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New Directions in International Trade: Implications for Taiwan

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Introduction.

It is very nice to be back in Taiwan and to have an opportunity to talk with such a distinguished group of representatives from the financial sector, government, and academe. I will be speaking to you as an outsider with the inevitable consequence that my understanding of important events in Taiwan is more limited than yours, so please forgive my ignorance and know that I come with good intentions. Since I first visited Taiwan more than 30 years ago, Taiwan has played an important role in my professional and family life. In the early years of my work with Taiwan's Ministry of Finance and other government agencies and NGOs, I was greatly impressed by the independent spirit of the Taiwanese people, their energy and creativity. In fact, it was my experiences in Taiwan that caused me to create the University of Wisconsin's East Asian Legal Studies Center as an effort to shift the University from its traditional Eurocentric view to one that encompassed the most economically dynamic region in the world (and this was well before China became a major player on the international scene). Now, many of my former students play key roles in Taiwan's academic, government, and legal institutions, and my son and daughter-in-law live and work in Taiwan. During the last academic year, we also had the honor to welcome Ambassador Yen ChingChang to the University of Wisconsin campus, where his presence greatly enriched the scholarly discourse on trade and finance. So, I feel very close to Taiwan and have a great interest in its political stability and continuing prosperity.

I'm here today to talk about new directions in international trade and their implications for Taiwan. Because international trade is so closely entwined with foreign direct investment and international business generally, I've taken the liberty of going beyond pure trade issues in this presentation to consider these related topics as well. Also, because the reality is that Taiwan international trade relations run through China, Taiwan's bilateral relations with China will be an important component of the discussion. And because the prizes that Taiwan so ardently seeks are a free trade agreement with the US and membership in the Trans-Pacific Partnership, where the US is the dominant partner, I'll also talk a fair amount about Taiwan's relations with the US. I'll begin by identifying the major events influencing Taiwan's international trade and business relations and then, as an outsider, I'll suggest what Taiwan might do to improve its international economic position.

Major factors influencing international trade and business relations.

There are three major factors influencing Taiwan's international trade and business relations:

- Multilateral trade negotiations are at an impasse.
- Taiwan's trade related agreements.
- An over-dependency on China.

Let's consider each of these factors.

Multilateral trade negotiations.

When the General Agreement on Tariffs and Trade was concluded in October, 1947, the 23 countries who signed GATT had largely similar views and the trade matters incorporated in GATT were relatively uncontroversial. By the time the Doha Round was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November, 2001, WTO membership was approaching 150 and included some of the poorest countries in the world as well as the richest. Because of the successes of previous rounds of multilateral trade negotiations, the Doha negotiations also were centered on much more ambitious and intrusive matters, such as liberalization of trade in agriculture and services and greater protections for intellectual property rights. Given the sensitivity of the topics and the wide range of interests among the WTO membership, it is not surprising that 13 years after its beginning, the Doha Round is not close to being concluded. Just last month, a senior WTO spokesman said he saw no way to end the current impasse.

In 2013, there was an attempt to carve out less contentious issues and conclude a limited trade agreement, which became known as the Bali Trade Facilitation Agreement. The conclusion of the Bali Agreement in December, 2013 gave rise to a brief period of optimism about the continuing viability of multilateral trade negotiations. But the optimism was short-lived when in July, 2014, India declared that it would not support the Bali Agreement. Since the agreement had to be approved by consensus of the WTO membership by July 31, 2014, India's opposition effectively ended any chance of concluding the Bali Trade Facilitation Agreement.

The causes of the stalemate in the WTO's multilateral negotiations are not universally agreed upon, but there is no doubt about some of the contributing factors. The WTO negotiations proceed on the basis of consensus and, with its current membership at 160, consensus under any circumstances would be difficult to achieve. In the Doha Round, however, the difficulties are accentuated because the 160 members are at various levels of economic development and their perspectives on the issues under negotiation vary widely. Yemen, the newest member of the WTO, has per capita income of US\$2,500, which ranks 187th in the world, and its economic interests are vastly different from the interests of Japan, with per capita income of US\$37,100 and 36th in the world, Taiwan, with per capita income of US\$39,600 and 28th in the world, or the US, with per capita income of US\$52,800 and 14th in the world. Additionally, as this is the ninth round of multilateral trade negotiations, the issues are more contentious than in previous rounds. Another contributing factor is that some of the economies in transition, most notably India and Brazil, are more willing to challenge the trade liberalization agenda being pushed by the US and other industrialized countries, even when the agenda seems especially favorable to lower and

middle income countries. But whatever the causes, the result is that the multilateral trade negotiations are stalled and there is a serious question whether they can be restarted.

The failure of the Doha Round has raised concerns about a growth in protectionism among member states and diminished relevancy for the WTO. The most notable consequence of the failure, however, is the proliferation of bilateral and regional trade agreements. Even Japan, which has been a major proponent of heavy reliance on multilateral trade negotiations for trade liberalization, has entered the race for regional and bilateral agreements. Japan now has concluded more than 13 bilateral and regional trade agreements and has about 10 agreements in various stages of negotiation. Japan's decision in July, 2013, to become the 12th country to join the Trans-Pacific Partnership Agreement negotiations shows the importance Japan now attaches to alternatives to the WTO.

