



US – Taiwan Relations Facing the Trend of Economic Integration in East Asia

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I. The Emergence of Economic Integration in East Asia

I-1 *Introduction: Taiwan disappears in East Asia regional economic integration*

- An agreement signed in 1991, ASEAN agreed to achieve an ASEAN free trade area by 2005
- The ASEAN+3 informal Summit inaugurated in 1997. The think tanks of plus three countries (NIRA in Japan, KIEP in Korea and CDIC of China) started to play significant roles in studying how to make the regional economic integration into solid policies and actions in 1999.
- The finance ministers of ASEAN+3 agreed to establish bilateral currency swap arrangements. (Ahn, Ito, Kawai, and Park, 2003) The Chiang Mai Initiative (CMI) was signed in Chiang Mai, Thailand, on May 2000



● Negotiation on establishing the East Asia FTA. In the beginning stage, the ASEAN+3 FTA had been considered. However due to the difficulty on coordinating economic interests among Japan, South Korea and China, recent development has been changed to three ASEAN+1 FTA :

- (i) Agreement on Overall Economic Cooperation Framework between China and ASEAN” in November 2002 and targets a **China + ASEAN FTA** to be established in **2010**
- (ii) Japan announced a **Japan + ASEAN FTA** will be established in 2012 to **2017**
- (iii) Korea is promoting a FTA with Japan and the agreement is expected to be signed in 2005
- (iv) **An ASEAN common market is to be achieved in 2015**. The first step in 2004 is to establish a specialized agency for solving the discrepancy on economic and trade disputes.

I-2 Taiwan's economic achievement

1. The top 8 foreign exchange reserve countries, 6 belong to ASEAN+4.

It is estimated that 1/3 of China's foreign exchange are contributed by Taiwan businessmen. This ratio is expected to reach 38% in 2010.

The Ranking of Top 8 Foreign Exchange Reserve Countries (2005)

(Unit: USD 100 million)

Rank	Country	Foreign Exchange
1.	China	9545
2.	Japan	8506
3.	Taiwan	2610
4.	South Korea	2266
5.	Russia	1971
6.	India	1571
7.	Singapore	1283
8.	Hong Kong	1250

FDI Export Share in China's Total Export (1993~2005)
Unit: USD 100 million

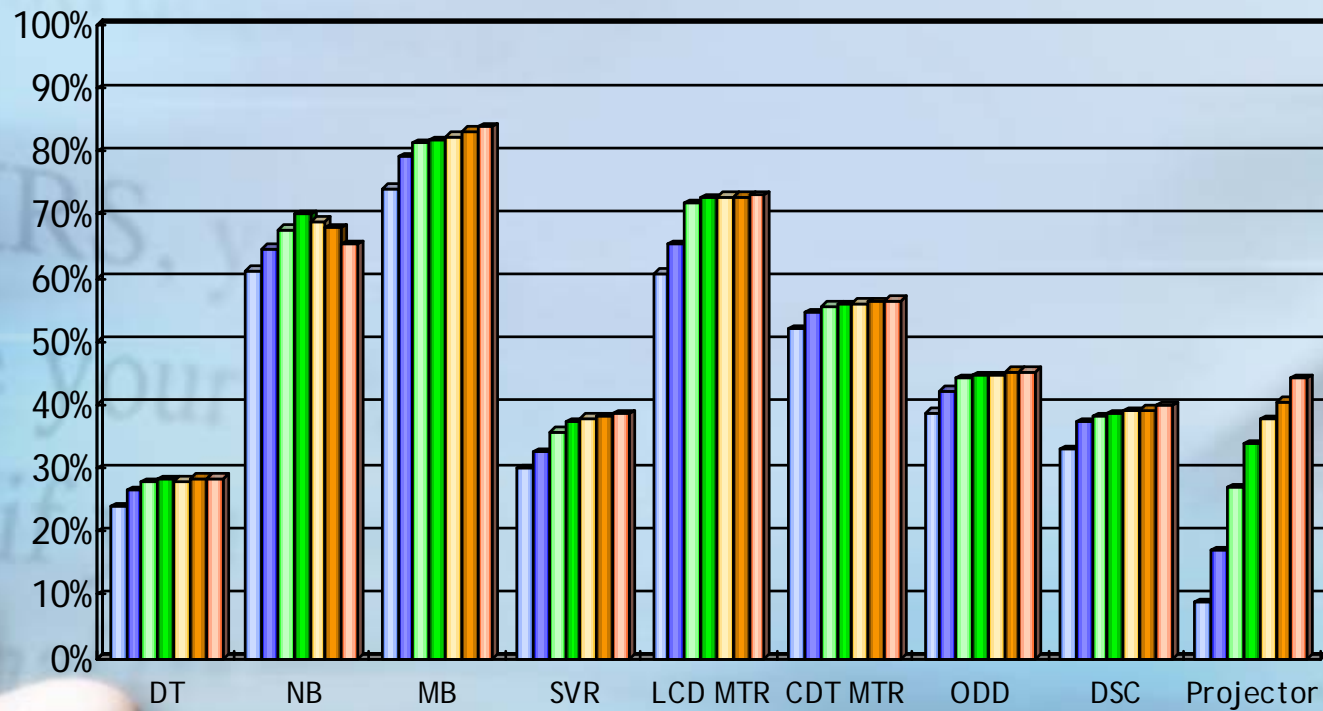
Year	FDI Export	Total Export	FDI Ratio
2005	4441.83	7619.5	58.3%
2004	3385.92	5933.2	57%
2003	2403.06	3628.79	66.2%
2002	1699.85	2694.79	63.1%
2001	1332.35	2661.55	50.06%
2000	1194.41	2492.03	47.93%
1999	886.28	1949.31	45.5%
1998	809.62	1837.57	44.1%
1997	749.00	1826.97	41.0%
1996	615.06	1510.66	40.75%
1995	468.76	1487.70	31.5%
1994	347.13	1210.38	28.7%
1993	252.37	917.63	27.5%

