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# **Challenges and Opportunities of a EU-Taiwan ECA**

**A Review of Political-Economic Perspectives**

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**Center for Asian Studies**

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# Executive Summary

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Concerns over becoming marginalized in the course of East Asian economic integration are driving a proactive regional trade agreement (RTA) strategy on the part of Taiwan. Three factors explain this concern: Competing visions of economic integration in the region from both the United States and China, the success of Korea in concluding a large number of important RTAs, and the increasing number of overlapping agreements that crowd out countries and economies such as Taiwan that do not have proactive RTA strategies.

Taiwan has completed free trade agreements (FTAs) with five countries in Central America, as well as an Economic Cooperation Framework Agreement (ECFA) with China. In the case of a EU-Taiwan economic cooperation agreement (ECA), however, predictions that such an agreement will favor the EU have led to a lack of enthusiasm in Taiwan, and attention has largely been focused on follow-up negotiations with China concerning post-ECFA arrangements and on potential agreements with the US and partners in a Trans-Pacific Partnership (TPP). The successful negotiation of a EU-Taiwan ECA crucially depends on generating both the motivation for bilateral collaboration and incentives for signing such an agreement.

For Europe, a EU-Taiwan ECA could be seen as a safety valve for EU access to the Chinese market, creating an optimal path for balancing competitive pressure from Korea in the EU market following the EU-Korea FTA. Europe also risks being crowded out of East Asian trade by various initiatives for regional integration. In this sense, a EU-Taiwan ECA presents an opportunity. As the conditions for an RTA between the EU and China are not yet ripe, such an agreement with Taiwan could use the cross-strait ECFA to access the Chinese market, making Taiwan a kind of buffered corridor for bilateral collaboration with China. Furthermore, it could also increase the possibility of ASEAN's renewed efforts at seeking collaboration with the EU. Finally, a EU-Taiwan ECA not only would help lower the impact on European companies from the EU-Korea FTA, but could also serve as a significant tool for creating checks against Korean companies in the EU market.

In the end, Taiwan and the EU share common ground. They have both worked hard to overcome being marginalized in the course of broader Asia-Pacific regionalism, and they both have common objectives and share various common trade interests that have yet to be recognized. This paper concludes that it is necessary for the EU to

further its understanding of the East Asian situation. It should reevaluate the blueprints of its existing RTA strategy and rethink its place in the broader political and economic context of the Asia-Pacific region in order to reorient its trade interests in the area, as well as its role in the regional integration process.

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# Introduction

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Trade considerations are no longer the decisive element in regional integration, and strategic factors such as regional security and the regional balance of power have become important determinants. The United States has continued to devote energy to the Asia-Pacific region in an effort to reclaim its leadership position; this has turned the competition between Japan and China over dominance in the Asia-Pacific region into a leadership competition between the United States and China. At the same time, a crisis mentality of marginalization has caused Taiwan to implement a more active regional trade agreement (RTA) strategy. Thus, reorienting regional trade integration strategy, participating in global regional cooperative mechanisms, and breaking through the crisis of being marginalized have become important priorities for the creation of a competitive space for Taiwan.

Even though in recent years the total trade volume between Taiwan and Europe has gradually increased, a unilateral weakening in EU-Taiwan trade and relatively lower economic benefits for Taiwan have lowered the latter's expectations and incentives for signing an economic cooperation agreement (ECA) with the EU. However, for the EU, a EU-Taiwan ECA could be seen as a safety valve for EU entrance into the Chinese market. This would help create an optimal path for balancing the competitive pressure between the EU and Korea in the EU market following the recent conclusion of a free trade agreement (FTA) between these two partners.

This paper will first introduce the efforts and achievements of Taiwan's RTA strategy, and then explore the motivations for its establishment, as well as the internal and external challenges and limitations that it may face. The second part of the analysis will further evaluate the opportunities and challenges for a EU-Taiwan ECA against this backdrop.

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# General Features of Taiwan's RTA Strategy

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## *Clues and Achievements of Taiwan's RTA Strategy*

In 2011, the Taiwan government promulgated the policy vision known as the Golden Decade National Vision, which proposes as a particular focus making active contacts in order to facilitate the signing of trade agreements. In the period following the signing the Economic Cooperation Framework Agreement (ECFA) between China and Taiwan, the policy will re-evaluate international conditions, select target countries for the signing of agreements, establish appropriate strategies, and promote the building of contacts.