The shift away from the WTO toward regional and bilateral trade agreements is bad news for Taiwan. As a member of the WTO, Taiwan is able to actively participate in the multilateral forum largely without Chinese intervention. The growing importance of regional and bilateral trade agreements, however, has increased China's leverage over Taiwan's international economic relations. It is the unfortunate reality that no major economy will undertake bilateral or regional trade negotiations with Taiwan unless there is evidence of China's assent or at least acquiescence in the negotiations.

Taiwan's trade related agreements.

ECFA and related bilateral agreements with China. Since December 2008, Taiwan and China have concluded 18 bilateral agreements and dramatically increased exchanges across the Taiwan Straits. The major effects of these agreements are that Chinese tourists now are allowed to visit Taiwan, mainland investment in Taiwan is permissible in some sectors of the economy, Chinese students can study in Taiwanese universities, mainland diplomas are recognized in Taiwan, there are direct flights between Taiwan and China, banking and other financial activities are becoming more efficient in supporting cross strait trade and investment, Taiwan is becoming a regional center for RMB settlements, and the Taiwan and Chinese law enforcement officials are working together to fight crime.

The Economic Cooperation Framework Agreement (ECFA) is the most economically relevant of the bilateral agreements with China. ECFA was signed in June, 2010 and the "early harvest" provisions became effective in January, 2011. In substance, ECFA resembles a bilateral free trade since many parts of ECFA are designed to reduce cross straits trade barriers and promote investment flows. While there is some debate about the economic benefits of ECFA for Taiwan and there certainly are winners and losers under the agreement, most trade experts have concluded that ECFA has had a favorable impact on Taiwan. Not only has trade in key commodities increased for Taiwanese businesses, but Taiwan now has the opportunity to market itself as an attractive destination for foreign direct investment seeking trade favored access to the Chinese markets. Taiwan's RMB settlement capabilities, cross-strait transportation links, a stable labor market, formidable manufacturing capacity, globally competitive R&D capabilities, strengthened protections for intellectual property rights, and, in contrast to China, a more rule

based society have made Taiwan a good candidate for new foreign direct investment or a repatriation of Taiwanese investment that has migrated to China.

For Taiwan, the most important aspect of ECFA and the other bilateral agreements with China is the diminished threat of economic marginalization. Without the bilateral agreements with China, Taiwan's prospects of concluding free trade agreements with countries of any political or economic significance were non-existent. With the bilateral agreements in place, China's acquiescence to additional FTAs between Taiwan and other countries is much more likely. Additionally, with Taiwan established as an attractive platform for trade favored access to the Chinese market, Taiwan's trade advantages may not be markedly diminished by the growth of regional integration promoted by the Trans-Pacific Partnership (TPP) or the Regional Comprehensive Economic Partnership (RCEP). Even after China concludes free trade agreements with Japan and South Korea, goods produced in Taiwan may still retain their competitiveness in the mainland markets.

To date, the most contentious of the bilateral agreements is the Cross Strait Services Trade Agreement (CSSTA), although when the commodities agreement is brought forward it is likely to elicit strong opposition, especially from the agricultural sector. When the CSSTA was signed in 2013, the governments in both Taipei and Beijing considered it to be mutually beneficial, but when it was presented to Taiwan's Legislative Yuan in March, 2014, the agreement became the focus of a protest by a coalition of students and civic groups. The protest, the Sunflower Movement, involved the occupation of the Legislative Yuan and later the Executive Yuan. The protesters initially pressed for a clause by clause review of the CSSTA before its passage, which initially was resisted by the KMT. Now the protesters have changed their positions, as has the KMT, but as of this writing (October 5, 2014), CSSTA has not been passed.

The Sunflower Movement and the high level of support for it in Taiwan demonstrated to the KMT, the Chinese Communist Party, and the rest of the world the widespread sense of unease about Taiwan's over-dependence on China. ECFA and the other bilateral agreements have brought a welcome period of relative quiet in cross strait relations, but at the same time they raise serious concerns about Chinese involvement in Taiwan's economy. These agreements also are seen by some as an effort by Ma Ying-Jeou's administration to create a sense of inevitability about future unification with the Mainland, even though a large majority of Taiwanese are opposed to unification.

The impact of the CSSTA dispute on Taiwan's relations with China are not apparent. When Zhang Zhijun, the head of the Mainland's Taiwan Affairs Office, visited Taiwan in June (after the trip was initially postponed because of the protests by the Sunflower Movement), he seemed to shift away from previous Mainland speeches and articles that tied "peaceful development" directly to "peaceful unification." Instead he stressed the mutual benefits from

peaceful development and broader economic, cultural, and other non-political cooperation. But then the Mainland has announced that the delays in CSSTA and the trade in commodities agreement, which is now being negotiated, will not affect China's other trade negotiations. One consequence is that China may complete its free trade negotiations with Korea before CSSTA or the commodities agreement are considered by Taiwan's Legislative Yuan. Because Taiwanese products compete directly with many Korean goods, some feel that this may significantly erode Taiwan's market share in China. There also have been suggestions that ECFA and the related bilateral agreements need to be concluded before China will consider the possibility of Taiwan's participation in regional trade agreements – most notably the Trans-Pacific Partnership Agreement. Whatever the outcome, it seems apparent that Taiwan will incur some costs as a result of the delays in CSSTA and the other bilateral agreements.