Source: 1. 1993~1999 data collected from China Custom Statistics (Monthly)
2. 2000~2005 data collected from China Statistical Yearbook.

I-2 Taiwan's economic achievement

- Taiwan is the 16th largest economy in the world and the major producers of many IT products.

Taiwanese IT Hardware Worldwide Production Share at a Glance
worldwide production volume share %



I-2 *Taiwan's economic achievement*

3. Taiwan's FDI to ASEAN is only next to Japan in this region.

Table Northeast FDI in the ASEAN countries, 1995-2004

Years	Japan (millionUS\$)	AsianNIEs (millionUS\$)	HongKong (%)	Korea (%)	Taiwan (%)	Japan (%)	Intra-ASEAN (%)
1995	5,649	2,845	4.5	2,3	3.2	20.0	16.5
1996	5,283	2,242	3.1	1.7	2.7	17.5	14.1
1997	5,230	3,521	5.5	2.1	2.7	15.3	15.4
1998	3,938	1,930	5.2	0.4	3.0	17.6	12.2
1999	1,688	1,629	2.5	1.9	1.4	6.1	6.4
2000	455	1,460	5.0	-0.2	1.7	2.0	3.4
2001	1,606	1,828	-2.3	-1.4	13.7	8.7	13.5
2002	3,366	568	1.5	0.7	2.0	24.3	26.3
2003	2,318	1,559	0.5	3.4	4.5	12..6	12.5
2004	2,538	2,428	1.3	3.5	4.6	9.9	9.5

Source: The ASEAN Secretariat: ASEAN Statistical Yearbook, 2005,
table VI.2, pp. 142-3 and Jakarta, table VI.5

II. The four major issues of economic integration in East Asia

(1) An Integrated Financial and Monetary System

Among various debates or ideas on an integrated financial and monetary system for East Asia, the following three are worthy of putting into actions.

(i) An institution that allows mutual consultation regarding exchange rates, interest rates, and foreign exchange reserves.

(ii) The Asia Bond Initiatives (ABI).

(iii) An integrated intra-regional exchange rate system with a “basket peg”

e.g. the successful practices on “basket peg” to integrate intra-regional exchange rate by China’s Central Bank for one and half years.

(2) Open East Asian Regionalism

e.g. the inauguration of ASEAN + 6 Summit in 2005.

(3) Early Harvest Package (Agriculture)

The Early Harvest Package (EHP) provides tax free preferential treatment on agricultural items with the new additions of Cambodia, Laos, Myanmar, and Vietnam (CLMV).

» FAO's statistics shows that China's some basic crops production are taking leading role in the world, such as rice share 29.2%, wheat 15.5% and corn 20.1% in 2005.

(4) Intra-industry specialization and manufacturing division of labor approach

The differences in economies of scale between East Asian countries have been greatly reduced over time, however geographical concentration has increased.

If East Asia countries follow the development patterns of the more integrated regions, a regional trading agreement in this region may lead to further specialization and concentration.

