

# 台灣自由貿易協定的策略

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關鍵詞：台灣、美國、中國、自由貿易協定、世界貿易組織、區域貿易協定

## 中文摘要

本文旨在探討這一波區域主義主要玩家（player）的美國，其作為發動者（initiator）與主要行為者（agent）選擇洽簽對象的內部原因與外在標準，一方面可藉以增加對現時國際經貿環境變遷的瞭解程度，另一方面或有助於釐清台灣未來可以依循的途徑（approaches）。

文中發現，美國在選取 FTA 的對象時，經濟規模會成為首要考慮因素。大規模的國家間之締結須顧慮對 WTO 的衝擊；而從美國實際已簽約或協商中的對象來看，有些小規模的國家之所以優先，主要出軍事外交等戰略考量，而針對中規模的國家則又多了些經濟層面的思考。另從美國已經簽署的 FTA 可以得知，其對象絕大部分都屬開發中國家，已簽署且屬於已開發國家的也只有加拿大（NAFTA）、新加坡，以及澳洲三個，可見美國在尋求 FTA 對象方面之保守。

台灣真正的經濟整合利益在東亞，但由於中國因素作祟，國際政治現實迫使台灣必須透過或繞道美國。一旦與美國簽訂FTA，則東亞國家比如日本、新加坡與其他國家比較可能跟進，但也僅止於可能，因為這些國家面對中國的壓力與誘惑與美國迥然有別；除非兩岸之間的敵對氣氛降低，否則USTR應不致投入有限談判資源去洽商一個極可能會「冒犯北京」而成局機率不大的美台FTA。



# Taiwan's Approach to FTA

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**Key words :** Taiwan, America, China, FTA, WTO, RTAs

## 1. Introduction

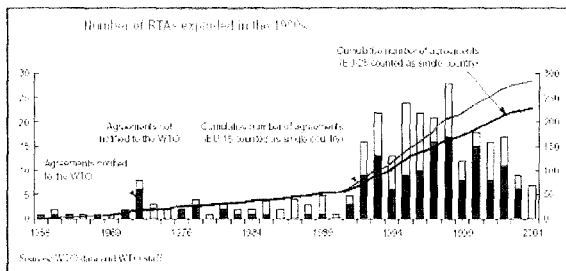
Second to globalization, the most conspicuous new trend worldwide is the proliferation of proposals for bilateral and regional Preferential/Regional Trading Agreements (PTAs/RTAs). Since 1990, the number of RTAs in force rose from 50 to nearly 230 (figure 1.1: The number of RTAs exploded in the 1990s). And due to their much lower negotiation costs and smaller impact on the domestic industries of participating countries, Free Trade Agreements

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(FTAs) have become the most widespread vehicle for regionalization.<sup>2</sup>

**Figure 1.1: The number of RTAs exploded in the 1990s**



In plain words, An FTA is an agreement among member countries that substantially eliminate trade barriers such as tariffs and quantitative import restrictions between themselves under the auspice of GATT XXIV/GATS V.<sup>3</sup>

<sup>2</sup> Because FTAs embodying protectionism are often mistaken for champions of free trade, Bhagwati and Panagariya (1996) advocate using the more precise "Preferential Trading Arrangement" (PTA) in its place.

<sup>3</sup> The basic rule governing trade in goods is GATT XXIV. Developing countries can also apply Enabling Clause (Tokyo Round, 1979), whose flexibility favors the formation of FTA. Typical examples are MERCOSUR and AFTA. GATS V. is the

It's a good example for the interplay among the legal basis, economic logic and realpolitik.

I am convinced that the popularity of FTAs is due mainly to a shift in trade politics of the U.S. By emphasizing a "dual track" trade policy combining bilateral negotiations with multilateral negotiations under the WTO, the U.S. whose attitude moved from active hostility to enthusiasm towards regionalism since late 1980s have induced **Domino effects** and reinforced themselves worldwide.<sup>4</sup>

As for the surge of regionalism in East Asia, in which Taiwan is located, whose traditional outward-oriented strategy regards the whole world as their economic hinterland can be seen as a defensive response to regionalization in

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only international rule covering FTA trade in services.

<sup>4</sup> As major trading partners created trade blocs, so the pressures on others to follow increased because the costs of exclusion seemed to grow (Baldwin, 1995). As part of this effect, developing countries have sought to join regional trade agreements centered on developed countries, hoping to overcome domestic protectionist pressures, initiate the reform of trade regimes, attract more foreign direct investment, and enhance international competitiveness. There are many rationales for the reemergence of the FTAs, including economic and non-economic (foreign policy, geopolitics and security) causes. For an excellent and general survey about FTAs please refer to Schiff and Winters (2003) as well as Hoekman and Michel Kostecki (2001).

Europe (EU) and North America (NAFTA).

However, a great amount of FTAs signed and under negotiations discussion indirectly proved that the surge of bilateralism in East Asia, hints at strategic considerations or becoming a politically-designed arena reshaped by the major players (US, Japan, China, ASEAN) and matched by the “herd instincts” of followers.

