Taiwan. As such, Beijing started to negotiate with Macao on a similar arrangement on June 20, 2003, just nine days before the signing of the China-Hong Kong CEPA.<sup>5</sup>

Likewise, largely as a result of the Asian financial crisis China has also shown growing interest in a Northeast Asian FTA, which is illustrated in China's participation in a first ever trilateral summit meeting among China, Japan and South Korea held in Manila in November 1999. As a concrete result of this summit, China reached an agreement with Japan and South Korea on trilateral joint research on economic cooperation among them. Under the agreement, a joint research project was formally launched in November 2000, involving three government-designated research institutes, Development Research Center of China, National Institute for Research Advancement of Japan, and Korea Institute for International Economic Policy. Although the series of joint research came to the

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<sup>4</sup> Zhou Zhihui, "On the Systematizing Arrangement of the Cross-Strait Economic and Trade Relations [sin]," *Taiwan Studies*, No.2, 2002, pp.7-14.

<sup>5</sup> "Experts Note that Mainland-Hong Kong CEPA Is the Starting Point of the 'Grand Chinese Economic Zone'" (zhuan jia zhi nei di yu xiang gang CEPA shi 'da zhong hua jing ji quan' de qi dian), *China News*, June 29, 2003, <http://www.chinanews.com>.

conclusion that a Northeast Asian FTA is not yet feasible for the moment, not only because there is huge structural difference among the three economies but also because neither Japan nor South Korea is willing to open its agricultural market, the three countries still agreed in 2001 to set up a formal mechanism of economic ministerial meetings for institutionalized cooperation. They also decided to form an industrial forum to discuss the issues of common concerns.<sup>6</sup> Apparently, a Northeast Asian FTA is attractive to China not only because the Chinese economic structure is complementary with those of Japan and South Korea but also because a combined economic size of a Northeast Asian FTA would put China, Japan and South Korea in a much more improved position in global competition with the European Union (EU) and the North American Free Trade Agreement (NAFTA). As the attractiveness of a Northeast Asian FTA is so obvious, China adopts a fairly positive attitude regarding a possible FTA with Japan and South Korea for the future.<sup>7</sup>

China's growing interest in regional cooperation is similarly reflected in its participation in the ASEAN Plus Three (APT) forum (ASEAN plus China, Japan and South Korea) and ASEAN plus China forum.<sup>8</sup> By this, China believes that an economic grouping of APT would help promote the process of multipolarity in global affairs, promote East Asian cooperation, and promote the greater role of China in the Asia Pacific. It is within this context that China has pushed for the formation of a China-ASEAN FTA. It is China's belief that such a free trade arrangement will be more likely to succeed

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<sup>6</sup> Feng Xiao-ming, "China and ASEAN Can Share the Prosperity Together – Interview with Zhang Yun-ling, Director, Institute of Asia-Pacific Studies, CASS," *China & World Economy*, Vol.10, No.1, 2002, p.4.

<sup>7</sup> Li, "The Feasibility of Establishing a Free Trade Area among Japan, South Korea and China," pp.9 and 13.

<sup>8</sup> For a discussion of ASEAN's Ten Plus Three and Ten Plus One forums, see Richard Stubbs, "ASEAN Plus Three: Emerging East Asian Regionalism?" *Asian Survey*, Vol.42, No.3, May/June 2002, pp.440-455.



because China and ASEAN countries are generally equal in terms of the level of economic development. On the other hand, China seems to feel more confident in its relations with ASEAN, as its larger and more comprehensive economy as compared to ASEAN would permit China to have more capacity to counter the negative effects incurred from a FTA with ASEAN and, more importantly, to steer the process of China-ASEAN integration. Furthermore, a China-ASEAN FTA will also provide China, and ASEAN as well, with another advantage by enabling it to acquire a stronger bargaining position when negotiating a free trade pact for the whole East Asian region with Japan and South Korea in the future.<sup>9</sup>

Despite its various initiatives and moves for exploring regional FTAs, however, China's final objective seems to have a FTA to be eventually formed for the whole East Asian region. The real question, therefore, is which approach China should adopt to achieve this objective – to start with a Greater-China FTA and then spread to other parts of East Asia; or to start with a China-ASEAN FTA and later to expand to whole East Asia; or to start with a Northeast Asian FTA and eventually to include other East Asian economies; or, finally, to directly create an East Asian FTA without any pre-stage of a subregional free trade arrangement. Behind all these different approaches is China's strong belief that Beijing should assume a leading role in the process of East Asian integration.