The total factor productivity, so as the comparative advantage of FDI firms from seven different origin countries/regions are different by industry (as shown in Table 1-1).

e.g. China has become the second largest export country (next to US) and foreign exchange. However it is estimated that 62% was contributed by FDI firms, among which Taiwanese FDI takes half (31%). It is estimated that this ratio will rise to 38% in 2010.

III. The commons and the discrepancies in approaching the EA FTA (1)

Up to June 2006, there are 28 bilateral FTAs which are concluded or negotiating in Asia Pacific Region. Among which China initiates 10; Japan 8 and Korea 4 (UN ESCAP).

(1) ASEAN

Malaysia and Indonesia prefer all ASEAN countries to work together— That means a **pro multilateral approach**.

Singapore and Thailand prefer **bilateral** types of FTA.

(2) China

China-ASEAN FTA agreement was signed in November 2002, in which both regions reached a consensus to start the FTA in 2010 and will take effect by 2015

For political purpose, China signed Closer Economic Partnership Arrangement with Hong Kong (June 2003) and Macao (Oct. 2003). CEPA includes three special arrangements:

(i) Seven new measures in facilitating and simplifying trade and investment

(ii) preferential treatment on 18 service industries

(iii) preferential treatment on 273 manufacturing products

III. The commons and the discrepancies in approaching the EA FTA (2)

(3) Japan

- Due to its domestic conservative political power from the agriculture/rural sectors, Japan has so far signed only two FTAs: Mexico and Singapore
- Japan government set its benchmarks of strategic priorities for signing a FTA or EPA:
 - i. Economic criteria: advantage vs. disadvantage analysis on whether it is beneficial to domestic structure reform; helpful for the revitalization of Japan economy; conceivable by the business community, domestic community...etc).
 - ii. Geographic criteria: factors such as location importance, shipping costs.
 - iii. Political and diplomatic criteria: the importance of the counterpart countries; increasing bargaining power in WTO negotiations; influencing and speeding up WTO negotiations; trust-building among FTA/EPA members.
 - iv. Feasibility criteria: the targeting countries are interested; and do not affect the agricultural competitiveness.
 - v. Time-related criteria: normally one to two years of negotiation time are expected. Bureaucratic system changes every two years. The consensus had better be achieved in two years.

III. The commons and the discrepancies in approaching the EA FTA (3)

(4) Korea

- The Korea-Chile FTA was signed on March 2004.
- Korea-Singapore and Korea-Japan FTAs had completed joint study* on October 2003 and started negotiations on January 2004.
- Korea-ASEAN FTA started joint study on February 2004. It is expected that Korea will start FTA negotiation with ASEAN on 2005.
- Two strategies will be prevailed simultaneously:
 - (1) To CLMV countries, Korea will consider giving them some special treatment. Korea-Laos negotiation will start October 2004.
 - (2) For countries with higher income and probably similar industrial structure

* Five steps in processing bilateral FTA: (1) Discussion, (2) Joint Study, (3) Negotiation, (4) Conclusion, (5) Implementation. Normally (1)~(4) step takes about six months each.

III. The commons and the discrepancies in approaching the EA FTA (4)

(5) United States

Trade Delivers Growth, Jobs, Prosperity and Security at Home

U.S. Exports Drive Economic Growth: In 2005, U.S. goods and services exports accounted for 10.4% of GDP, and these exports accounted for 20 percent of overall growth in the U.S. economy in 2005.

- Manufacturing- Manufactured exports have increased 82% since the end of the last multilateral round a decade ago.
- Agriculture- One of every three U.S. acres is planted for export.
- Services – U.S. had a \$66 billion surplus in 2005 on exports totaling \$381 billion, and these exports have nearly doubled since 1994.

Trade Creates More and Better Jobs: Economic gains from trade translate directly to more, better and higher paying jobs in the United States.

- Manufactured exports support more than 1 in 6 manufacturing jobs (according to the Dept of Commerce), and an estimated 5.2 million jobs in the U.S. (estimate for 2002).
- Agriculture exports support 926 thousand jobs in the U.S. (estimate for 2004 by Dept of Agriculture).
- Services account for 8 out of every 10 jobs in the United States – an area of significant growth potential from a successful Doha round.
- U.S. jobs supported by goods exports pay more: an estimated 13% to 18% more than the U.S. national average. Reducing trade barriers will spur greater exports and the creation of more, higher paying U.S. jobs.