Since the late 1990s, some 40 bilateral trade deals have been signed or proposed, however, in the name of strengthening economic ties within and beyond East Asia, including the Japan-Singapore Economic Partnership Agreement (2002) and others. The importance of preferential trade in the region was dramatically increased by the signing of the ASEAN-China Comprehensive Economic Co-operation Framework Agreement (2002) that schedules an FTA by 2010.<sup>5</sup> **(Scheme 1.1: The Background of Regionalism since 1990s-- Highlighting on East Asia)**

The discriminating nature of FTA by definition implies that some

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<sup>5</sup> The Framework Agreement on Comprehensive Economic Co-operation Between the Association of South East Asian Nations and the People's Republic of China (2002) calls for expedited negotiations by China and ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Thailand, and Singapore) to form an FTA by 2010, with membership to be extended to Cambodia, Burma, Vietnam, and Laos by 2015. (See <http://www.aseansec.org/13196.htm>.)

countries inevitably get left out of trade agreements, either because they are not favored politically, because they cannot afford the costs of many separate negotiations, or because their neighborhood is less open (The World Bank's annual Report—*Global Economic Prospects 2005*). Obviously, Taiwan and Cuba belong to the first category unlike some developing countries such as Bolivia and Sri Lanka of the second or third one.

Due to problems of diplomacy, especially the boycott enforced against Taiwan by the People's Republic of China, it is very likely that Taiwan will be excluded from the wave of economic integration taking place in the region. Even Japan, counted as the "natural partner" of Taiwan in the economic, historic and geographic sense, shows good intentions but lacks in political will to support any kind of FTAs between Japan and Taiwan.

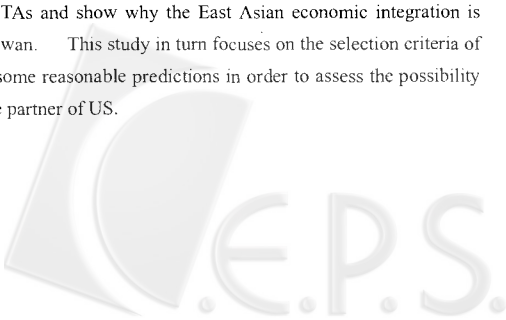
This form of realpolitik will undoubtedly have economic welfare consequences for Taiwan, the most worrisome of which is so-called marginalization. Indeed, concerns about the serious political and economic implications arising from Taiwan's "economic isolation" are increasingly shared by many prominent scholars.

Findlay et al. (2003) raises concerns about the treatment of Chinese Taipei (Taiwan) in the application of an Asian PTA. A genuine multilateral approach to the design of trade policy should provide a formula for the inclusion of Chinese Taipei, for its own benefit as well as that of the entire

region. However, since few countries in the region would be willing to sign a preferential trade agreement with Chinese Taipei, the PTA route involves a high risk of Chinese Taipei's economic isolation. What are the implications of this conundrum, and how would it affect the potential for conflict in the region?

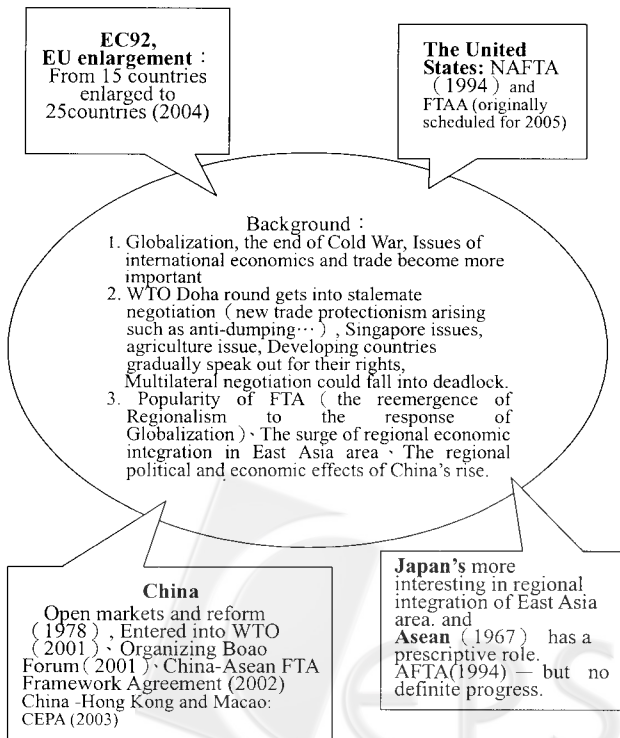
Factors such as the future reunification of the Korean peninsula and the problematic relationship between China and Taiwan pose new economic, political, and security challenges for East Asia. As noted by Scollay and Gilbert (2001), "Whereas an understanding was reached within APEC to provide for the simultaneous participation of China and Taiwan (Chinese Taipei) as well as Hong Kong, this understanding may not necessarily carry over to the formation of an East Asian economic bloc. The possible exclusion of Taiwan from such a bloc carries serious political and economic implications."

We will at first try to identify the difficulties and constraints facing Taiwan about FTAs and show why the East Asian economic integration is important to Taiwan. This study in turn focuses on the selection criteria of US and makes some reasonable predictions in order to assess the possibility of Taiwan as the partner of US.





Scheme 1.1 : The Background of Regionalism Since 1990s--  
Highlighting on East Asia



Source: constructed by Honigmann

## **2. The Difficulties and Constraints Facing Taiwan about FTAs**

### **2.1 The Arena of FTAs in East Asia**

The distinguished role of major countries/organization in East Asia is as follows:

1. Since most East Asian countries export heavily their finished products to the US (and EU) and US in turn could play the role of “check and balance” of East Asian economic integration.