### **The China-ASEAN FTA**

Of various policy options for regional FTAs available, China has decided to negotiate a FTA with ASEAN first through the existing institutional dialogue structure of ASEAN Plus China forum. It is within the structure of ASEAN Plus One (APO) between ASEAN and China that Beijing has taken this most dramatic move in East Asian

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<sup>9</sup> See, for example, Feng, "China and ASEAN Can Share the Prosperity Together," p.7.

integration. This is not only an unprecedented move in China's East Asia policy, but also a significant development in regional integration in East Asia.

The idea of a China-ASEAN FTA first emerged during the third ASEAN Plus China summit in Manila in 1999 when ASEAN was recovering from the Asian financial crisis. Realizing the vulnerability of its economy to the fluctuations in the world market, ASEAN was hoping to see China to play a more important role in the regional economy and to have more cooperation with China in the regional economy. As such, Beijing proposed closer cooperation between China and the planned ASEAN FTA, a proposal that was immediately accepted by ASEAN.<sup>10</sup>

In the following Singapore summit of 2000, at China's initiative, it was agreed that an expert group be created to study the feasibility of a China-ASEAN FTA and the implications of China's WTO membership for ASEAN. After one year of research work, the expert group submitted a report to the governments of China and ASEAN, in which it concluded that the creation of a China-ASEAN FTA would bring a win-win situation for both sides and suggested a 10-year period for the achievement of this objective. The proposal was endorsed by both Chinese and ASEAN leaders. In the Brunei summit of November 2001, the leaders of China and ASEAN officially announced the decision, authorizing the start of negotiations at the ministerial level on the creation of China-ASEAN FTA in ten years.<sup>11</sup>

The created China-ASEAN FTA will involve a population of 1.7 billion, combined GDP of over \$2 trillion, and a total trade volume of \$1.23 trillion. According to a research report of the ASEAN

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<sup>10</sup> Kevin G. Cai, "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping," *Contemporary Southeast Asia*, Vol.25, No.3, 2003, p.396.

<sup>11</sup> Ibid.

Secretariat, the China-ASEAN FTA will help ASEAN increase its exports to China by 48 percent and its GDP by 0.9 percent (\$5.4 billion), while China will increase its exports to ASEAN by 55.1 percent and its GDP by 0.3 percent (\$0.9 billion).<sup>12</sup>

Moreover, a FTA between China and ASEAN is said to be only the starting point of cooperation between the two sides. In addition to the removal of tariff and non-tariff barriers, the China-ASEAN FTA will also serve as a framework for overall economic cooperation between the two parties. The whole idea is to establish a comprehensive and close relationship between China and ASEAN, involving a FTA, cooperation in finance, regional development, technological assistance, macroeconomic cooperation, and other issues of common concerns.<sup>13</sup>

By creating a FTA with ASEAN, China obviously hopes to achieve its following major policy objectives in East Asia. Economically, a China-ASEAN FTA will help China stabilize its economic relations with ASEAN. ASEAN is China's fifth largest trading partner, while China is ASEAN's fourth largest trading partner.<sup>14</sup> ASEAN is also an important source of FDI flows to China, and an important destination of growing Chinese outward FDI. More importantly for the Chinese, with growing institutionalized economic cooperation with ASEAN, China will be able to develop relationship of trust and partnership with Southeast Asian countries, which would help promote Beijing's foreign policy objective of developing peaceful environment in the region.<sup>15</sup> In the meantime, with a China-

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<sup>12</sup> Wei Min, "The Conceptualization of China-ASEAN Free Trade Area and Its Prospect," *International Studies*, No.4, 2002, pp.52-53.

<sup>13</sup> Feng, "China and ASEAN Can Share the Prosperity Together," p.7.

<sup>14</sup> Calculated on the basis of IMF, *Direction of Trade Statistics Yearbook 2002*. Washington, D.C.: International Monetary Fund, 2002.

<sup>15</sup> Wei Min, "The Conceptualization of China-ASEAN Free Trade Area and Its Prospect," p.53.