III. The commons and the discrepancies in approaching the EA FTA (5)

(5) United States

● Opening Markets for Growth: The U.S. FTA Agenda

Since 2001, the U.S. Congress has approved free trade agreements:

<u>Implementation Date</u>	<u>Trading Partner</u>
• December 17, 2001	Jordan
• January 1, 2004	Chile
• January 1, 2004	Singapore
• January 1, 2005	Australia
• January 1, 2006	Morocco
• March 1, 2006	El Salvador
• April 1, 2006	Honduras
• April 1, 2006	Nicaragua
• July 1, 2006	Guatemala
• Pending Implementation	Bahrain
• Pending Implementation	Costa Rica
• Pending Implementation	Dominican Republic

Additional countries with which the United States has initiated FTA negotiations:

Botswana (Southern African Customs Union or SACU), Ecuador, Republic of Korea, Lesotho (SACU), Malaysia, Namibia (SACU), Panama, South Africa (SACU), Swaziland (SACU), Thailand, United Arab Emirates

III. The commons and the discrepancies in approaching the EA FTA (6)

(5) United States

- Trade Agreements Work for America
- Real Results: Leveling the Playing Field
 - Brings New Members in to Rules-Based Trading System
 - Uses all Tools to Hold Trading Partners Accountable
- U.S.-ASEAN Free Trade Efforts

Country	FTA	TIFA	WTO	GSP
Brunei		✓	✓	Not eligible
Burma			✓	Not eligible
Cambodia			✓	✓
Indonesia		✓	✓	✓
Laos			Negotiating accession	Not eligible
Malaysia	Launched	✓	✓	Not eligible
Philippines		✓	✓	✓
Singapore	✓	✓	✓	Not eligible
Thailand	Negotiating	✓	✓	✓
Vietnam			Negotiating accession	Not eligible
ASEAN-10		Negotiating		

Source: USTR:

http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file810_9122.pdf?ht=

IV. Political and Economic Relations of US/Japan with China/Taiwan in History

- Japan is supposed to be the political and economic leader in ASEAN+3. However, Japan has historical deficit in playing such leading role in the region:
 1. Japan - Taiwan Relations: Friendly during colonial period (1895 – 1945) up to now.
 2. Japan – China – Korea: Hostile during WWII and still in unstable situation due to the Japan government's provocative attitude on historical hatred & war criminals.
 3. US – Taiwan Relations: Friendly during US aid (1951 – 1965) and under Taiwan Relation Act after 1979.
 4. US – China Relations: Friendly after US-China established diplomatic relationship in 1979; but has become ambiguous recently due to the political leverage in neighboring countries (i.e. North Korea, Mongolia, Tibet, Taiwan, Afghan, Pakistan)
 5. China - Taiwan Relations: Cold in politics but warm in economic and trade relations after Taiwan government lifted the ban of relative visit to China on November 1987.

V. The Potential Economic Role of US in bridging the political friendship between China and Taiwan via Economic Strategies

1. Recognizing the strengths and weaknesses of utilizing China as the largest rising market for global market and best production sites of manufacturing division of labor in East Asia vs. other world: (Table 1-1)
2. Recognizing the importance and comparative advantages of ASEAN, Korea and Taiwan in manufacturing division of labor in integrating East Asia.
3. The famous logistics operation model of Taiwanese Electronics Industry:
1997: 955 (95% of product is assembled and shipped to the ordering customers in 5 days)
2000: 982 (98% of product is assembled and shipped to the ordering customers in 2 days)
now: 1002 (100% product arrived orders in 2 days)

Table 1-1
Industry Comparative Advantage of FDI Firms in PRC

	Comparative Advantage	Comparative Disadvantage
Whole	Metal Smelting & Pressing (1%, 0.61)	
	Food (9%, 0.41)	
	Electric & electronics (11%, 0.33)	Nonferrous Metal Products (5%, -0.36)
	■ Chemical & Medicine (6%, 0.32)	
	■ Precision Instrument (2%, 0.32)	
	◆ Clothing (18%, 0.13)	
Europe		
U.S. Canada		Nonferrous Metal Products (5%, -0.54)
Japan	Food (13%, 0.48)	Metal Products (4%, -0.42)
Singapore	Metal Smelting & Pressing (1%, 3.17)	
Korea	○ Transportation (1%, 1.68)	
	Food (7%, 1.11)	
	△ Textile (11%, 0.80)	
	Electric & electronics (11%, 0.75)	
	◆ Clothing (25%, 0.63)	
ASEAN	△ Chem Fiber (1%, 1.66)	
	Metal Smelting & Pressing (2%, 1.53)	
	Food (22%, 1.06)	
	△ Machine (5%, 0.94)	
	○ Transportation (4%, 0.85)	
HK Ma Tai	Metal Smelting & Pressing (1%, 0.60)	
	Food (8%, 0.41)	
	■ Chemical & Medicine (6%, 0.40)	Nonferrous Metal Products (4%, -0.34)
	Electric & electronics (11%, 0.39)	
	■ Precision Instrument (2%, 0.33)	
Europe		

Notes: 1. denotes the unique high TFP industry existing in that particular FDI-origin country or blocks only.