2. Japan's shift in the trade policy of multilateralism-only to the multi-layered (pushing trade deals at the bilateral, regional and global level simultaneously) policy renders the FTA as one of the options. Due to its significance in economy, Japan's redefinition of its role in this region and change in the trade policy toward bilateralism make sense for the interplay of FTAs games in East Asia.

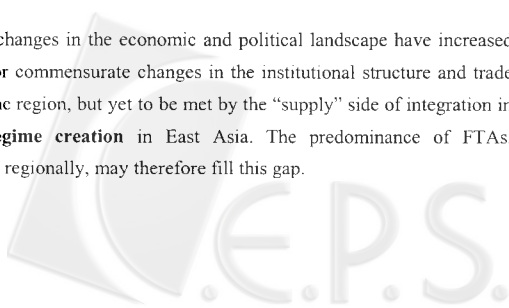
3. The economic rise of China has undoubtedly contributed to rapid growth in intra-regional trade and investment and intensified demand for deeper integration. To an extent China's higher profile in terms of economic emergence will change the East Asia's political and economic landscape hugely.

demand for deeper integration. To an extent China's higher profile in terms of economic emergence will change the East Asia's political and economic landscape hugely.

4. Although ASEAN's economy is of relatively small scale of economy, ASEAN's strategic importance and acting as "normative" role in East Asia cannot be overemphasized, especially for regional financial cooperation after the 1997/8.

We are convinced that the proliferation of FTAs in East Asia could be ascribed partly to fundamental factors related to decreasing returns from multilateral negotiation process (WTO) and the increasing frustration over the slow pace of trade liberalization within the framework of APEC. In addition, the 1997/98 Asian financial crisis strengthened the belief that East Asia needs some form of trade and economic cooperation. The rise of China has undoubtedly contributed to rapid growth in intra-regional trade and intensified demand for deeper integration.

These changes in the economic and political landscape have increased "demand" for commensurate changes in the institutional structure and trade policies of the region, but yet to be met by the "supply" side of integration in terms of **regime creation** in East Asia. The predominance of FTAs, bilaterally or regionally, may therefore fill this gap.



With the competitive FTAs race in East Asia, the question of whether Taiwan's economic and trade status will be marginalized has become a hot topic.<sup>6</sup>

The concept of "marginalization" originated from the UN Conference on Trade and Development in 1997. It originally meant a complex phenomenon existing on two levels.

It could be used to describe all social conditions of disadvantaged organizations in society. Put in the context of international politics and economics, it means that the economy and development of a country (or countries) are endangered in the process of globalization. Moreover, inappropriate economic policies will speed up and aggravate marginalization.

But Taiwan -- with democracy taking root, economic and trade activities being open, and the beginnings of a social security network -- has fairly sound internal and external mechanisms required to tackle the

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<sup>6</sup> "Time to take steps to avoid marginalization" Honigmann Hong, Taipei Times, Thursday, Jan 29, 2004;

[http://www.taipetimes.com/News/edit/archives/2004/01\\_29/2003096652](http://www.taipetimes.com/News/edit/archives/2004/01_29/2003096652)

challenges posed by globalization. The possibility of globalization leading to Taiwan's marginalization is extremely slim.

Instead, the newly arising regionalism, which is primarily taking shape in the form of FTAs, poses a more direct and concrete threat to Taiwan because nearly all the countries involved are its important economic neighbors. Once crowded out, the nation will suffer greater political and economic losses.

In contrast to globalization, the trend of forming regional economic alliances tends to put Taiwan at a disadvantage. Since the signing of FTAs requires political interaction between governments, Taiwan will likely fall victim to ill-intentioned boycotts (for example, the China factor) and fail to seal these agreements as a result.

In other words, the threat of marginalization facing Taiwan now is mainly a result of regionalism, not globalization.

Regionalism in East Asia is developing in two different modes. One is the "ASEAN plus three" (Japan, China and South Korea) economy that revolves around ASEAN. The other is the "hub and spoke" mode where Japan, China and the US, respectively, serve as the centers with medium- and small-sized countries participating. These two forces influence each other. It is still unknown which side will win in the end.

The best outlook and also the biggest challenge for the "ASEAN plus three" model, which now has the upper hand, is whether it can push for the establishment of an East Asia free-trade area through this cooperative mode, and even the formation of a giant economic zone in East Asia. If it can, then this zone will be confronting the Free Trade Area of the Americas (FTAA) across the Pacific Ocean. This is the so-called polarized Pacific system.

From the global perspective, this East Asia zone will join FTAA and the EU to become a trilateral global trade system.

This economic integration mode is more closed. If Taiwan is excluded, the political and economic damage will be relatively graver. However, because there are more participating countries and China's influence will be diluted, Taiwan instead stands a better chance of becoming a member.

As for the possibility of this mode being established, the US attitude will determine whether it can stand since it will undoubtedly damage the US' strategic interests in East Asia.

Also a key factor is whether the political determination of major East Asian nations to pursue economic integration can overcome their historical disputes and economic protectionism, say, between China and Japan.

