

Should Canada Support Taiwan's Entry into the Trans-Pacific Partnership?

Abstract: Hugh Stephens and Douglas Goold examine Taiwan's expressed desire to join the Trans-Pacific Partnership (TPP) negotiations, and President Ma's request for Canadian support for Taiwanese membership. They conclude that it would be in Canada's interest to support Taiwan's participation under certain conditions. These conditions relate to timing, specifically the need to conclude the TPP with the current 12 members before additional participants can be considered, and for Taiwan to demonstrate that it is ready to take on the commitments of the TPP. A final critical condition is to ensure that China is not opposed to Taiwan joining the TPP process. In this regard, the closer relations between China and Taiwan resulting from their own Economic Cooperation Framework Agreement may be a key factor in China seeing Taiwan's eventual inclusion in the TPP in a positive light.

Hugh Stephens, Executive-in-Residence, Asia Pacific Foundation of Canada and Fellow, Canadian Defence and Foreign Affairs Institute, and former Executive Director of the Canadian Trade Office in Taipei.

Douglas Goold, Director, National Conversation on Asia & Senior Editor, Asia Pacific Foundation of Canada

As the Trans-Pacific Partnership (TPP) approaches what one hopes will be its successful conclusion this year, other countries, including South Korea, the Philippines, Thailand and Taiwan, are expressing interest in becoming members. In mid-January Taiwanese President Ma Ying-jeou, who had said he wanted to achieve membership by 2020 but is now pushing for earlier entry, asked a group of Canadian Liberal Party parliamentarians, led by Senate Liberal Leader James Cowan,¹ for Canada's help.² While it is clear from most studies³ that Taiwan would benefit economically from becoming a member of the 12-nation grouping, it is worth examining whether Taiwan's accession would be in Canada's interest.

Our conclusion is a strong but qualified yes. The qualifications relate to the need to complete a robust TPP, and to get it implemented among the current members before new members are admitted. For this to happen, the administration of U.S. President Barack Obama needs to

¹ This was before Cowan and all other Liberal Senators were removed from the Liberal caucus by Liberal leader Justin Trudeau.

² China Post, January 21, 2014, "President Urges Canada to Help Taiwan Join TPP," <http://www.chinapost.com.tw/taiwan/foreign-affairs/2014/01/21/398885/President-urges.htm>.

³ Joshua Meltzer, "Taiwan's Economic Opportunities and Challenges and the Importance of the Trans-Pacific Partnership", Brookings Institution, September 2013, updated October 9, 2013, <http://www.brookings.edu/research/papers/2013/09/30-taiwan-trans-pacific-partnership-meltzer>.

obtain Trade Promotion Authority, which is facing opposition from key Democrats in Congress such as House Minority leader Nancy Pelosi, who recently said that fast track was “out of the question.” Also required is a demonstration by Taiwan that it is ready to take on the high-level disciplines (i.e. more comprehensive and complete dismantling of trade barriers) of the TPP. The final requirement, and in many ways the most important and delicate, is to ensure that China will not object to Taiwan’s accession.

Canada-Taiwan Relations

President Ma’s request to Canadian Parliamentarians, and the press coverage it received, was particularly significant because of the diplomatic limbo in which Taiwan finds itself. Most countries, including Canada, do not recognize the international status of the government in Taipei because of the People’s Republic of China’s “one-China policy,” which means that political visits to Taiwan are few and far between. In the past, a few Canadian ministers have visited Taiwan on a supposedly personal basis but the usual channel of high-level contact comes from the unofficial visits of Canadian Parliamentarians, usually at the invitation and expense of Taiwanese organizations. There are plenty of these visits: Taiwan has long topped the annual list of cost-free destinations for MPs. However, given the lack of other channels, these visits become important means to communicate bilateral political messages.⁴