Other bilateral agreements. As part of Taiwan's strategy to avoid economic marginalization because of China's continuing efforts to isolate it, Taiwan has concluded free trade agreements with several small countries from Central America: Panama (2003), Guatemala (2005), Nicaragua (2006), El Salvador (2007) and Honduras (2007). Because of the small size of the partner countries, these bilateral free trade agreements may have some political significance, but they have little effect on the Taiwan economy.

In July, 2013, Taiwan concluded a free trade agreement with New Zealand, which was especially notable because it was the first trade agreement (other than ECFA) with a country with which Taiwan does not have diplomatic relations. In deference to the one China/two systems policy, the New Zealand agreement is referred to as the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation. A similar trade agreement was concluded with Singapore in November, 2013 and both the New Zealand and Singapore agreements have been ratified by Taiwan's Legislative Yuan.

From Taiwan's perspective, the biggest prize among bilateral free trade agreements would be an agreement with the US. The US and Taiwan already has a more limited Trade and Investment Framework Agreement (TIFA) under which the two governments work to improve relations between the two governments and build up bilateral trade and investment flows. The main obstacle to concluding a fully fledged Taiwan/US Free Trade Agreement is China and its One China Policy. Taiwan's agreements with New Zealand and Singapore may suggest a path to accommodate the one China policy, but the recent controversy surrounding ratification of CSSTA and the delays in negotiating the commodities and dispute settlement agreements may hamper Taiwan's effort to seek any additional free trade agreements, but especially one with the US.

Taiwan's participation in the Trans-Pacific Partnership Agreement (TPP) and/or the Regional Comprehensive Economic Partnership (RCEP). In the Asia – Pacific region, two regional trade initiatives are the center of attention: the Trans-Pacific Partnership Agreement,

which has become largely an ambitious, American led effort, and the Regional Comprehensive Economic Partnership, with China now providing the leadership.

TPP's origins can be traced to the Trans-Pacific Strategic Economic Partnership (also called the P-4), signed in 2005 by the governments of Chile, Singapore, New Zealand and Brunei Darussalam. The objectives of this group of four small countries were quite modest. When the US joined the P-4 in 2008, the objectives became much more ambitious and contentious. Now, with the US negotiators largely dominating the agenda, TPP is seeking to become a comprehensive agreement that goes well beyond the WTO rules with the elimination of all tariffs and government commitments to significant regulatory reforms on domestic policy issues. Although the details of TPP negotiations are not widely known, the evidence that has surfaced indicate that participating states will be obligated to provide strong protections for foreign investors, greater safeguards for patent holders, limitations of subsidies for state-owned enterprises, and more aggressive enforcement of environmental and competitions laws. With regards to financial services, the US Trade Representative has said that the goals of TPP are to

improve transparency, non-discrimination, fair treatment of new financial services, and investment protections and an effective dispute settlement remedy for those protections. These commitments will create market-opening opportunities, benefit businesses and consumers of financial products, and at the same time protect the right of financial regulators to take action to ensure the integrity and stability of financial markets, including in the event of a financial crisis.

With the addition of Japan to the TPP negotiations in March, 2013, the TPP countries now include the original four members of the P-4, plus the US, Australia, Malaysia, Peru, Vietnam, Canada, Mexico, and Japan. The group represents 40 percent of global GDP and 30 percent of world trade.

The TPP negotiations are ongoing, with the latest round in Hanoi in September, 2014. The major obstacles facing completion of the negotiations now seem to be between Japan and the US, so any prediction as to when the negotiations will be completed is unsettled.

From Taiwan's perspective, a very important question is whether Taiwan can become a member of TPP? AmCham in Taiwan has said that becoming a member of TPP should be Taiwan's overriding trade objective, and many in Taiwan would concur. But Taiwan's membership in TPP is not a simple matter, and in the current environment, it seems that Taiwan's membership depends on four factors:

1. Most importantly, does Taiwan have the political will to alter its domestic laws to support a cutting edge agreement on trade and investment? TPP goals are ambitious and will require dismantling significant barriers to trade and investment in each of the member countries. China has been excluded from TPP because of its poor protections for intellectual property rights, general absence of rule of law, and other deficiencies. Even with the importance Prime Minister Abe attaches to membership in TPP for its liberalizing effects on the Japanese economy, Japan is having great political