More importantly, a great majority of East Asian countries' products are exported to other regions like the US and Europe. This characteristic of

being the world's economic hinterland will hamper the degree of economic integration in East Asia.

FTA "hub and spoke" networks are formed on the basis of bilateral relations with some certain individual nations or regions as the nucleus. It was widely reported recently that ASEAN will cooperate with China to build a Free Trade Area by 2010, and that Japan and Singapore will cement their economic partnership. These two fall into the same category.

Once Taiwan is excluded from these FTAs, it should suffer fewer economic losses than it does when it is shut out of bloc-centered economic bodies. However, individual nations will be subject to greater influence from China.

Predictably, the China factor will continue to frustrate Taiwan in its pursuit of FTA partners. If marginalization refers to the process of being excluded, then it is true for Taiwan.

## **2.2 The "Charm" Offensive Gesture of the Big Brother**

If China's promise to Hong Kong -- that the latter's systems would remain unchanged for 50 years after the handover to Chinese rule in 1997 -- amounts to "divide and rule," then the strategy applied to Taiwan should be

"combine and rule," which means achieving political integration through economic integration.

In June, 2003, Beijing signed a Closer Economic Partnership Arrangement, a kind of free-trade agreement (FTA), with Hong Kong. Wang Zaixi (王在希), deputy director of the Taiwan Affairs Office of China's State Council, said recently that the two sides of the Taiwan Strait can follow the WTO's regulations to further improve their economic cooperation mechanisms. He also said the two sides should sign a free-trade agreement as soon as possible.<sup>7</sup>

In light of analysis of Wang's statements, what he referred seemed to be a free-trade agreement under the WTO structure, even though he suggested Hong Kong and Taiwan were analogous. Although think tanks and academics in Taiwan and China have long proposed similar ideas, this is the first time that one has come from a Chinese government agency. I am afraid we will miss the fine print if we simply gloss over his statements as China's "united front" tactic.

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<sup>7</sup> "All's fair in love, trade and FTAs," Honigmann Hong, Taipei Times, Thursday, Jul 31, 2003

<http://www.taipeitimes.com/News/edit/archives/2003/07/31/2003061713>



His proposal is really not well-intentioned. When Taiwan was actively looking for FTA partners last July, China's Minister of Foreign Trade and Economic Cooperation Shi Guangsheng (石廣生) bluntly warned that signing FTAs with Taiwan would amount to interfering in China's internal affairs and signing such a deal would incur consequences. He also said bilateral free-trade agreements are only signed between countries but that Taiwan is not a country.

According to WTO regulations, members of the global-trade body can sign FTAs with each other as long as they follow relevant procedures and conform to the requirements.

Not surprisingly, China's warnings had the effect of isolating Taiwan and caused politics to override legal principles. The countries that were evaluating the possibility of entering into FTAs with Taiwan, including New Zealand and Singapore, decided to retreat. Japan also adopted a more conservative attitude. Even in the US, now there are only a handful of Congress members calling for an FTA with Taipei.

Executive branches or trade offices, which are really in charge of the matter, cited Taiwan's poor protection of intellectual-property rights as a shield. However, the people with discerning eyes can tell that this is only a superficial excuse. In reality, they are all haunted by the "China factor."

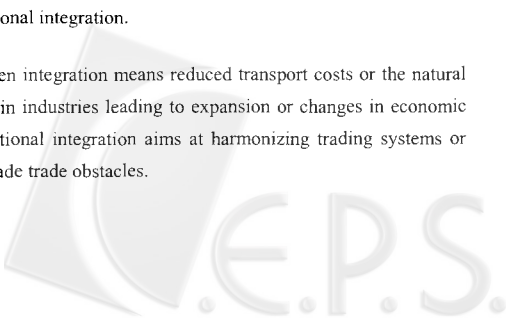
All this is no surprise. But as a proverb goes, "the devil is in the details." What is more important is how to read between the lines to facilitate the government's response.

There is no mention of the "one China" principle in Wang's statements. He even reiterated that "economy and trade should be placed first." If we take his words literally, China seems to have calmed the rhetoric it has consistently used since its WTO accession -- that China will not have economic interactions with Taiwan under the WTO structure until the "one China" problem is settled.

His words do carry positive significance at a time when Taiwan and China are politically hostile but are experiencing more and more economic exchanges that require some sort of cooperation mechanism.

This does not mean that China's proposal is logically flawless. Two forces can strengthen regional economic integration, ie, market-driven forces and those institutional integration.

Market-driven integration means reduced transport costs or the natural division of labor in industries leading to expansion or changes in economic territories. Institutional integration aims at harmonizing trading systems or removing man-made trade obstacles.



Taiwan and China are fervently working on market-driven integration, but there is plenty of room to develop institutional integration, such as direct transportation links.

If we skip the direct-links issue in considering an FTA with China, this leap in logic would not work in real life. Pragmatically, what is most needed now is a lower-level trade and investment guarantee framework agreement, not an inclusive and comprehensive bilateral FTA.

China's entry to the WTO was secured with its promise to open up its market in large measures by 2006. To invite more and deeper "bilateral relations," we can anticipate quite a few preparatory agreements being reached before then so as to make arrangements with FTA partners. China's recent effort to sign the Closer Economic Partnership Arrangement with Hong Kong can be understood in this light.