According to the principle of applying practicality and flexibility in selecting subjects for negotiation, this policy has shown a number of preliminary results. In addition to the FTAs signed previously with five Central American countries,<sup>1</sup> Taiwan signed the *ECFA with China* in June 2010, the Bilateral Investment Treaty (BIT) with Japan in September 2011, and the Cross-Strait Bilateral *Investment Agreement* with China in August 2012. In addition, RTA negotiations are being conducted with medium-size economies such as Singapore and New Zealand,<sup>2</sup> which is seen as an important step for Taiwan in joining the Trans-Pacific Partnership (TPP).<sup>3</sup> Taiwan also hopes that *Trade and Investment Framework Agreement* (TIFA) bilateral trade and investment dialogues and channels can be used to create opportunities for participating in the TPP.<sup>4</sup> As for countries with which Taiwan has not

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<sup>1</sup> Between 2003 and 2007, Taiwan signed FTAs with Panama, Guatemala, Salvador, Honduras and Nicaragua.

<sup>2</sup> The Agreement between Singapore and Taiwan on Economic Partnership (ASTEP) is expected to focus on tariffs, open service industries, and economic collaboration.

<sup>3</sup> Taiwan has listed TPP members as important targets for RTA negotiation in order to create opportunities for joining the TPP. New Zealand and Singapore are both negotiation partners in the TPP. TPP negotiation partners include Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam and the United States. Canada has been invited to discussions, and Japan, Mexico and South Korea have also been sought for preliminary agreements.

<sup>4</sup> TIFA, signed by the US and Taiwan in 1994, is the bilateral trade and investment dialogue channel between the US and Taiwan, and it is the important mechanism used by the two sides in resolving bilateral trade issues and dealing with corporate concerns. Over the years there have been many meetings covering issues such as



signed trade agreements, feasibility studies are being used to gradually create beneficial terms for negotiation. As of now, Taiwan and India, and the Philippines and Israel have engaged in joint intergovernmental research, and joint research with private think-tanks.<sup>5</sup>

In addition, to cope with the trends in global economic and trade integration, President Ma Yingjeou has announced that in the near future a more active RTA strategy will be implemented. This strategy is titled the Economic Cooperation Agreement Action Plan (ECA Roadmap).<sup>6</sup>

At the time of writing, the 2012 ECA Roadmap has yet to appear; however, analysis of Taiwan's RTA conditions shows that its RTA strategies have the following features: creating an atmosphere for contact and discussion, carrying out feasibility studies, and using the 'building-block method' to accumulate results. Creating an atmosphere for contact and discussion is primarily done through the chambers of commerce and major corporations of the main trading partner states, in order to create support for economic cooperation with Taiwan. Various forms of contact, such as continued mutual visits between senior trade officials, media releases, interviews and conferences, as well as the cooperation of diplomatic departments, are being used to seek friendly support from various states. The purpose of feasibility studies is to promote joint research groups – formed by the government and private think-tanks – that study the overall effect of signing FTAs or economic cooperation agreements (ECA), the benefits to individual sectors of the economy and society, and the contact and signing procedures. Following this process, policy suggestions are provided as a reference for the parties. Finally, for cooperation that cannot be carried out in one step, the strategy of 'stacking blocks' is used. In other words, the principle of 'easy first, difficult later' is used to separate the issues of FTA/ECA, focusing on partial chapters and content, such as investment and trade facilitation, as well as the functional issues of e-commerce for preliminary negotiations. These will gradually accumulate and ultimately result in overall benefits.<sup>7</sup>

## ***Motives behind Taiwan's RTA strategy***

Various challenges arise from East Asian and Asia-Pacific regional integration (such as the crowding effect on Taiwan due to the rich achievements of the Korean RTA), the pursuit of dominance by large

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agriculture and trade, intellectual property rights, medicine, government procurement and investment. Recently, in June 2012, the United States and Taiwan stated that progress on the American beef issue may reinstate TIFA talks.

<sup>5</sup> Legislative Yuan Foreign and National Defense Committee, 2012

<sup>6</sup> *United Daily News*, 2012; Ma Yingjeou, 2012

<sup>7</sup> Legislative Yuan Foreign and National Defense Committee (2012).

countries in the surrounding areas (such as the United States and China in East Asia and Asia-Pacific), and the US institutional containment of China through the TPP. To cope with these, Taiwan has sought a more proactive RTA strategy, elevating the RTA problem to a strategic level.

The primary motivation for Taiwan's proactive RTA strategy is to secure its position between the United States and China. The US has attempted to use a policy of "rebalancing" towards the Asia-Pacific to expand its space for influence in East Asian politics and economics, as well as to counter China's growing political and economic influence in the process of East Asian regionalism. The TPP is the American policy tool for realizing – in the Asia-Pacific region – its vision for global economic development. Through the TPP, the US not only operates and guides regionalism that is beneficial to its own interests, but also uses it to shape regional order in peace and stability and to avoid American exclusion from the zone as a result of regionalization processes led by other nations. The overall economic strategy, from a technical aspect, uses the TPP's regional integration strategy to dispel the regulatory obstacles of member states in the Asia-Pacific region and deepen advantages of the US through industrial connectivity, thus expanding the Asia-Pacific market for American small and medium enterprises.