ASEAN FTA in place, China hopes to acquire a more favorable position in the process of regional integration for the whole East Asian region.<sup>16</sup>

### **The China-ASEAN FTA: A New Challenge to Taiwan's China Policy**

China and ASEAN have decided to move toward a FTA at a time when there is an ongoing hot debate in Taiwan over "going South or going West" with respect to the island's regional economic relations and when Taiwan is showing growing concerns over the rising movements toward FTAs in East Asia. Under such circumstances, the fact that the "South" and the "West" are to form a FTA will inevitably pose a substantial challenge to Taiwan's China policy, bringing not only psychological and economic but also political implications on the island and its relations with the mainland.

To speculate, the China-ASEAN FTA will likely pose a challenge to Taiwan's China policy at two levels.

At one level, the China-ASEAN FTA, together with China's moves to explore similar FTAs with other neighboring economies, will bring substantial psychological and real effects and pressure on Taiwan for its possible isolation and marginalization from the ongoing process of regional integration in East Asia.<sup>17</sup> Although China's original intention to form a FTA with ASEAN might not necessarily have been to pressure or isolate Taiwan, the China-ASEAN FTA will undoubtedly bring the effect of such nature, which the Chinese leadership obviously likes to see to happen. Particularly, as China strongly opposes Taiwan's conclusion of any bilateral FTA with other

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<sup>16</sup> Ibid., pp.54-55.

<sup>17</sup> This fear is already expressed by Taiwan's policy-makers and scholars. See *National Policy Dynamic Analysis*, Vol.21, 15 August 2002, p.3.

countries for obvious political reasons,<sup>18</sup> a position that is clearly in conflict with its acceptance of Taiwan's WTO membership, the strengthening movements toward FTAs in East Asia are apparently imposing strong pressure on Taiwan and bringing a strong sense of imperative to Taiwanese leaders. This concern of Taiwan was publicly expressed by Taipei Mayor Ma Ying-jeou at the 12<sup>th</sup> East Asia Economic Summit in Singapore on its opening day of 13 October 2003.<sup>19</sup> On the following day, Ma even went as far as to call for the turning of ASEAN Plus Three into ASEAN Plus Four so as to incorporate Taiwan into the forum.<sup>20</sup> However, under the existing reality of cross-Straits relations, some political arrangement still has to be made between Taipei and Beijing for Taiwan's involvement in East Asian grouping, an arrangement that is likely similar to the formula of Taiwan's membership of APEC and WTO. Apparently, such an arrangement requires political contact and some kind of compromise across the Taiwan Straits as a precondition. It is in this sense that Taiwan is facing a new challenge in its China policy in the context of growing movements toward East Asian integration.

At another level, the challenge to Taiwan's China policy will also come from the growing pressure exerted by the domestic business community in the context of the China-ASEAN FTA. The China-ASEAN FTA will inevitably bring substantial psychological and real effects on the Taiwanese business community, who are increasingly

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<sup>18</sup> "Chinese Minister Warns Countries Not to Sign Free Trade Agreements with Taiwan," Associated Press, June 21, 2002. Chinese Foreign Trade Minister Shi Guangsheng said China would consider free-trade agreements with Taiwan a breach of the "one-China" policy and warned that "If such countries sign free-trade agreements with the Taiwan authorities, they are bound to bring political trouble to themselves."

<sup>19</sup> "Ma says Taiwan wants to be part of regional trade blocs," *Taipei Times*, 14 October 2003, p.3.

<sup>20</sup> "At the East Asia Economic Summit Ma Ying-jeou calls for ASEAN Plus Four to involve Taiwan," *Central Daily News*, 15 October 2003.

dependent on their commercial ties with the mainland for their business fortune. Due to the existing obscure cross-Straits relations, Taiwanese business activities in the mainland still have to be conducted in an indirect way, which has inevitably increased business costs. Moreover, due to the lack of formal governmental agreement between Taiwan and China, the Taiwanese businesses in the mainland are under no formal protection of any kind and face enormous risks when they experience unfair treatment and unfavorable trade barriers against Taiwanese goods. With the creation of the China-ASEAN FTA, Taiwanese companies will inevitably be pushed into an even more disadvantageous position in competition with companies from ASEAN countries in China. Under such circumstances, it can well be expected that the Taiwan government will face even stronger pressure from the island's business community for adjustment of its China policy. It is in this sense that Taiwan's China policy may be to some extent shaped by the Taiwanese business community, who are enthusiastic for improved ties with the mainland for their commercial interests and are therefore forcing politicians to adjust their positions.

