



Sigur Center for Asian Studies

THE GEORGE WASHINGTON UNIVERSITY

Winners or Losers in the TPP? Taiwan, Its Neighbors, and the United States

The Obama Administration has renewed its efforts to get the Trans-Pacific Partnership (TPP) through Congress over the past year. In addition to being the largest trade deal passed by the U.S. in several decades, the TPP may also serve as the economic linchpin of the U.S. “rebalance” to Asia and is of great importance to many of America’s Asian allies. In light of the continuing debate over TPP ratification, the Sigur Center for Asian Studies recently held a Taiwan Roundtable entitled “[Winners or Losers in the TPP? Taiwan, its Neighbors, and the United States.](#)” The panel assembled to discuss the different aspects of this proposed trade deal included Mireya Solís, Senior Fellow at the Brookings Center for East Asia Policy Studies, Shihoko Goto, Senior Northeast Asia Associate at the Woodrow Wilson Center’s Asia Program, and Derek Scissors, Resident Scholar at the American Enterprise Institute (AEI). A full audio recording of the event can be found [HERE](#).

Competing Scenarios for Taiwanese Accession to the TPP

Derek Scissors initiated the discussion by outlining two extreme scenarios. On the one hand, a “weak” TPP could be ratified. This TPP would essentially be a diplomatic deal that ratifies already existing trade patterns and does little to foster true trade liberalization. Under this scenario the main thing for Taiwan to consider is the fact that China will be able to join by

assumption and the barriers to TPP membership will not be that high. The main hurdle for China, of course, will be U.S. domestic politics since the U.S. Congress is unlikely to favor entering in to a free trade agreement with China. Regardless, the barriers to entry for Taiwan will be low on economic as well as political grounds, since U.S. support for Taiwan in Congress is strong. The main question then becomes: does Taiwan wait for China to join before making its move, which could take many years, or does it join quickly because of its political advantages?

While Scissors emphasized that a “weak” TPP would be bad for the U.S., he acknowledged that it would probably be good for Taiwan in that it will allow Taiwan to achieve a diplomatic breakthrough by joining the largest free trade agreement in the world. However, the risk of China not joining is significant, mainly because a non-TPP China could easily bring counter-pressure to bear on Taiwan to oppose its membership, likely pressuring smaller Asian countries to do the same. If Taiwan does not join this “weak” TPP then its political and economic future would become increasingly tied to the mainland. This would be a huge mistake considering that Taiwan cannot continue to rely on China to fuel its economic growth to the same degree as it has in recent years.

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The other scenario that Scissors outlined is the ratification of a “strong” TPP. Such a TPP is ultimately what the Obama Administration is pursuing, as it would actually change and improve the way trade works, with greater liberalization effects than any other trade agreement the U.S. currently has. Under this TPP China would have virtually no prospects of joining in the near future. Despite recent economic reforms, China still has a long way to go towards improving competitive neutrality and other issues such as intellectual property rights, which could take years. Therefore, Taiwan could be waiting for years to join a “strong” TPP if it waits on China. If it does wait, countries like Korea, Singapore and Malaysia will already have joined and Taiwan will be seen as a less necessary member.

Scissors argued that Taiwan joining a “strong” TPP is ultimately the best scenario as it will be the biggest boost to Taiwan’s economy in years. On the other hand, failing to join the TPP will serve as a severe blow to Taiwan’s economy. With its relatively small population and no natural resources, Taiwan

cannot afford to act protectionist and not join the TPP and it can no longer rely on China to fuel its economic growth. While it must act decisively to join, Scissors concluded that all signs indicate that Taiwan will not have the political will to do so.

Barriers and Incentives for Taiwanese Entry

Shihoko Goto agreed that policymakers in Taiwan, who must consider both economic and political interests, are not as enthusiastic about joining the TPP as the majority of Taiwanese people are. Most Taiwanese view the trade deal as crucial to Taiwan's economic future and private interests in other Asian countries hope that Taiwan joins because of its value in the global supply chain. Can the political concerns be overcome? Goto stated that there are opportunities to do so right now.