- difficulties agreeing to the trade liberalization measures demanded by TPP membership. So, can Taiwan muster the political will necessary to face the vested interests who now benefit from Taiwan's protectionist policies? As suggested in the next section, this is an important question that really should be addressed before Taiwan makes any major diplomatic effort to join TPP.
2. Given TPP's ambitious nature, the markedly differing trade views of the 12 member countries, and the stalemate in the US Congress, can TPP be completed and ratified anytime soon? Japan and the US now are involved in intense negotiations on key elements of TPP and if Japan and the US can resolve their differences the possibility of concluding an agreement will be fairly good. Even then, however, there is the question of whether the US Congress will extend Trade Promotion Authority to the Obama Administration, especially if the Democratic leadership in the Senate are opposed to granting Trade Promotion Authority. The November elections may shift control of the Senate from the Democrats to the more trade friendly Republicans, which could be good for TPP and other trade initiatives. But there still is the residual question of whether the Obama Administration views trade liberalization as sufficiently importance to use political capital to secure the passage of Trade Promotion Authority and then TPP.
 3. The Sunflower Movement and the widespread public support for it have made apparent the discomfort many Taiwanese feel about Taiwan's increasing economic integration with China, but an inevitable consequence is a delay in the completion of CSSTA and the bilateral commodities and dispute settlement agreements with China. China's response to the delays is not apparent, but there have been suggestions from China that Taiwan's trade negotiation agenda with other countries, including the possibility of TPP membership, will only proceed after completion of the bilateral agreements with China.
 4. On the other hand, the Umbrella Revolution in Hong Kong, which certainly was inspired by Taiwan's Sunflower Movement, has put the CPC on the defensive and has painted an unflattering picture of China for the entire world to see. To repair its image and to retain a slight thread of credibility for eventual application of the one China/two systems policy for Taiwan, China may adopt a policy of greater accommodation of Taiwan's aspiration of TPP membership.

So, the first question facing Taiwan is whether it has the political will to make the domestic reforms necessary to become a member of TPP? Then there is the international political scene and at this point, it is unclear which way the political forces will push the question of Taiwan's TPP membership. But TPP membership is so important and the chances of eventually becoming a member are sufficiently good that Taiwan should continue to devote its energy and negotiating skills to securing TPP membership. But it also needs to look inward, as the Ma Administration now seems to be doing, and begin to make the internal changes necessary to accommodate membership in TPP. Whatever is being done now to move the regulatory environment to more

international standards should be redoubled and focused on international best practices, not just international norms.

The other regional trade initiative, the Regional Comprehensive Economic Partnership, is in marked contrast to TPP. While TPP is intended to significantly expand the scope and depth of trade liberalization, RCEP's principal goal is a more modest and less intrusive agreement that essentially harmonizes existing agreements. However, when it is completed, RCEP will cover 30 percent of the world's GDP and 40 percent of global trade.

RCEP began in November, 2012, at the East Asia Summit in Phnom Penh, when the ten member countries of ASEAN agreed to launch the RCEP negotiations. ASEAN has bilateral and regional free trade agreements with non-ASEAN countries, such as China, South Korea, Japan, India, Australia and New Zealand, all of which are separate from one another. The basic idea underpinning RCEP is to harmonize these free trade agreements into a single regional economic agreement. RCEP also is intended to establish deeper economic integration than the existing free trade agreements by liberalizing more trade in goods, eliminating trade barriers, gradually liberalizing trade in services, and establishing a more hospitable environment for inbound foreign direct investment. The countries now participating in the RCEP negotiations are the ten member countries of ASEAN (the Philippines, Singapore, Brunei, Malaysia, Indonesia, Thailand, Vietnam, Cambodia, Myanmar, and Laos) plus China, Japan, India, South Korea, Australia and New Zealand.

The RCEP timetable is to conclude the negotiations sometime in 2015. Given the volume of free trade agreements to be coordinated and the goals for some expansion of trade liberalizations, 2015 may be an overly optimistic goal.

What about Taiwan membership in RCEP? As with TPP membership, joining RCEP may be blocked by China until the bilateral agreements with China have been completed. But if those agreements are concluded or China feels the need to be more accommodating towards Taiwan to repair the damage done by the Umbrella Revolution, RCEP membership may be useful to Taiwan for two reasons. First, it will give Taiwan membership in one of the largest regional trade blocs in the world and thus minimize fears of economic isolationism. Second, it may be viewed by China as a precondition for China's acquiescence in Taiwan's TPP membership, with TPP requiring deeper reforms in its trading regime, but yielding more substantial economic benefits from the liberalizations and modernizations mandated by TPP.

Taiwan's over dependence on China.

The enormous flows of capital, goods and people from Mainland China to Taiwan are viewed by many Taiwanese as the beginning of a de facto takeover of Taiwan by the PRC. Although there are major restrictions on Mainlanders owning Taiwan real estate outright, there are enough loopholes that many have been able to acquire properties in Taiwan. Some analysts have estimated that real estate prices have increased over 200 percent in the last decade, largely as a result of Chinese investments. Mainland Chinese also are the largest single group of

visitors to Taiwan, approaching 3 million in 2013. The large mainland Chinese presence is apparent to anyone who passes through Taiwan's international airports or tries to book a trip on the many cross-strait flights that usually make travel between the Mainland and Taiwan so much easier.