On a deeper level, China is strengthening its economic alliance with neighboring countries so called "charm offenses" including friendly diplomacy and trade deals to establish strategic trade relations and obtain regional political and economic interests.

In particular, China is riding on this wave of regionalism to seal FTAs with its neighbors and at the same time prevent Taiwan from doing the same. Then following the Hong Kong mode, it is offering a CEPA to Taiwan, increasing the pressure of "unite through integration".

In conclusion, China will continue to isolate Taiwan in the international community. That is their strategy and FTA has become their new instrument.

### **3. What Really Matters Lies in East Asia, but Making a Detour via US**

#### **3.1 Preliminary Assessments/Predictions**

1. The proliferation of regionalism/FTAs is not necessarily bad to Taiwan, but plus “China factor” will do harm to Taiwan due to China’s increasing emergence in East Asia.

2. The worst FTA related scenario for Taiwan is as being left out as an outsider at the same time Korea as insider, such as the Japan-Korea FTA, US-Korea FTA, although Taiwan is, in certain respects, very competitive vis-à-vis similar neighboring countries. (N. Lardy, 2004)<sup>8</sup>

3. In the near future at the level of **regional-wide cooperation** in East Asia: It’s highly likely that only the financial integration will go forward, such as the Chiang Mai Initiative and the other varieties launched by ASEAN Plus 3, because both major players --Japan and China have strong incentives to promote the process. Japan is the largest

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<sup>8</sup> The Taiwan President Elections: Political, Economic, and Security Implications (May 6, 2004), <http://www.brookings.edu/fp/cnaps/events/20040506.pdf>


creditor in this area and would like to use its financial power to check China's rise. China's financial system is weak and has vulnerability.

In contrast, the form of FTA might succumb itself to ASEAN +1(China, Japan, Korea and India) because of political difficulties. Besides, US will strategically come back East Asia whenever the would-be mega-FTAs are taking shape.

### **3.2 US Selection Criteria and Taiwan's Chance**

Foregoing analysis indicates that the real benefits of economic integration lies in East Asia. And it's a politically pragmatic strategy for Taiwan to make a detour via US. In other words, if Taiwan does not want to be excluded from integration with East Asia, gaining passage through the US' "narrow door" is a must.

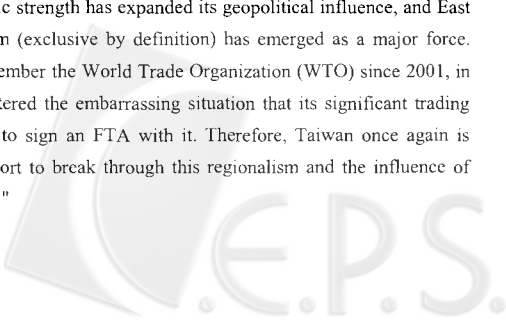
As the American Chamber of Commerce in Taipei (**AmCham**) analyzed, because of China's determined opposition, most other countries have been unwilling to consider entering into FTAs with Taiwan or permitting Taiwan to participate in new regional groupings that are being proposed. The start of discussions with the United States on an FTA, Taiwan believes, would break the ice, allowing other countries to follow suit (Topic, 2004).



We are convinced that both sides recognize this situation very well. Above all, the intentions of US are regarded as the key role. As it is important to identify the position of Taiwan and responses of others before making a strategy, it is necessary to conduct a thorough evaluation of the desirability and feasibility of a Taiwan-US FTA, and also take into account changes in the international environment (Hong and Liu, 2004).

The idea of signing a Taiwan-US FTA can be traced back to the early 1980s when policymakers obviously had the intention of using an FTA, an economic and trade alliance, as a security insurance policy in addition to the "Taiwan Relations Act" as a means to stabilize the situation in the Taiwan Strait. But as Taiwan was not admitted to the General Agreement on Tariffs And Trade (GATT), further talks on the FTA were suspended.

A generation has passed since then and Taiwan is still seeking this insurance policy. As the cross-strait relationship becomes tenser, China's growing economic strength has expanded its geopolitical influence, and East Asian regionalism (exclusive by definition) has emerged as a major force. But Taiwan, a member the World Trade Organization (WTO) since 2001, in turn, has encountered the embarrassing situation that its significant trading partners are shy to sign an FTA with it. Therefore, Taiwan once again is seeking US support to break through this regionalism and the influence of the "China factor."



First of all, it is necessary to understand the US thinking on trade politics and its standard for selecting FTA partners. (**Table 3.1: The Criteria of Choosing Partner(s) of the Major Players**)

Even though the US extensively promotes a "dual-track trading strategy" (i.e., restarting the multilateral Doha Development Round of talks while also actively engaging in bilateral talks) in the current phase, given its leading role in the crucial high-tech industry, its highly developed trade in services, and its massive agricultural production, the US' free trade strategy, which views the globe as an economic heartland, will not change in the short term. That is to say, the WTO with its 148 members is still US' favorite. Any FTA, given its "club" nature, can only facilitate the success of multilateral talks or be an exception when multilateral talks fail, though it can never serve as a replacement. Viewed this way, the EU, Japan and Chin might never become FTA partners with the US as this could destabilize or even damage the functionality of the WTO for their giant economic scale.