Taiwan has apparently already felt the pressures resulted from increasing economic ties across the Straits together with China's moves to explore and negotiate FTAs with other economies in the region. In this whole game Taiwan seems to be placed in a quite passive position, responding only to the pressures from both China and the domestic business community that like to have even closer and freer economic exchanges with the mainland. "China is undoubtedly in a position to lead cross-strait economic activity today. It can, and does, encourage Taiwanese companies and business leaders to relocate to China not only in the interest of economic development *but also strategy*."<sup>21</sup>

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<sup>21</sup> Yan Jiann-fa, "People need to be aware of the threat from China," *Taipei Times*, 25 February 2003, p.8.

### **Taiwan and China's Mutual WTO Membership and Effects on Cross-Straits Relations**

The announcement of China and ASEAN to negotiate a FTA came almost at the same time when Taiwan and China joined WTO jointly. Consequently, despite the imperative that Taiwanese leadership may have in face of the China-ASEAN FTA, the effects of the China-ASEAN FTA on Taiwan will inevitably be offset to some extent as well as complicated by the implications brought about by Taiwan and China's mutual WTO membership on cross-Straits relations. As can be speculated, Taiwan and China's mutual WTO membership may bring implications on Taiwan and cross-Straits relations in the following ways:

First, WTO membership will provide a particularly valuable political and diplomatic asset for Taiwan in its relations with China. With WTO membership, Taiwan has a greatly improved position to pursue cross-Straits relations through a larger multilateral framework and achieve its important policy objective of internationalizing cross-Straits relations. It is Taipei's belief that internationalization of cross-Straits relations would not only help Taiwan improve its international standing but also increase its bargaining power in its negotiations with China on various cross-Straits issues. This explains why Taiwan is so interested in WTO membership as well as membership of various other international organizations. However, China will undoubtedly resist Taiwan's efforts to internationalize cross-Straits relations and will try to put cross-Straits relations on the track of bilateral basis wherever possible.

Secondly, with mutual WTO membership both Taiwan and China are now subject to the same WTO rules, and the autonomy of economic policy making regarding the other side of the Straits will therefore be greatly reduced. Accordingly, the chance of economic policies influenced by political considerations will be substantially reduced as well, if not totally eliminated. Consequently, mutual WTO

membership will force changes in the economic relationship between Taiwan and China and make cross-Straits economic ties more institutionalized on the basis of WTO rules, a development that could hardly be achieved by other means under the current political atmosphere across the Taiwan Straits.<sup>22</sup> Institutionalized cross-Straits economic ties will in turn make the overall cross-Straits relationship more stable and mutually advantageous, perhaps even setting the stage for improvement in bilateral relations in other areas.

Thirdly, as Taiwan and China are now WTO members, both sides have to adjust their relevant policies toward the other with respect to their economic relations, especially those discriminatory policies that are not in conformity with WTO rules and principles. So it is only a matter of time, according to WTO rules, that the goods and capital of both sides will have free access to the other side. Thus both Taiwan and China will have the same rights and obligations under the framework of WTO, and Taiwanese companies in China, like other foreign companies there, will be protected within the WTO structure.

Fourthly, WTO's mechanism of dispute resolution, rather than respective legal systems, will become the basis for conflict resolution between Taiwan and China when an economic conflict occurs. On the other hand, however, some bilateral mechanism will continue to work, particularly relating to these issues of political sensitivity.

Fifthly, with the reduction of tariff and non-tariff barriers as committed under WTO and with the loosening and even removal of various restrictions on economic activities across the Straits after WTO's accession of both Taiwan and China, further increase in trade and investment flows across the Straits can well be expected, which will make Taiwan and China even more economically interdependent, thus increasing the costs of any disruption of such a close economic

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<sup>22</sup> For example, Taiwan's discriminatory policies toward the mainland's businesses and China's preferential policies toward Taiwanese companies have to be removed.



relationship. On the other hand, as Taiwan will be opened to Chinese imports, the huge trade surplus that Taiwan has enjoyed with China over the past decade plus will not be likely to stay.

Finally, in pure technical sense Taiwan and China's mutual WTO membership has paved the way for possible formation of a cross-Straits FTA or a regional FTA that involves both the island and the mainland, given that some political compromise is reached across the Straits.