Taiwan's closer economic relations with China also are blamed for the hollowing out of Taiwan's economy. In 2013, 62 percent of Taiwan's approved outbound investments and 39 percent of Taiwan's exports went to the Mainland. Taiwan's inbound foreign direct investment lags behind many of its competitors, such as Thailand, Indonesia, Vietnam, Singapore and Hong Kong. When compared with Korea, which is what is most commonly done, Taiwan's foreign direct investment is woefully below what Korea attains. In addition, although in a cultural sense the Taiwanese increasingly view themselves as distinct from Mainland China, many Taiwanese have found the allure of China's less saturated employment markets too promising to resist. In 2002, there were about one million Taiwanese business people living on the Mainland, with about 400,000 living in Shanghai. A decade later, the number has doubled to 2 million, with about 800,000 living in Shanghai. Almost 10 percent of Taiwan's population lives and works in China. A recent study (notably, it was after the Sunflower Movement's occupation of the Legislative Yuan) found that 80 percent of Taiwanese under the age of 30 would move to the Mainland for higher pay and greater benefits.

The heavy dependence on China poses two major risks for Taiwan. First, because so much of Taiwan's business is done on the Mainland, a sharp downturn in China's economy would have a major adverse effect on Taiwan. Because the Taiwanese and Chinese economies have become so integrated, what happens in China will have a major effect in Taiwan. Of course, Taiwan is not unique in its heavy dependence on China. Canada, for example, is very closely tied to the American economy with the result that a downturn in America usually manifests itself in Canada as well. But the US does not have missiles aimed at Canada nor does it claim that Canada is a renegade province which it may retake by force if necessary. This brings up the second, more subtle but also more dangerous risk of the close integration – Chinese dominance of key economic institutions in Taiwan. This dominance then can quietly move to an infiltration of Taiwan's political institutions and bring into question even Taiwan's bedrock democratic principles, such as freedom of speech. Chinese influence already is seen to have an effect on Taiwan's news outlets.

Implications for Taiwan: Less Dependence on China.

So, the reality is that Taiwan's efforts to play a greater role in the global community require China's explicit or implicit assent to succeed. China has a critical role as the gate through which Taiwan's efforts at international engagement must pass and that is unlikely to change any time soon. Taiwan has to live with China as a major factor in its economic and political future. But, on the brighter side, recent events may naturally bring about a greater skepticism about increased integration with China and may push Taiwan to moderate its relations with China. There are four recent developments that deserve specific mention.

The Chinese economy is past its peak.

China's economy may be past its peak as an attractive destination for Taiwanese and other foreign businesses. This is due to economic, political, and environmental conditions in China, but also because other economies have become more competitive.

In China, economic growth has slowed to 7 percent, which would be excellent for Taiwan and most other economies, but is close to the minimum many consider necessary to sustain the Faustian bargain of increasing economic prosperity in exchange for the unquestioned dominance of the CPC. And maintaining even 7 percent growth is likely to become more and more difficult as China seems to have reached the limits of investment lead and export oriented growth. When China began its economic reforms 25 years ago, it was one of the poorest countries in the world and high levels of economic growth were remarkable, but relatively easy to achieve. Now that China has become more prosperous, sustaining high growth rates is much more difficult, as the once endless supply of labor has become scarce, disgruntled, and expensive, and other serious bottlenecks have appeared in the economy. Now China is facing a critical need to shift the economy towards more domestic consumption, major reforms in the financial sector and a greater role for the private sector, but high debt levels and powerful forces in local and provincial governments and SOEs make meaningful reforms very difficult.

Xi Jinping has consolidated power in China to such a degree that governance by consensus no longer seems operable. His power is now compared to Deng Xiaoping or even Mao Zedong. Xi's attacks against corruption are having a major and positive impact on all levels of government, but in many areas this is leading to paralysis as the reaction of many government officials is to do nothing for fear of offending the opaque standards set in Beijing. There also is an uncomfortable feeling that Xi Jinping's anti-corruption campaign is being used more to root out Xi's competitors rather than to deal with the very serious problem of egregious abuses by officials. As evidence of the limits to the anti-corruption campaign, people who have had the temerity to suggest that Xi Jinping and others in power disclose their families' wealth have met stoney silence or worse.

As the Tibetans and Uighurs know well, the CPC is cracking down on those who challenge Beijing or criticize the CPC's policies. Censorship of the media and internet is widespread and limits the way people can operate in China or with others outside of China. China's censors are especially active now in attempting to clean Weibo, China's version of Twitter, of any mention of the Umbrella Revolution in Hong Kong. Censorship also sharply limits any information about disputes involving the Tibetans or Uighurs.

China's environmental degradation is now a serious political liability for the CPC. Recent reforms in environmental regulations appear to give local citizens access to more information about the toxins in their air, water and soil and may enable people to challenge polluting behavior. But the increasing sophistication of the citizenry and their unwillingness to continue to tolerate severe environmental degradation may lead to significant political instability in the heavily polluted regions of China. Even Hong Kong, one of the traditional havens from the

frenetic growth policies in China, now suffers diminished air quality as the industrial clouds of Shenzhen spread the by-product of rampant and inefficient industrialization.