Due to limited resources for trade talks and the multiple considerations of economics, trade and diplomatic relations, regional balance and security, even powerful countries like the US must come up with a standard for selecting its FTA partners. Its main picking criteria are as follows (Schott, 2004):

- Minimal impact on domestic politics such as specific interest groups in favor of economic goals;

- Economic policy considerations such as overseas establishment of fair trade environment, by offsetting the preferences that benefit other foreign suppliers under existing FTAs and investment promotion;

- Firm promises and the ability to implement economic and trade reform of partner country; and

- Foreign policy objectives: rewarding friends for their support in international ventures, and demonstrating the global reach of US trade and foreign policy interests. In brief, the United States Trade Representative (USTR) in terms diplomatic considerations bases its decisions on three tests:

- i. Is the country cooperating with United States on foreign policy issues?

- ii. Will the FTA contribute to the economic development of the partner country and thus encourage a deepening of domestic process and the rule of law?

- iii. Would negotiations with the country contribute to geographic balance of initiatives on each continent?

In line with these criteria, the US has already signed the North American Free Trade Agreement (NAFTA) with Canada and Mexico, and established free trade areas with Singapore, Australia and other countries. The US has also signed FTAs with other countries such as Israel, Jordan and Morocco for diplomatic reasons (The Road Map to Middle East peace). The



next wave of countries or regions the US will consider for evaluation include the Free Trade Area of the Americas (FTAA) with Latin America, an agreement with the Association of South East Asian Nations (ASEAN) as a whole or part of ASEAN, for example Thailand, (though not including the Philippines as it does not support the US' WTO agriculture position), South Korea, and then Taiwan. **(Table 3.2: PTAS/FTAS in the Asia-Pacific)**

In fact, according to the evaluation report of the Institute for International Economics, an independent US think tank ( Lardy and Rosen, 2004 ) , Taiwan basically meets the US' FTA selection criteria since not only is it relaxing domestic regulations to allow foreigners to invest directly in the telecommunications industry, but it has also engaged in the liberalization of specific areas such as finance and insurance, surpassing international standards. Besides, the two authors point out that Taiwan have a special status for the US, as a leading high-technology economic partner and a place of political and security concern.

However, officials from the Office of the US Trade Representative still insist they will not talk about an FTA with Taiwan unless the country implements harsh laws to control intellectual property rights (IPR) violations which is the top priority and achieves a large-scale improvement in the current situation, including telecommunications, rice imports and pharmaceutical products as a precondition to restart the US-Taiwan Trade and Investment Framework Agreement (TIFA) meetings have been cancelled since 2002.

The US has always seen the existence and continuation of the TIFA meetings as a premise for further talks regarding a free trade agreement. As the analysis in the Topic (2004) shows (underlined by the author of this paper):

*In Washington, the (Taiwanese) Door-knock delegation was told that **"there is no political impediment"** for the U.S. to sign an FTA with Taiwan. **Although Beijing would certainly protest, the United States would be able to point to the WTO framework as fully authorizing the negotiation of bilateral trade pacts between member entities.** Rather, the main obstacle to considering such negotiations has been what one U.S. official called **"the poor performance on Taiwan's side"** toward resolving the current issues. Why, he asked, should the United States create a new agreement with Taiwan when it is not satisfied that Taiwan is living up to its existing commitments? Even **"talk of an FTA at this point is not helpful,"** said another official, who suggested that the two sides **"first get results on the issues."** At yet another office, it was recommended that Taiwan concentrate on **"bite-sized pieces"** -- tackling one specific problem, solving it, and then moving on to another -- instead of aiming immediately for the grand prize of an FTA.*

Such a rigid stance is rare and it is inevitable that people will reasonable doubt that the US, in fact, is afraid of bearing the heavy political

cost of offending China in exchange for the relatively limited economic benefits of signing a Taiwan-US FTA. As Schott (2004) made a remark and contend that:

*US-Taiwan trade and investment is also substantial, but negotiating an FTA now would inflame US relationships with China. Such talks should be postponed to allow cross-straits ties between Taiwan and China to deepen.*

Based on this reasoning, it's not difficult to work out that even if Taiwan makes huge concessions on issues such as telecommunications services, intellectual property rights, rice imports and pharmaceutical products, from the US perspective the concessions simply fulfill the necessary conditions to discuss an FTA, but will not necessarily raise Taiwan-US bilateral talks to that of FTA negotiations.

It is worth mentioning that from a short-term perspective, the economic benefits Taiwan can gain from an FTA with the US are really limited (USITC, 2002); furthermore, because a Taiwan-US FTA would facilitate the expansion of Taiwan's traditional industries, such as the textile industry, this would create competition for scarce labor and capital resources and become a hindrance to the development of the high-tech sector, which would not be healthy for Taiwan's long-term economic growth. Since Taiwan's production and trade structure (supply chain) is deeply interconnected with East Asia;

therefore, the advantages to be gained from integration are in East Asia, and losses from any exclusion from an FTA are also in East Asia.

Why US hesitate to sign an FTA with Taiwan? In a US-China-Taiwan nexus, an FTA has too many ramifications to be settled on the basis of a few economic issues such as IPR or agricultural issue, although they are real obstacles at this moment.