Obviously, Taiwan and China's mutual WTO membership will compromise and complicate the implications of China's ongoing moves toward regional FTAs with neighboring economies on Taiwan and cross-Straits relations. On the other hand, however, as one of the major economies in East Asia, Taiwan has so close economic ties with the region that its WTO membership by no means reduces the importance and significance of Taiwan being part of regional integration in East Asia, particularly at a time when globalization and regionalism are closely concurrent in the world economy today. The matter of fact is that Taiwan's political and economic interests can only be better protected and promoted by active involvement in, rather than absence from, the process of movements toward FTAs in the region. It is within this context that Taiwan has been actively seeking its own FTAs with other countries over the past several years.

### **Taiwan's Response: Exploring FTAs**

As the movements toward FTAs in East Asia exert mounting pressure on Taiwan, there has been the emergence of calls from Taiwanese politicians and scholars for Taiwan to explore FTAs with other countries. Former President Lee Teng-hui is the first prominent politician who made such a call in June 2001 when he openly proposed FTAs with the United States and Japan. In May 2002 President Chen Shui-bien also indicated during his interview with Japan's *Yomiuri Shimbun* that Taiwan must form bilateral or

multilateral FTAs with the United States, Japan and Singapore to avoid the over-dependence of the Taiwanese economy on China. Such FTAs, according to Chen, would help strengthen the stability of the Asia Pacific and promote peace in the Taiwan Straits.<sup>23</sup> With such strong support from heavy-weight politicians, Taiwan has been seeking FTAs with other countries following its WTO accession, particularly with the United States as the priority, but also with Japan, Singapore, New Zealand and other countries.

By exploring FTAs with other states, Taiwan clearly has various strategic, diplomatic and economic considerations in mind.

First, FTAs are first of all pursued by Taiwan for strategic and diplomatic considerations. FTAs, very much like WTO membership, are obviously another valuable means for Taiwan to break through China's policy of diplomatic isolation of the island. By signing free trade pacts with other states, Taiwan will obviously be able to make another case to declare and confirm its sovereignty. Particularly, according to John J. Tkacik, Jr., an American-Taiwanese FTA will help strengthen the political ties of Taiwan with the United States, which would then help improve Taiwan's position in its political relations with China.<sup>24</sup> Because of this political and strategic benefit of a Taiwanese-American FTA, some Taiwanese scholars even suggest that a FTA with America should be pursued at all costs, even if such a FTA will bring Taiwan more economic costs than benefits.<sup>25</sup> Obviously, with this argument, FTAs, particularly that with the United States, is primarily pursued for strategic and diplomatic, rather than economic, considerations.

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<sup>23</sup> See *National Policy Dynamic Analysis*, Vol.21, 15 August 2002, p.3.

<sup>24</sup> John J. Tkacik, Jr. "Why the Time is Right for a Free Trade Agreement with Taiwan," Backgrounder #1557, the Heritage Foundation, June 3, 2002.

<sup>25</sup> Pei-chen Chang, "The Political and Economic Implications of Taiwan Joining Free Trade Agreements," *National Policy Dynamic Analysis*, Vol.21, 15 August 2002, p.4.

Secondly, FTAs with other countries will help Taiwan avoid economic over-dependence on the mainland and counter China's growing economic influence on the island. Since the 1980s, Taiwan has been undergoing a new round of economic restructuring that increasingly relies on its close economic ties with China, which Taiwan is growingly unable to afford to disrupt. Particularly, due to the poor economic performance of the United States and Japan in recent years, the Chinese market and cheap labor costs become all the more attractive to Taiwanese businesses. As a consequence, Taiwan has become increasingly dependent on the Chinese market for its exports. Especially, China has become Taiwan's second largest export market and the largest source of trade surplus.<sup>26</sup> It is apparent that Taiwan's successful economic restructuring would not be easy, if not totally impossible, without the support of the Chinese market and cheap labor costs. On the other hand, however, there is a consistent fear in Taiwan that the continuing and strengthening economic reliance on China and flow of capital and industries westward would eventually hollow up the island and would even lead to Taiwan's political subordination to China at the terms set by Beijing. As a consequence, Taiwan is currently facing a policy dilemma in which while market forces are pushing Taiwan to develop even closer economic relations with China, political reality and considerations of Taiwan's political future would prevent Taipei from forming too close economic ties with the mainland. It is under such circumstances that FTAs with other states are seen by Taiwanese leaders as an important measure to reduce the economic dependence of the island on the mainland.