The safety of food and drugs in China also is a serious concern. If Chinese business people will contaminate baby formula and powdered milk, what will they not do to generate additional profits? Chinese consumers are justifiably afraid of what they and their children consume and as soon as their resources make it possible they shift their consumption to more reliable food and drugs from foreign sources. The demand for foreign products has become so severe as to create risks of shortages in key markets serving China, which is why Hong Kong has imposed limits on exports of baby milk formula to the Mainland.

While China is grappling with its economic, political and environmental problems, other countries have been improving their position in the global economy. India, Brazil, Mexico, Thailand, Malaysia, Indonesia, and Vietnam now all compete effectively with China for new business investments. Even the US has become more attractive. It is true that the US continues to have a largely dysfunctional national government and major domestic problems go untended as its national treasury is drained into the swamp of our entanglements in the Middle East and Eastern Europe. But the American private sector is vibrant and entrepreneurship flourishes. If a person has a good idea, there still is no better place to develop that idea than in the US. The latest example is with oil and gas production. Around 2005, the American petroleum industry built several terminals on the southern coast of the US for the import of oil and natural gas. Now, much to surprise of Americans generally and the petroleum industry in particular, the import terminals have been refitted to export oil and natural gas. The production of oil and gas has grown so quickly and so substantially in the US that this month (October, 2014) the US is set to surpass Saudi Arabia and Russia to become the largest producer of petroleum products. The impact of this transformation is not yet fully realized, but US energy intensive industries are set to benefit from natural gas prices that are 1/3 the German price and 1/4 the Korean price. The foreign policy effects of energy self-sufficiency also are likely to be very significant.

To the surprise of many in the audience today, I also think Taiwan is an even better example of an economy that has become relatively more competitive. Sure, Taiwan faces many serious problems, such as the rapid aging of its population and threat of energy scarcities with the closure of Nuclear Reactor No. 4. But, on balance, Taiwan is a much, much better place than it was some decades ago.

Thirty years ago, Taipei was hot, dirty, congested and polluted and the authoritarian government in place suggested to many that there was not much difference between the KMT and CPC. What a dramatic change has taken place. Now Taiwan has a robust democracy, a markedly improved infrastructure (even with questions about energy supplies) and much greater economic prosperity, which in turn has made the Taiwanese more conscious of the natural beauty of their island and the importance of environmental stewardship. Throughout Asia, Taipei must rank near the top in terms of quality of urban life.

But along with quality of life are the positive sides of the improved bilateral relationship with China. Through the early harvest provisions of ECFA, Taiwan now offers trade favored

access to China's market for some products and if the commodities agreement can be concluded there should be even more instances of favorable access. CSSTA, if it is ratified, will offer Taiwan financial institutions and other service providers preferred access to China. In addition, since the cross-Strait Currency Liquidator Mechanism was begun in February, 2013, 46 Domestic Banking Units (DBUs) and Off-shore Banking Unites have introduced various types of RMB business. According to the Central Bank, the amount of RMB deposits in Taiwan were RMB 287.5 billion at the end of April 2014. The RMB deposits in Taiwan's DBUs also increased significantly to reach RMB 165.8 billion by the end of 2013.

Taiwan should take a page from Hong Kong's play book and market itself as an attractive platform for trade and financial favored access to the Chinese economy, with fewer concerns about corruption, the protections of rule of law, and an absence of the political and economic uncertainties now dominant in China. Taiwan offers a good quality of life, an open and democratic society, easy access to China's markets, and a good alternative to Hong Kong, especially after the tensions brought into the open by the Umbrella Revolution raise questions about Hong Kong as a stable platform for doing business in China.

Effects of the Sunflower Movement.

Sometimes, fortunately not too often, our children show us the way. Korean democracy in the 1980s was spawned in large part by the student led demonstrations that often paralyzed significant parts of Seoul and other urban areas. Taiwan's Sunflower Movement may well be another example because it has tapped into what many Taiwanese already knew – China as represented by the CPC is not a natural friend of Taiwan and Taiwan has to be exceptionally cautious as it deals with an increasingly powerful and assertive China. Extreme care is doubly important because Taiwan's main ally, the US, is so tied up in the flashpoints of the Middle East and Eastern Europe. The Sunflower Movement arose from the growing sense that economic integration with China was inevitable and eventually should result in political unification under the one China/two systems doctrine. The Sunflower Movement and its broad political support within Taiwan show that the people want to reinvigorate their own economy, not become a small appendage to the Chinese monolith. While continuing engagement with China is an absolute necessity, that engagement should be done with great care and in a transparent fashion. It also should be done in a manner that maintains maximum autonomy for Taiwan.

The Umbrella Revolution in Hong Kong.

The pro-democracy Umbrella Revolution now ongoing in Hong Kong (this was written on October 7, 2014) was certainly inspired in part by the Sunflower Movement. The Umbrella Revolution has made public Hong Kong's discontent with local governance dictated by Beijing. The Umbrella Revolution challenges Beijing's plan beginning in 2017 to limit candidates allowed to stand for Hong Kong's chief executive to those approved in Beijing. The protesters also want the current chief executive, Leung Chun-ying, to resign. At its base, however, the Umbrella Revolution challenges the level of control Beijing can exercise in Hong Kong and to what extent Hong Kong will retain its separate identity and significant autonomy.