2. ■ and ◆ denotes one sole FDI-origin country's high TFP industry making whole FDI high TFP in same industry¹⁷

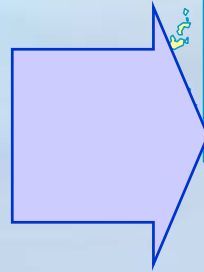
Taiwan's Future Vision: Asia-Pacific IT Hub

Strategic Partnership

- Value to Strategic Partnership

Mainland China

- Manufacturing Base
- Great China Market
- Export to Worldwide Market



Taiwan

- Highly Efficient Knowledge Receptor and Integrator
- Supporting Industry Infrastructure
- Democratic Systems

Global Companies

- Technology Transfer Joint-Develop Products for China and Worldwide Market
- Joint-Venture for Key Components or Infrastructure



New Opportunities

- Manufacturing
- Software
- Service



Leverage

4. The Weaknesses of Tertiary Sector of Asian Countries Facing Economic Integration.

Simulation of Export Changes under the Scenario of Taiwan Participating both Cross-Strait + East Asia Economic Integration

Unit: %, ratio change

	Aust + New Z.	China	H.K.	Japan	Korea	Taiwan	ASEAN	South Asia	North Amer.	EU	Others
Agriculture	-2.09	182.56	140.47	-0.03	514.08	11.74	11.40	-1.01	-2.48	-0.81	-1.45
Husbandry	4.79	-10.86	4.75	26.12	334.32	4.13	-7.81	1.96	0.75	-0.24	0.33
Forestry	3.43	5.59	8.17	9.38	-10.85	1.90	-5.31	1.83	2.01	0.44	1.39
Fishery	3.79	31.33	1.86	56.53	-43.95	8.38	-1.42	2.54	0.77	0.25	0.54
Mining	0.46	10.43	-22.70	17.77	0.70	7.54	-1.53	-0.52	0.37	0.13	0.26
Food Processing	-6.19	47.45	30.01	54.25	635.84	24.27	20.99	-4.72	-7.40	-1.40	-2.88
Beverage & Wine	0.30	27.00	100.49	19.55	48.37	0.15	24.40	-1.36	-0.88	-0.92	-0.44
Textile	-5.35	16.59	14.74	58.65	31.31	26.25	6.76	-3.28	-2.76	-2.43	-1.33
Garment & Leather	-4.21	10.09	26.58	36.63	18.55	10.70	2.37	0.20	-1.92	-2.74	-0.90
Petrochemistry	-1.72	14.32	1.68	8.13	12.87	7.07	3.78	-1.00	-0.45	-0.05	-0.58
Plastic	-0.25	6.67	29.15	8.39	11.12	16.18	23.08	-2.52	-0.82	-0.38	-1.51

Simulation of Export Changes under the Scenario of Taiwan Participating both
Cross-Strait + East Asia Economic Integration (cont.)

