

Taiwan's Trade Policy And International Space

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Charles Finny
Advisory Board
New Zealand Contemporary China Research Centre

The vast majority of countries maintain diplomatic relations with the People's Republic of China (China). As a result these States are restricted in their relations with the Republic of China, commonly referred to as Taiwan. Cultural, commercial and people to people interaction is tolerated by China, but formal Government to Government activity is severely constrained.

In the case of New Zealand this means that formal contact between the Government of New Zealand and the Taiwanese Government normally takes place at working level, in the Chinese terminology "at Director-General level or below", and is restricted to trade, investment, and cultural diplomacy. Day to day relations are managed by the New Zealand Commerce and Industry Office in Taipei and the Taipei Economic and Cultural Office in Wellington (there is a TECO office also in Auckland) as opposed to Embassies and Consulates. The New Zealand Commerce and Industry Office is a subsidiary of a private company and the staff it employs are "seconded" from the New Zealand Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise. Most countries use a similar formula.

Taiwan's near unique international status also means that the majority of countries are unable to enter the range of binding "Agreements" that is the norm in international relations. For fear of implying Diplomatic Recognition most countries rely on non-binding "Arrangements", usually signed by the head of the representative offices in Taiwan and their TECO counterpart. Taiwan will usually treat these "Arrangements" as if they were "Agreements" and will put these through the Treaty ratification process in Taiwan, but the other party cannot. These "Arrangements" are sometimes called "Agreements" but even those called "Agreements" are written as non-binding "Arrangements". New Zealand's double tax arrangement with Taiwan is an example of this.

Taiwan's Membership of APEC and WTO accession have changed this situation to some degree. APEC has to date proven itself unable to pull off a region wide "Agreement" of any substance, but it has allowed interaction at much more senior levels than had occurred previously. For example, the New Zealand Trade Minister and other Ministers meet their Taiwanese counterparts regularly at APEC meetings. And while it is early days the Free Trade Area of the Asia Pacific could be very beneficial for Taiwan.

WTO membership has been even more beneficial for Taiwan's international space. WTO membership not only means that there is another forum for high level contact, WTO members have become party to a number of international "Agreements". These include the General Agreement on Tariffs and Trade and the General Agreement on Trade in Services and the Government Procurement Agreement etc.

Significantly the WTO Agreements allow members to negotiate bilateral and regional trade liberalization agreements. This has created new opportunities for both Taiwan and those WTO members that do not have diplomatic relations with Taiwan.

New Zealand and Singapore have been amongst the first to take advantage of this opportunity. Both have signed such agreements with Taiwan in recent years. But interestingly the first was China. The ECFA process between China and Taiwan is also being negotiated under the WTO framework. The ECFA outcomes are written in "Agreement" language and are being notified to the WTO.

In the case of New Zealand the Agreement has had immediate positive impact on trade flows for both parties. If global dairy prices had not halved since the NZ-Taiwan Agreement entered force the trade impact would have been even more spectacular. The New Zealand Taiwan Agreement also includes a number of the issues that had previously only been covered by non-binding arrangements – eg Air Services. The new open skies regime between New Zealand and Taiwan is subject to dispute settlement. The framework for the broader trade, economic and cultural relationship between New Zealand and Taiwan is now much more similar to New Zealand's relations with other major trading partners (Taiwan is now New Zealand's seventh largest export market) than it was previously.

As competitors see New Zealand doing so well in the Taiwan market one would expect pressure to grow for more such Agreements to be signed. This is probably Taiwan's strategy, and probably explains why such a high standard agreement has been signed, even including the politically "sensitive" agriculture and fisheries sectors. The agreement both demonstrates that Taiwan can meet the standard of agreements under negotiation such as TPP. It also dangles the possibility of rapid comprehensive liberalization of the Taiwan market in front of prospective partners.

New Zealand had been seeking a FTA with Taiwan since the first term of the Chen Shui-bian administration. Singapore had likewise been in a dialogue with Taiwan on a possible FTA from around that period.