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The geopolitical challenges facing Taiwan can actually serve to incentivize policymakers to join the TPP. In addition to economic concerns there are security concerns that should compel Taiwan into joining. Goto pointed to the dramatic increase in military cooperation between Japan and Australia following a trade agreement between the two countries, cooperation which has included the exchange of military hardware. The security concerns which helped to encourage closer economic cooperation between these two countries could also lead Japan to support Taiwan's accession to the TPP. Support from Tokyo for Taiwan's entry would make as much sense from a business perspective as a security one, given the ongoing territorial disputes over the Diaoyu/Senkaku Islands.

According to Goto, one major challenge for Taiwan will be China. Beijing and Taipei joined the WTO at the same time. Other countries may hesitate to allow Taiwan's entry before China's. China has shown signs in recent years that it views the TPP less as an effort at containment and more an opportunity to take advantage of. However, it may take some time for Beijing to make a final decision or to get to a stage where it can pass the thresholds for entry. Yet as Derek Scissors argued in his remarks, Taiwan faces major risks if it decides to wait for China before joining the TPP.

Goto concluded by emphasizing that the TPP is, above all else, an opportunity for the U.S. to define and assert free-market based rules for international trade in the 21st century. This is especially true given growing concern in Washington that Beijing is gaining the upper hand in defining the economic rules of Asia as it grows in power and influence. One option for the U.S. and its allies is to allow Taiwan's entry before China's as a way of demonstrating its commitment to upholding free-market values in Asia. However, Goto admitted that this would likely be a controversial decision.

The Price of Failure

Rounding out the panel, **Mireya Solís** described just what is at stake with the TPP and who the winners and losers would be. She outlined the stakes by describing the likely negative consequences of TPP failure. First, it would deal a major blow to U.S. leadership at a time when China is seen as promoting its own visions of how trade and investment should be governed in the 21st century. Second, the U.S. "rebalance" to Asia would be undermined. The TPP is a huge component of the "rebalance" because it reassures Asian countries that rather than trying to contain China, the U.S. is seeking to induce China to play by the rules that have been established for trade and investment under a free-market system. With the TPP, the U.S. has finally found a vehicle through which to advance its economic agenda and rules.

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A third consequence concerns Japan. TPP failure would be a blow to Japan's efforts to revitalize its economy. For example, reforms would be locked-in under the TPP which means that the next administration could not so easily reverse the reforms that Prime Minister Abe has been pursuing. A final consequence of failure involves deciding how to move the international trade agenda forward in the absence of such a promising deal. What other agreements or trade organizations would fill the void that the TPP leaves? Solís voiced serious doubts regarding the WTO's ability to generate the kinds of deep integration commitments that the TPP would likely

produce. The WTO has evolved in a way that is very prone to negotiation deadlock.

As for the consequences for Taiwan, Solís argued that TPP failure would represent a missed opportunity for Taiwan to become part of a regional economic architecture. It will also be harder for Taiwan to pursue a more diverse, multi-track economic strategy. A successful TPP, on the other hand, would enhance Taiwan's economic competitiveness and would be a major coup for Taiwanese diplomacy. However, in order for Taiwan to successfully join it must overcome significant agricultural trade protectionism at home. Furthermore, Taiwan requires strong, top-down executive leadership in order to succeed in overcoming the barriers to entry, something Solís said she does not currently see much of in Taiwan.

One common theme that can be drawn from the Roundtable is the dichotomy between the significant benefits of a successful TPP and the difficulties that Taiwan potentially faces in joining. Most of these barriers are domestic in the form of policymakers playing to protectionist interests. There is also the external factor of a non-cooperative China that seeks to preclude Taiwanese membership or that lures Taiwan into waiting to join until it is too late. As the debate continues on Capitol Hill, so too will it go on throughout much of Asia and within Taiwan.

By Mike Bouffard, Program Coordinator, Sigur Center for Asian Studies

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