Taiwan and Canada have made progress in building robust bilateral relations since the opening of their respective unofficial missions in the 1990s. Taiwan is Canada’s fourth-largest export market in Asia and a significant source of immigration and tourism. Taiwan has the world’s twentieth-largest economy and the sixth-largest foreign exchange reserves, and it is a significant source of outward investment, although relatively little has found a home in Canada. Taiwan has also proven to be a difficult trade partner, and given its strategic relationship with the United States, it has tended to respond to U.S. pressure before dealing with trade irritants affecting others. Thus Canadian beef exporters have fought a long battle to be treated equally with their American competitors, although the U.S. has had its own problems with Taiwan

⁴ Both Canada and Taiwan maintain “unofficial” missions in each other’s countries, staffed by officials from the respective governments, and acting very much as would an embassy but without the formality of official accreditation.

resulting from barriers to U.S. beef because of concerns over BSE-tainted meat. Both countries continue to face barriers to exports of pork treated with ractopamine, a feed additive commonly used both in Canada and the U.S.

Despite the lack of formal diplomatic relations, Taiwan and Canada have been able to conclude bilateral arrangements including a longstanding air services agreement. They are also working on a Double Taxation Avoidance Agreement while a Foreign Investment Promotion and Protection Agreement (FIPA) is under consideration. Now that Taiwan has finally joined most countries in removing the ban on Canadian bone-in beef up to the age of 30 months, the way should be clear for progress in these areas. Canada has extended visa-free travel to Taiwanese citizens, another important bilateral gesture. However, what is needed to take bilateral relations to the next level, and to open up significant markets for Canadian exporters of goods and services, is a bilateral trade agreement. Even though Taiwan has recently concluded Economic Cooperation Agreements⁵ with both New Zealand and Singapore, countries with which it does not have diplomatic relations, an agreement between Taiwan and Canada will be difficult to achieve.

The China Factor

Such an agreement would live in the shadow of Canada's relations with China, and at the end of the day relations with China are far more important to Canada -- as they are with virtually all countries -- than relations with Taiwan. Taiwan and China are separate members of the WTO⁶ and have signed a bilateral trade liberalization arrangement of their own. Even after the Economic Cooperation Framework Agreement (ECFA) came into effect in 2011, China's position on whether or not Taiwan should be able to negotiate more bilateral agreements has not been made clear. New Zealand and China reached their bilateral agreement before New Zealand came to an agreement with Taiwan, and Singapore first had an agreement with China through its membership in ASEAN. In contrast, Canada does not have a trade agreement with China, and the federal government has shown little interest in responding to China's invitation to begin

⁵ Another name for free-trade agreements.

⁶ Taiwan acceded to the WTO as the "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu."

negotiations. While there is uncertainty about whether China might hinder Taiwan's desire for TPP accession, there is a way around that challenge. A decision by all 12 TPP partners to admit Taiwan would help diffuse pressure brought to bear by China on individual members. This would provide a means for Canada to open trade with Taiwan without having to embark on bilateral negotiations that could be opposed by China. It is also possible that China itself might at some future date aspire to TPP membership, which would help remove political obstacles for Taiwan. It is interesting to speculate whether Taiwan's interest in the TPP will enhance Beijing's interest, as happened when China decided to press for WTO membership after Taiwan expressed strong interest in joining the international trade body.

Of course, the whole equation has changed dramatically in the last few years under President Ma and his Kuomintang (KMT) party because of the huge improvement in relations between Taiwan and China. The two powers not only have an economic framework agreement but also 19 agreements on everything from financial cooperation to food safety. Tourism from the mainland has soared. The mainland and Taiwan are increasingly reliant upon one another economically. In mid-February, Taiwan and China held their first official direct talks since 1949.