Why did it take so long for negotiations to begin? And why has no one else yet begun negotiations with Taiwan?

It is hard to be definitive on this but there are some clues out there to guide our assessment.

It seems very clear that countries the size of Singapore and New Zealand for whom China is one of the most important economic and political partners will not be going out their way to anger China by beginning a negotiation with Taiwan in the face of strong Chinese opposition. New Zealand officials and Ministers have stated publicly several times that they would not have begun negotiations with Taiwan if they believed that this would do any damage to relations with China. It would seem that there has therefore been a dialogue between New Zealand and China on this matter. This dialogue may even have been underway for some years before the FTA negotiation began.

The initial period of interest in a FTA negotiation between Taiwan and New Zealand dating back to 2003 and 2004 also occurred at a time of unstable relations between Taiwan and the mainland. China wanted direct shipping and air services to be agreed and was clearly uncomfortable with the DPP Government of the time. It is significant that the Singapore and New Zealand FTAs have been negotiated with the KMT in power and the backdrop was one of improving cross strait relations. Direct shipping, air services and the first tranche of goods liberalisation between Taiwan and China was in place, and a negotiation on services liberalization was underway. It is therefore possible that China's comfort level with Taiwan embarking on new FTA initiatives was linked to the state of cross strait relations at that time.

It is also important to note that both Singapore and New Zealand have excellent relations with China. FTA linkages are an important part of these relationships. Indeed New Zealand and Singapore had FTAs in place with China for some years and New Zealand also had a FTA with Hong Kong before it began negotiations with Taiwan. It is also possible that FTAs with Taiwan become possible when a threshold is reached in a third party's relationship with China. Part of that threshold may be the negotiation and entry into force of a FTA with China (and possibly Hong Kong).

There are some who would seem to have very good and improving relations with China (and have FTAs at least negotiated with China) who still have not begun negotiations with Taiwan. Why might this be?

One strong possibility is the current state of politics in Taiwan and the impasse currently underway in the development of cross-strait economic relations. Taiwan has yet to ratify the ECFA service outcome and there seems to be continuing uncertainty over whether it can. At the time that the Singapore and New Zealand FTA outcomes were begun and even completed, there were no signs that the current Administration in Taiwan would be unable to continue the momentum in cross-strait relations that it had begun.

If the above hypothesis about the link between the Chinese attitude to FTAs with Taiwan and the state of the cross-strait relationship is correct, it should give Taiwan's policy makers (both KMT and DPP) some cause for deep reflection. Taiwan is a trading nation. Trading nations must remain competitive. Taiwan's more direct competitors are all deeply involved in bilateral and regional FTA activity. In the absence of any chance of a comprehensive WTO negotiation being

restarted or launched anew, to remain competitive Taiwan must continue also to be part of this regional and global process. Singapore and New Zealand are good starts, but FTAs with much larger players must be a goal for Taiwan if it is to keep Taiwanese exports competitive. It would be most unfortunate if further negotiations were to be made impossible because of short term political point scoring.

Longer term, of course, Taiwan faces in 2016 a new Presidential election. How the issue of the development of cross-strait economic relations is handled in the campaign and in the initial period of the new Administration will also have potential implications for Taiwan's FTA diplomacy should the above hypothesis be correct. This should also be a matter for deep reflection for the leaders of the KMT and DPP.

Bio

Charles Finny is a partner at the Wellington government relations company Saunders Unsworth. He was the lead negotiator for New Zealand of ANZTEC (Taiwan-NZ FTA) and first phase of the NZ-China FTA. He is a former Director of the New Zealand Commerce and Industry Office in Taipei, Deputy Head of Mission in Beijing, and former senior trade policy official working on WTO, APEC and bilateral and regional initiatives. He Chairs the Board of Education New Zealand, is on the Boards of New Zealand Trade and Enterprise, the New Zealand Film Commission, and the Council of Victoria University of Wellington. Charles was the inaugural Chair of the New Zealand Contemporary China Research Centre and still sits on the Board.