Within China, news of the Umbrella Revolution is being aggressively suppressed., but in the rest of the world there is a feeling that this protest is the greatest threat to the continuing legitimacy of the CPC since the Tiananmen Massacre in June, 1989. So far, Beijing's response to the protesters indicates that it regards Hong Kong, seemingly operating under the one China/two system policy adapted to Hong Kong's status as a relatively open, international city, as just another part of China where protesters can be intimidated by being labelled as extremists with foreign ties or with threats of the PLA's involvement to forceably quash the protests. The one China/two systems policy supposedly in effect in Hong Kong is getting a very tarnished image, especially in Taiwan, where it always has been viewed with skepticism. Within Hong Kong, even if the protests quiet down, the resentments of many will continue to fester, with no end in sight for the crisis.

Some people in Taiwan think that as the Umbrella Revolution dies down China's reputation will emerge relatively unscathed. But, while the rest of the world may have various degrees of amnesia, many in Taiwan still remember the China that showed its displeasure at Taiwan's democratic processes by shooting missiles into the sea off the north and south of Taiwan in the 1990s. These Taiwanese recognize that China has not changed and that it is as hostile to democratic challenges in 2014 as it was in the 1990s in Taiwan and in China in 1989.

China's maritime disputes.

The fourth development to limit China's attractions for Taiwanese and foreign business people is China's assertiveness over its maritime boundaries. These are boundaries that Taiwan also asserts, but in a much less strident fashion. China's aggressive posture on the nine-dashed line in the South China has led to tense confrontations with Vietnam and the Philippines and objections from other countries in the region. China's continuing dispute with Japan over the Diaoyu Islands in the East China Sea is a major reason relations between these two countries are so rocky.

China's territorial assertions in the South and East China seas are making many countries and businesses reassess their opinions on what an increasingly powerful China will mean for the Asia - Pacific Region. These territorial assertions also make it much easier for many countries in the Asia – Pacific Region to support the American tilt towards Asia. China's maritime aggressions, in effect, are driving its neighbors into closer alliances with the US.

Implication for Taiwan: Looking beyond China.

So, we all understand that China will continue to play a central role in Taiwan's efforts at greater involvement in the global economy. As suggested in the previous section, recent events are likely to make China less attractive as a destination for foreign direct investment which may slow the rush to integrate the two economies. There also are important steps that Taiwan can unilaterally take to reduce its dependence on China and become a more significant participant in the international global economy. Here are three of the more significant.

Unilaterally upgrading Taiwan's laws and regulations affecting international trade and investment.

There is a sense within Taiwan's business community that the administration of Ma Ying-jeou recognizes the importance of aligning Taiwan's trade policies and practices more closely with international norms. Recently, President Ma and Premier Jiang Yi-huah instructed every government ministry to examine its current practices to identify areas that deviate significantly from accepted global standards and to report back with plans for correcting the differences. With considerable assistance from the National Development Council and its Regulatory Reform Center, many of the issues troubling Taiwan's international business community now are being dealt with. The Ministry of Economic Affairs' Office of Trade Negotiations also has been helpful in overcoming bureaucratic inertia.

With respect to financial services, the Financial Supervisory Commission deserves special mention. According to AmCham, the FSC has made significant changes and relaxations in the financial regulatory regime in the last several months. "These include efforts to enable Taiwan to become an offshore RMB investment center, relaxation of RMB insurance products, and relaxation of rules regarding the investment business of offshore banking units (OBUs) and offshore securities units (OSUs). In particular, in March of 2014 the FSC permitted high-yield bonds to be invested in up to a certain percentage by the bond funds and balanced funds of Securities Investment Trust Enterprises (SITs). At the same time, the FSC permitted Securities Investment Consulting Enterprises (SITs) and SITs to participate in the OBU/OSU business, which shows the determination of the FSC to engage in reform and regulatory relaxation."

What is already being done is very important, but the suggestion here is to move beyond international norms to introduce international best practices. Rather than waiting for the resolution of multilateral or regional trade negotiations, look at what are the best practices being put forward in these negotiations, adjust them to Taiwanese economy, and then adopt them unilaterally. In the current circumstances, it would seem useful for Taiwan to pay particular attention to two international agreements – the Bali Trade Facilitation Agreement and the Trans-Pacific Partnership, as its key components become known.

The conclusion of the Bali Agreement in December, 2013 created a brief period of optimism about the viability of multilateral trade negotiations. The optimism was dashed when in July 2014 India announced that it would not ratify the agreement and thus ended any prospects of a consensus based acceptance, as required by the WTO. One of the reasons for optimism about the Bali Agreement was that many of the items being negotiated were non-controversial and widely accepted as useful to lowering trade costs and increasing trade flows. Studies of the effects of the Bali Agreement have indicated that the areas offering the greatest impact on trade volumes and trade costs for both imports and exports are the availability of trade-related information, the simplification and harmonization of documents, the streamlining of customs procedures, and the use of automated processes. Even though the future of the Bali Agreement is uncertain, there surely are parts of the agreement that could be unilaterally adopted in Taiwan to lower both export and import trade costs.