Completing the TPP

The TPP is a complex agreement that thrusts into new areas, including regulatory coherence, cross-border data flows, e-commerce, strengthened intellectual property rights and investment provisions, alongside the usual push for comprehensive tariff removal and opening of services. The 12 partners met in Singapore at the end of February and concluded that "While some issues remain, we have charted a path forward to solve them in the context of a comprehensive and balanced outcome." While Canada and Mexico joined the TPP late, in 2012, Japan's even later entry in July of 2013 has significantly complicated the negotiations by adding a large economy that maintains many non-transparent, non-tariff barriers in sectors like autos and services, and has traditionally defended its agricultural sector. Taiwan has many of the same issues, especially in agriculture and services, even though agriculture comprises less than 2% of the economy. The other TPP countries were willing to add Japan to the negotiations at the last minute owing to the size of the Japanese economy, the world's third-largest, and to the

opportunity to tackle longstanding trade barriers. The addition of Taiwan at this point would be a step too far. The TPP12 need to complete the negotiations and proceed with the difficult task of ratification, which includes overcoming major obstacles in Congress, before the addition of Taiwan is contemplated. Unfortunately, Taiwan is far from ready to proceed.

What Taiwan Needs To Do

President Ma has begun the process of studying what Taiwan needs to do to meet the standards of the TPP. This includes significant services liberalization and removal of the many barriers that make Taiwan a difficult country in which to do business. It means dealing with the agricultural producers, transitioning them away from high protective tariffs and providing adjustment assistance. Certainly, the pace of Taiwan's preparations seems to have accelerated of late. Taiwanese diplomats in all the TPP countries, as well as those in some of the countries involved in the other major Asian trade agreement under negotiation, the Regional Comprehensive Economic Partnership (which includes China, but not the U.S. or Canada), were recalled to Taipei last month for training.⁷

Training diplomats to be effective lobbyists is one thing. Demonstrating the political willingness to make significant reforms to dismantle entrenched trade barriers is another. Taiwan is a vibrant, effective, functioning democracy – one of the few in Asia -- but that democracy brings with it the need to mobilize public opinion and to exercise political leadership to tackle vested interests. And public opinion is a problem. President Ma's approval rating plunged to single digits last fall and there is no certainty that he and his pro-China policies will survive the May 2016 elections (the DPP, the main opposition party, adheres to a high-risk independence policy). Many of the gains that Taiwan will reap from TPP membership will result from the efficiencies achieved from dismantling its own trade barriers, but as history has repeatedly shown, small but powerful sectoral interests (such as the agricultural lobby in Taiwan or the dairy lobby in Canada) can impede measures that will benefit the economy as a whole. By making progress with Canada on a FIPA, Taiwan can demonstrate that it can meet TPP

⁷ *China Post*, "Diplomats to return in February for TPP Preparation," January 23, 2014, <http://www.chinapost.com.tw/taiwan/foreign-affairs/2014/01/23/399052/Diplomats-to.htm>.

standards, and it can do so by committing to science-based standards when temporary agricultural barriers are necessary to preserve health and prevent the spread of disease, and by continuing to engage on services liberalization.⁸

In the meantime, it is in Canada's interest to encourage this movement, both to have greater access to Taiwan's market for Canadian exports and to ensure that Taiwan is not excluded from the benefits of broader regional trade liberalization, thus distorting supply chains and creating new barriers for business. Taiwan can help its case by committing to science-based CODEX standards⁹ for food imports and to opening its services markets. Canada's support for Taiwan's membership in TPP at the appropriate time and in consultation with China will not only make a contribution to opening further opportunities in trans-Pacific trade but will also be an important symbol of our willingness to help ensure the economic viability of a thriving and lively democracy. It would be a felicitous combination of both Canadian interests and values. With China and Taiwan now trading and talking directly with each other, promoting Canadian interests with Taiwan does not have to be a zero-sum game as far as China is concerned. Indeed, Taiwan offers a platform for Canadian businesses to expand their business with China, using the provision of the China-Taiwan ECFA, creating a win-win scenario for all parties. Reaching this outcome is an important goal and underscores why, once the conditions described above are met, Canada should support Taiwan's ultimate entry into the TPP.

⁸ Taiwan, along with the U.S. and Canada, is one of a number of countries engaged in negotiating a plurilateral agreement on services, the TISA (Trade in Services Agreement) under the WTO.

⁹ The Codex Alimentarius Commission, established by FAO and WHO in 1963, develops harmonized international food standards, guidelines and codes of practice to protect the health of the consumers and ensure fair practices in the food trade.