Unit: %, ratio Change

	Aust + New Z.	China	H.K.	Japan	Korea	Taiwan	ASEAN	South Asia	North Amer.	EU	Others
Metal	-0.93	4.42	0.51	11.56	1.78	14.50	6.23	-0.78	0.15	-0.31	-1.15
Nonferrous Metal	0.11	1.99	29.51	9.87	-6.28	-1.96	8.68	0.69	0.80	-0.16	0.11
Automobile & Parts	-0.61	13.43	-7.92	1.94	1.19	20.16	23.74	-0.45	1.07	-0.37	-0.21
Other Transportation	-1.91	63.08	-25.19	-10.38	-21.65	-4.91	10.35	-0.78	-3.48	0.45	0.08
Elect. Machine + Electronics	2.56	21.23	12.11	-2.19	-3.56	-7.28	-0.61	1.17	0.07	-0.45	0.37
Machinery	1.95	6.01	38.85	4.49	-2.92	8.52	12.72	0.84	0.36	-0.44	0.05
Other Manufact	0.72	0.31	9.50	10.45	11.65	8.95	2.01	1.23	0.45	0.09	-0.01
Public Utility	4.39	-0.38	-8.44	-7.89	-20.84	-11.10	-10.42	1.09	1.11	0.26	0.19
Construction Eng.	4.33	-1.26	-4.40	-5.26	-12.36	-7.00	-4.36	3.00	2.24	2.06	1.98
Trade	4.86	-2.48	-3.64	-3.96	-1.91	-8.85	-8.78	3.87	2.61	2.58	2.71
Transportation	3.31	-1.00	-3.08	-0.63	-2.93	-4.16	-2.15	2.40	1.97	1.93	2.06
Telecommunication	3.61	-2.27	-6.75	-5.87	-15.99	-9.81	-11.53	2.22	1.50	1.21	1.37
Finance rated	4.07	-2.92	-5.77	-5.61	-16.75	-9.65	-8.95	2.52	1.76	1.44	1.62
Other Service	3.65	-2.82	-6.44	-5.87	-14.23	-9.82	-10.03	1.93	1.28	0.98	1.11

Source: Chiu Chen et. al (2005), The Impact Analysis of Taiwan's Participation in East Asia Economic Integration, MOEA & CIER.



VI. Turning Friendship into Partnership - A Proposed FTA between Taiwan and US (TUFTA)

1. Deepening an Important Economic and Trade Relationship

In 2004, trade flows between Taiwan and the United States totaled \$56.3 billion. In 2005, bilateral trade increased to \$56.9 billion. The United States is now Taiwan's second largest source of imports (after Japan), and Taiwan is the eighth-largest U.S. trading partner overall. In the agricultural sector, Taiwan is the fifth largest U.S. export market, ranking as one of the leading destinations for U.S. soybeans, feed grains, apples, peaches, plums, cherries, apricots, corn, celery, lettuce, cabbage, asparagus, broccoli, onions, and bovine hides.



VI. Turning Friendship into Partnership - A Proposed FTA between Taiwan and US (TUFTA)

2. Demonstrating the Commitment of Both Economies to Further Trade Liberalization

TUFTA would expand upon the principles advanced by the WTO and APEC. It also could serve as a model for expanding future market liberalization efforts.

3. Boosting Innovation-Driven Partnership in the IT Sector

The partnerships have grown to include the establishment of R&D centers in Taiwan and cross-licensing arrangements.

VI. Turning Friendship into Partnership - A Proposed FTA between Taiwan and US (TUFTA)

4. Utilizing Taiwan as a Gateway for U.S. Exports within the Asia-Pacific Region

- Taiwan, Japan and South Korea together constitute a combined 40% of all of China's imports, of which Taiwan alone accounts for 12%.
- Currently, 22 foreign companies have set up 25 research and development centers in Taiwan, while another 86 local firms have set up such centers.

5. Promoting Customs and Security Cooperation

※ If the effect of US-ASEAN FTA is to be strengthened, TUFTA can include the government cooperation of establishing industrial clusters on garment/chemical fiber, metal smelting & pressing, food, machine, transportation, and electronics industries in ASEAN.

VII. US's Economic and Strategic Role in Asia Pacific Region (or ASEAN + 4)

North America and EU cover the most advanced and civilized countries in the world. Japan and Singapore are only two high-income countries in Pacific Region. For achieving the UN Millennium Goal that the poverty in the less developed countries should be halved by 2015. It is necessary to establish the “geographic division of labor” in education, medical, industrial development and job creation for LDCs. According to this new concept, US and Japan should take the responsibility of prosper Asia Pacific region.

1. Helping the capacity building of manufacturing and tertiary sectors in East Asia, including law and institution establishment for countries locating in pivot locations in the region. Taiwan is the best location for jointing Northeast and Southeast Asia, especially on product supply chain and shipping logistics.

VII. US's Economic and Strategic Role in Asia Pacific Region (or ASEAN + 4)

2. Helping the trade facilitation (eg. E-custom and infrastructure) of LDCs in Pacific Region so that the export-oriented industries can emerge and expand to more countries.
3. Helping the education and human resources training for education and industry development.
4. Leading the industrial technology standardization for infrastructure (e.g. rail electrical system, locomotive), high-tech products (e.g. the filtering screen of TFT-LCD) and providing the open software platform for LDCs.
5. For encouraging the government-to-government talk between China and Taiwan, US and Japan governments can initiate the trio FTA negotiation of US/Taiwan/China and Japan/Taiwan/China to accommodate above ideas.

Thank You