**Table 3.1 : The Criteria of Choosing Partner(s) of the Major Players**

Country/regional organization	Criteria
U.S.	<ul style="list-style-type: none"> <li>● Offering a large political payoff with little economic consequence or impact on the WTO.</li> <li>● Minimal impact on domestic politics such as specific interest groups; in favor of economic goals, such as overseas investment promotion; firm promises and the ability to implement domestic economic and trade reform; and US foreign policy considerations (Jeffrey J Schott, 2004).</li> <li>● Trade and Investment Framework Agreement (TIFA) regarded as a touchstone of any Free Trade</li> </ul>

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Agreement (FTA), especially for the East Asian countries.<sup>9</sup>

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Japan	<ul style="list-style-type: none"><li>● The agricultural sector of potential partner is minimum, or not to be deemed as a threat to Japan's;</li><li>● Geographic proximity, with stable political and economic environment, ability to implement mutual commitments, as gateway to huge markets.</li></ul>
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China	<ul style="list-style-type: none"><li>● Matching the "domestic regionalism" to regionalism in East Asia, such as the North-east development project with the idea of Cooperation among China, Japan and Korea; The "9+2"(southern provinces plus Hong Kong and Macao) project with the ongoing "ASEAN +China" FTA.</li></ul>
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	<ul style="list-style-type: none"><li>● Granting China "market-economy status" <sup>10</sup>as a provision of trade negotiation that ASEAN had granted, Australia (under study), New Zealand, South Korea</li></ul>
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<sup>9</sup> The U.S. has Trade and Investment Framework Agreements (TIFAs) with Taiwan, Thailand, Indonesia, the Philippines, and Brunei and Malaysia is completing TIFA negotiations with Cambodia.

<sup>10</sup> Under global trade rules that lessen scrutiny applied to domestic pricing policies, a major factor in investigating unfair trade practices such as dumping.

<sup>11</sup> "Latin America scrambling to satisfy voracious Asia," Taipei Times, 11/21/04.

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(under consideration), Chile (granted), Brazil (granted), and Argentina (granted).<sup>11</sup>

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ASEAN

- The country who is beneficial to the formation of East Asian Community, such as “10+1” countries (Japan, China, Korea and India)
  - Australia, New Zealand, and EU belong to second tier.
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EU	● “Stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities”: the political criteria.
(The Copenhagen Criteria) <sup>12</sup>	● “The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union”: the economic criteria.
	● “Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union”. This criterion refers to the implementation of the Union's legislation, known as the <i>acquis communautaire</i> . For that reason, it is referred to thereafter as the <i>acquis</i> criterion.

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Source: made by the author (2004/11/19)

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<sup>12</sup> In June 1993, the European Council at Copenhagen laid down the foundations of the current enlargement process by declaring that “*the associated countries in Central and Eastern Europe that so desire shall become members of the European Union*” and by defining the membership conditions, the so-called Copenhagen criteria. See [http://www.fifoost.org/EU/strategy\\_en\\_2002/node7.php](http://www.fifoost.org/EU/strategy_en_2002/node7.php)

**Table 3.2: PTAS/FTAS in the Asia-Pacific**

<b>U.S.</b>	<p><b>Signed: Israel (1985), NAFTA (1994), Jordan (2000), Chile (2003), Singapore (2003), Bahrain (2004), Morocco (2004), Australia (2004)</b></p> <p><b>Under negotiation: Central America (CAFTA to be approved), FTAA, North Africa, SACU (Southern Africa Customs Union) and Dominican Republic</b></p> <p><b>Under study: Egypt, Thailand, Philippines</b></p>
<b>Japan</b>	<p>Signed: Singapore (2002), Mexico (2004)</p> <p>Under negotiation: ASEAN (FA concluded), Korea (2005), Thailand</p> <p>Under study: Japan-China-Korea, Malaysia, Philippines, Canada, Chile, Brunei, Indonesia, Taiwan</p>
<b>China</b>	<p>Signed: Hong Kong (2003), Macao (2003), Bangkok Agreement</p> <p>Under negotiation: ASEAN (FA concluded), Australia, New Zealand Singapore, Japan-China-Korea, India, Chile, Mexico, Peru</p>
<b>ASEAN</b>	<p>Signed: ASEAN (AFTA)</p> <p>Under negotiation: China (FA concluded), Japan (FA concluded), India (FA concluded), Australia-New Zealand (CER)</p> <p>Under study: EU, Korea</p>
<b>Taiwan</b>	<p><b>Signed: Panama</b></p> <p><b>Under negotiation: Nicaragua (to be concluded in 2005), Paraguay (in Trouble due to China's intervention)</b></p>



<b>Under study: U.S., Japan, Philippines, New Zealand, Singapore</b>
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\* **CAFTA** : A FTA between the U.S. and El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica; Source: This table contains modified data from the Bureau of Foreign Trade Website/Taiwan <http://www.moeaboft.gov.tw> (accessed on 2004/09/20) and United States Trade Representative, <http://www.ustr.gov> (accessed on 2004/11/28)

#### **4. Finale**

The formation of regional economic alliances tends to put Taiwan at a disadvantage. Since the signing of FTAs requires political interaction between governments, Taiwan could likely fall victim to ill-intentioned boycotts and, as a result, will fail to seal these agreements.

As the analysis goes, what really matters for Taiwan lies in East Asia, but Taiwan must make a Detour via US

In a nutshell, I try to clarify this complicated situation in a following way:

1. US FTA policy is conservative in a sense that cherry-picking easy-to-do pacts and developing countries go first at the same time avoid big deals in economic terms.