As mentioned earlier, the TPP is intended to be the latest version of a comprehensive agreement on trade and related issues. Although the precise details of the TPP are not known, its

ambitions and broad outline are public information. The US Trade Representative, Michael Froman, recently said that TPP will bring together a group that represents 40 percent of global GDP and 30 percent of global trade. He also said that TPP will include

“... the highest labor and environment standards of any trade agreement – standards which will be fully enforceable. They include advancements in intellectual property rights protection, both to spur innovation and ensure access to it. This agreement will include the first-ever disciplines on state-owned enterprises, which will ensure that when SOEs compete against private firms, they do so on a commercial basis. And this agreement will break new ground by translating trade principles from the physical economy into the digital economy to ensure that there is a free and open Internet – which is so critical for small and medium-sized businesses being able to access the global market.

The USTR’s website contains a detailed statement of the US negotiating objectives in TPP and it is reasonable to expect that the final text of TPP will not differ markedly from the US/Korea Free Trade Agreement and the other trade agreements the US has recently concluded. So, there is plenty of information about TPP in the public domain – certainly enough to begin considering the structural reforms that will be necessary for Taiwan to become a member of TPP. Some of these reforms could then be adopted unilaterally to send a signal of the seriousness with which Taiwan regards potential membership in TPP. It also is important that Taiwan consider the reforms in agricultural and other policies that will be necessary to become a member of TPP. Is the Taiwan political establishment capable of delivering the kinds of reforms that will be a precondition for membership in TPP? If so, then adopting these reforms and facing the domestic political tensions now will make the international negotiation process more likely to yield a favorable outcome.

In terms of important domestic reforms only tangentially related to TPP, the latest AmCham White Paper urges Taiwan to leverage its high level of education and its strong foundation in technology-oriented industries to make Taiwan into an island of innovation and sharpening Taiwan’s comparative advantage in a wide range of fields. “More must be done, for example, to create a nurturing environment for start-up companies, enabling Taiwan to take full advantage of the considerable talent and ideas that are spawned here.” I fully support this initiative and mention that the University of Wisconsin is one of the leaders of the world in this respect. Some are treating as a new idea the notion that special attention should be paid to moving brilliant ideas developed in the laboratories of academe into the market place. But the University of Wisconsin, through its Wisconsin Alumni Research Foundation (WARF) and more recently the public/private partnership in the Institutes for Discovery, has been actively and profitably involved in this from the 1920s. The successes of WARF and the Institutes for Discovery are receiving attention in China where there is major move to become more effective at the commercialization of academic discoveries. Taiwan should expand its efforts to do the same.

AmCham’s 2014 White Paper, while generally complimentary of the many recent reforms introduced to make Taiwan more competitive, urges the government to continue with the reforms in finance, trade and investment. These reforms will be critical to Taiwan’s efforts to remain relevant in the global economy and gain membership in TPP.

Taiwan as platform for access to China.

In an earlier section, I've talked about Taiwan's quality of life and its favored access to the Chinese market, so I'll not repeat myself. The basic idea is to promote the many features of Taiwan that make it attractive to people doing business in Asia and especially with China:

- High quality of life for business people and their families, unlike other parts of Asia where breathing the air is the equivalent of smoking two packs of cigarettes a day, access to education is very limited, food and medicines may be contaminated, and the morning commute to work may take hours.
- Rule of law in an open and democratic society.
- Trade favored access to the enormous and increasingly affluent China's markets with good transportation links now making cross-strait commerce much more viable.
- Taipei as an attractive alternative to Hong Kong.

Regional trade agreements.

TPP is a goal well worth pursuing. Membership in TPP should quiet those worried about Taiwan's economic isolation. The investment and trade benefits of TPP membership would be sizeable for Taiwan and the structural reforms Taiwan will have to introduce to gain TPP membership will modernize its regulatory regime so it is better able to support a globally competitive, technologically sophisticated and prosperous economy. Whatever is being done to secure TPP membership is time and energy well spent. The only question should be – can Taiwan do even more to gain membership in TPP?

Membership in RCEP also may be useful for Taiwan in quieting concerns about economic isolation and giving Taiwan favored access to ASEAN and Northeast Asia. But China's dominance of the RCEP negotiations creates the possibility that China may demand Taiwan accept a subordinate position as less than a full member of RCEP. The trade and other economic benefits from RCEP membership are not likely to be as significant with membership in TPP.

Conclusion.

As an outsider who has great respect for what Taiwan has accomplished, I have offered a few ideas for keeping Taiwan internationally competitive. With our son and daughter-in-law here in Taiwan, my wife and I have in effect invested our next generation in Taiwan, so we certainly have strong wishes for Taiwan's continued success and prosperity as an autonomous island with an exceptional quality of life.