Thirdly, while the strategic and diplomatic benefits of FTAs for Taiwan are immense, FTAs would also bring the island substantial

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<sup>26</sup> This trade surplus with the mainland is so huge and important for Taiwan that the island would otherwise have had an overall trade deficit since 1993 if there had been no cross-Straits trade relations.

economic benefits. Particularly, according to some Taiwanese scholars, FTAs with the United States and Japan can help Taiwan promote its economic restructuring, which would then enable the island to play an intermediary role in the flying-geese integration of the region with Taiwan receiving the more advanced technology that is moved out of United States and Japan while at the same time transferring the less advanced technology that is no longer suitable in Taiwan to Southeast Asia.<sup>27</sup> Moreover, FTAs with Asia Pacific countries would also help Taiwan achieve its ambitious objective of turning the island into a regional hub of finance, trade, transportation and research in the Asia Pacific.

It is with these considerations that Taipei is currently adopting a strategy of trying to form a FTA with the United States as a top priority to overcome China's objection to Taiwan's participation in FTAs with other states, as Washington's policy decision is less subject to Beijing's diplomatic pressure. Once a Taiwanese-American free trade pact is secured, it is Taipei's belief that it could lead to Taiwan's FTAs with other countries in the region, using the Taiwanese-American FTA as a precedent. While this strategy sounds logical, however, there is obviously no guarantee that it would automatically work when Taiwan comes to explore FTAs with its East Asian neighbors, whose capacity in resisting China's pressure is obviously much more limited. Despite this fact, however, it is highly likely that China's opposition to Taiwan's efforts to participate in regional FTAs will eventually be overcome, because as a WTO member Taiwan should automatically possess the very right of other WTO members to conclude FTAs with other countries under WTO's Article 24.

Furthermore, in order not to be isolated and marginalized in the process of East Asian integration in the context of the China-ASEAN

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<sup>27</sup> Jiann-jong Guo, "The Strategic Implications of Taiwan, America and Japan Free Trade Area," *National Policy Dynamic Analysis*, Vol.21, 15 August 2002, pp.9-10.

FTA, Taiwan is currently also seeking a FTA with Singapore. Once successful, it is believed that the Taiwan-Singapore FTA would not only enable Taiwan to get involved in the process of East Asian integration but also bring Taiwan's products tariff-free into ASEAN markets through Singapore.

### **Conclusion: Implications for Canada**

The Taiwan issue is a constant factor in China's foreign policy in general and foreign economic policy in particular. Economic ties with Taiwan are an important component of China's Taiwan strategy, which the Chinese leaders believe may ultimately influence and shape Taiwan's policy toward the mainland. Although China's original rationale of a FTA with ASEAN might not necessarily derive from Beijing's Taiwan strategy, the China-ASEAN FTA will surely be used by China to exert pressure on Taiwan for "three direct links" (of transport, trade and postal communications) across the Taiwan Straits and for more opening political and economic policies toward the mainland.

On the other hand, Taiwan now has the fourth largest economy in East Asia with GDP of \$309 billion, only after Japan (\$4,765 billion), China (\$1,080 billion) and South Korea (\$462 billion). Taiwan's GDP is almost half of the combined GDP of Hong Kong, Singapore, Thailand, Malaysia, Indonesia and the Philippines (\$694 billion). In terms of trade, Taiwan has the sixth largest total trade volume (\$229 billion) in East Asia, accounting for about 7.9 percent of East Asian trade, after Japan (\$752 billion), China (\$511 billion), Hong Kong (\$382 billion), South Korea (\$291 billion), and Singapore (\$238 billion).<sup>28</sup> Given such an economic position of Taiwan, any East Asian integration without involving Taiwan is obviously incomplete. But on the other hand, for its political and economic future Taiwan

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<sup>28</sup> APEC's Economic Indicators, updated November 11, 2002 (<http://www.apecsec.org.sg>).

cannot either afford being left out of the process of East Asian regional integration as well as the process of globalization.

According to American economist Edward Leamer, the two sides of the Taiwan Straits should put aside their political ideologies and let economics serve as the catalyst to achieve peace. According to Leamer, superior services in the fields of finance, e-commerce and audio and video entertainment will be the future economic mainstream for Taiwan. To make the transition process smooth, Leamer suggests that the Taiwan government develop a free-trade area, increase economic, trade and cultural exchanges with other countries and improve its education system. He further points out that regional economic integration is a global trend and that Taiwan's participation in a free-trade area is not only viable, but also necessary.<sup>29</sup> It is true that while mutual political distrust dies hard in cross-Straits relationship, increasingly close and mutually beneficial economic ties, which would become growingly difficult to disrupt, will inevitably improve political relations across the Straits in an incremental fashion.