2. As for geopolitical or foreign policy considerations, US often choose a convenient "pilot project" that offers a large **political**

**payoff** with little economic consequence or impact on the GATT/WTO system.

3. But there is a certain logic in the Bush Administration's position which is deserved to take in mind. First of all, the USTR does have limited resources to negotiate FTAs. **It naturally wishes to dedicate those resources to those countries with which success is likely.** Second, USTR cannot move forward on an FTA with any country unless it has political support from the relevant American business sectors and their friends in the Congress. **For USTR, an agreement that might have significant political or implementation difficulties is not worth the time it takes to negotiate** (Richard C. Bush III, 2004).

4. In the Taiwan case, achieving a stabilized and predictable cross-strait relationship will effectively lower the US' political costs in signing an FTA with Taiwan and make it a real possibility in future (Hong and Liu, 2004).

5. Create an environment that will strengthen the partnership between Taiwan and American companies, which will in turn help the latter in managing their relationship with China (the "gateway" effect).<sup>13</sup> In other words, Taiwan should make efforts to persuade the US business

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<sup>13</sup> Richard C. Bush III, "The United States, Taiwan, and an FTA," *Apple Daily (Taiwan)*, June 14, 2004;  
<http://www.brookings.edu/views/op-ed/bush/20040614.htm>

community that an FTA between US and Taiwan deserve to support.<sup>14</sup> Recently (October, 2004), the recommendation of American Chamber of Commerce in Taipei to resume regular bilateral economic negotiations with Taiwan under what is known as the Trade and Investment Framework Agreement (TIFA) undoubtedly is a positive signal for a prospective FTA between US and Taiwan.<sup>15</sup>

6. Now, US may not think of providing Taiwan with a better balance among its trading partners (the U.S., China, Japan, and ASEAN) like one of the arguments that the Brookings Institution seminar prospects for a U.S.-Taiwan Free Trade Area in December 2002.<sup>16</sup>

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<sup>14</sup> However, there is one special hurdle that will have to be overcome if a US-TwFTA is to become a reality. For example, producers outside of a free trade area may be tempted to transship products through one party to an FTA in order to secure preferential tariff treatment from another party. This issue has become particularly significant in today's globalized economy, where companies, including Taiwan companies, are increasingly using offshore production platforms (rules of origins, ROOs). <http://www.brookings.edu/views/op-cd/bush.20040614.htm>;

<sup>15</sup> AmCham Recommends Revival of TIFA Talks,  
[http://www.amcham.com.tw/top\\_story.php?id=152](http://www.amcham.com.tw/top_story.php?id=152)

<sup>16</sup> Prospects for a U.S.-Taiwan Free Trade Area (CNAPS Seminar),  
<http://www.brookings.edu/comm/events/cnaps20021212.htm>; The Taiwan President Elections: Political, Economic, and Security Implications (May 6, 2004),  
<http://www.brookings.edu/fp/cnaps/events/20040506.pdf>

However, US must take it seriously that it without US' FTA engagement will leave Taiwan out at any level of economic integration in East Asia.

Perhaps the US doesn't believe that the economic integration in East Asia will make huge stride in a few years? So Taiwan has no need to have Angst for being an outsider in this region? Or will US return soon to East Asia,<sup>17</sup> in a way that so many deals to sign in order to deliberate FTAs discriminating effects for the sake of its economic and strategic interests? Let's wait and see.

#### Some Reflections

To avoid of being left behind from regional trading blocs and to further integrate its economy with the global one, Taiwan signed a FTA with Panama in September 2003 as a symbolic achievement in its efforts to expand international horizon in Latin America.<sup>18</sup> Now Taiwan has launched a series

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<sup>17</sup> The US is also using the **Enterprise for ASEAN initiative (EAI)** to further open markets of interest in this region to U.S. farmers, ranchers, workers, manufacturers and services providers. Trade Facts: APEC Ministers Endorse Best Practices for Free Trade Agreements (FTAs) and Regional Trading Arrangements (RTAs); [http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2004/asset\\_upload\\_file49\\_6891.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2004/asset_upload_file49_6891.pdf)

<sup>18</sup> Peter C.Y. Chow, The Impacts of China's Economic Growth and Cross-Strait Economic Integration on China-Taiwan Relations: Implications for U.S.

of FTAs, including Nicaragua (to be concluded in 2005), Paraguay (in Trouble due to China's intervention), to cement the diplomatic relationship", with "dollar diplomacy". Regarding FTA negotiation as training practices like the case Panama is fine, but repetition is a waste of time and negotiating resources, along with the political capital/attention.

There are also many relevant issues relating FTAs approaches in Taiwan, such as the role of Japan in economic integration in East Asia. Japan is supposed to have good intentions but lacking in political will to make a FTA with Taiwan. Further, the evolution of policy orientation about FTAs of WTO and APEC whose organizations Taiwan has memberships, and which dimension of FTA (even WTO), politics or economics, should be emphasized in the process of participating the international institutions/regime (FTAs are counted one) all deserved to assess in a inter-disciplined way, which legal study, economics and international relations are minimal. Regardless of the situation, how can we make use of the threat of marginalization of FTAs to proceed the domestic reforms is all more important.

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