China is Canada's fourth largest export market, while Taiwan ranks the fifth among Canada's export markets in the Asia-Pacific region (2002).<sup>30</sup> As a trade nation that has over 40 percent of its GDP achieved through international trade, Canada has a growingly significant stake in the ever-expanding markets of China and Taiwan, two of the most robust economies in the Asia-Pacific. Consequently, the business environments of China and Taiwan in the context of their mutual WTO membership and their moves toward regional free trade arrangements as well as the future direction of cross-Straits relationship will bring substantial implications for Canada.

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<sup>29</sup> "Leamer urges Taiwan push for free-trade pacts," *Taipei Times*, 22 February 2003, p.10.

<sup>30</sup> Department of Foreign Affairs and International Trade, Canada, *Opening Doors to the World: Canada's International Market Access Priorities 2003*, <http://www.dfait-macci.gc.ca/tna-nac/2003>.

In the first place, China's WTO membership will substantially transform the Chinese business environment in the years to come. With its accession to the WTO, Beijing has made extensive commitments to substantially lower barriers to foreign trade and investment and to increase the predictability and transparency of its trade regime. Particularly, as China has the world's largest consumer market with 1.3 billion people who have an ever-increasing purchasing power, a more liberalized Chinese market will bring significant new business opportunities for Canadian goods and services in a wide range of sectors where Canadian companies have a comparative advantage. In the meantime, a more liberalized economy will make China even more attractive for Canadian investors, which as the largest recipient of FDI among developing countries has already received a consistently increasing amount of investment from Canada in recent years. Furthermore, as China is emerging as a growingly prominent global economic power, it will be in Canada's interests to develop a long-term economic partnership relationship with China.

On the other hand, the effects of China's moving toward regional FTAs on Canada will be of two-fold. On the one hand, in the context of China's WTO accession Beijing's free trade arrangements with neighboring economies will commit China to the liberalization of its economic system not only at the multilateral level but also at the regional level. This dual commitment of Beijing to economic liberalization will make its reform and market opening policy even more irreversible, from which Canada will surely benefit.<sup>31</sup> It is in this sense that Canada should encourage China's further integration into the global and regional political and economic institutions. But on the other hand, however, the moves of China toward regional FTAs with its neighboring economies will inevitably put Canada in a less favorable position in competition with China's FTA partners in the

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<sup>31</sup> Cai, "The ASEAN-China Free Trade Agreement and East Asian Regional Grouping," p.401.

Chinese market. As such, while Canada is currently negotiating a free trade pack with Singapore, it might probably be the right time for Ottawa to also seriously consider a free trade arrangement with China if basic conditions for such an agreement are ready. This will most effectively minimize the negative effects incurred from China's free trade arrangements with other economies in the region.

Similarly, Taiwan's accession to the WTO will also inevitably provide more business opportunities for Canadian companies and investors. The economic liberalization that is to be brought about by Taiwan's WTO membership will make the island's market growingly accessible to a wide range of Canadian goods, such as chemicals, pharmaceuticals, paper, medical devices, IT products, plywood, aerospace products, automobiles, and even agricultural products. In the meantime, Taiwan has also made commitments under WTO accession in those service sectors that are of prime interest to Canada, including financial services, telecommunications services and professional services. Likewise, Taipei's commitment under the WTO Agreement on Government Procurement will make Taiwan's government procurement actions more transparent and fair. All these will provide more business opportunities for Canadian companies.

Finally, it is apparently in Canada's interests to encourage a stable and institutionalized cross-Straits relationship, as such a relationship will not only be in conformity with Ottawa's primary foreign policy objective of maintaining global peace and stability but also provide a more stable cross-Straits business environment for Canada to pursue its economic exchanges with the both sides of the Taiwan Straits. Particularly, as Canada has a high international profile and respected international standing in global peace-keeping and peace-making, Ottawa may even be able to play an active intermediary role in bringing Taiwan and China together for establishing such a more stable and institutionalized cross-Straits relations, as both Taipei and Beijing will likely be of less suspicious



of Canada's intension as compared to the United States if Ottawa decides to do so.