In terms of a strategic vision, the TPP, with its highly integrative character, can be seen as American institutional containment of China in the Asia-Pacific region. If other countries are excluded from the TPP, the price of exclusion will be very high. First, in terms of content, the collaborative items in the TPP far exceed the current open commitment of the WTO (WTO Plus). Then, in terms of the alliance members, there are many overlaps between the TPP members and the ASEAN+N advocated by China. Compared to the high-threshold regionalism of the TPP, the ASEAN+N model is a modest cooperative mechanism of regional integration. In the future, products from ASEAN+N member states may be blocked by the TPP's high standards (such as environmental or labor safety regulations) and be unable to enter the TPP market. Conversely, it is not difficult for TPP members to enter the low-integration ASEAN+N market. Due to America's political and economic influence on Taiwan, it is expected that exclusion from the TPP would seriously affect Taiwan's economy, society and foreign relations. This is also why Taiwan has listed TPP member nations as priority subjects for negotiation.

The rapid expansion of Korea's RTA is the second motive for intensifying Taiwan's proactive RTA strategy. South Korea is the only country that has simultaneously signed FTAs with four of the largest economic entities. Through FTAs with ASEAN, India, the United States and the European Union, South Korea can enhance export trade with advantageous tariffs and become an operations, transport and manufacturing center for foreign capital in Asia, or even in the global market. These developments could crowd out nearby

countries, especially Taiwan, which also has an export-oriented development strategy. In addition, China, Japan and South Korea signed the Tripartite *Investment* Protection Treaty in May 2012. At the same time, China and South Korea have formally begun bilateral FTA negotiations.<sup>8</sup> In view of the high degree of competition between Taiwanese and Korean products in the Chinese market, a China-Korea FTA is highly likely to threaten the economic benefits that Taiwan has obtained through ECFA.

Finally, the third motive for Taiwan's active RTA policy is the response to the integration of East Asia and the Asia-Pacific region. The scope of East Asia's economic and trade development has gradually created strong overlaps, and countries that have given attention to the pursuit of RTAs, or economic entities that have been crowded out diplomatically (such as Taiwan), are experiencing the pressure of marginalization. As a result, reorienting regional trade integration strategy, participating in global regional cooperative mechanisms, and breaking through the crisis of being marginalized have become important priorities for the creation of a competitive space for Taiwan.

### ***Limits of Taiwan's RTA strategy***

In principle, awareness of the marginalization crisis is an important reason for the intensification of Taiwan's proactive RTA strategy. The excessive burdens of internal human and material resources as well as conflicting leadership are the greatest challenges in implementing the RTA strategy in Taiwan.

First, the Office of Trade Negotiations (the authority in charge of trade negotiations in Taiwan) is ineffective in regard to intra-government coordination, integration and communication. The opening of various individual industries relies on the expertise of various authorities, and decision-making on RTA-related policies falls on different agencies from various departments and ministries. For instance, the Industrial Development Bureau of the Ministry of Economic Affairs has the main responsibility for lowering tariffs on goods, while the Tourism Bureau of the Ministry of Transportation is responsible for the business of tourist hotels or travel agencies. The Office of Trade Negotiations is in charge of all negotiation affairs; however, since it is a subordinate department of the Ministry of

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<sup>8</sup> As early as 2001, Korea proposed the trilateral FTA with China and Japan. China responded in 2002, suggesting feasibility studies on a trilateral FTA. However, the three sides are constrained by historical complexes and matters were delayed for many years. On 13 May 2012, the three sides signed the Tripartite *Investment* Protection Treaty, and then China and Korea announced that they had officially initiated China-Korea FTA talks.

Economic Affairs, if it contradicts the opinions of the authorities, its internal coordination and governance will face insurmountable challenges. The Executive Yuan should conduct interdepartmental coordination; however, its directors may lack the professional knowledge required, and therefore be unable to make appropriate decisions.

The asymmetry between RTA strategies and the technical staff available raises serious questions about the quality of negotiation. Currently, Taiwan's RTA negotiations with other countries, including subsequent ECFA negotiations, the Taiwan-Singapore FTA, and the Taiwan-New Zealand FTA preparations, are all arranged by the same group, and the workload of the negotiation staff has reached a critical point. In view of this, the establishment of a professional policy coordination department – similar to the USTR (Office of the United States Trade Representative) – and incorporation of think-tanks and supplementary staff should be considered.

To cope with the challenges of these internal factors, future Taiwan-EU ECA negotiations may be able to use the building-block method to accumulate negotiation effects and gradually achieve success. Taiwan and the EU can form a joint research team, using the three principles of (1) easy first, difficult later; (2) simple first, complex later, and (3) issue priority, thus ranking issues by priority and then starting to negotiate on the less controversial ones. Finally, it should be possible to sign cooperation memoranda on individual issues, in order to gradually accumulate negotiation accomplishments (building blocks). This method may overcome the problem of overburdened human resources.

Finally, the implementation of Taiwan's proactive RTA strategies has faced the external challenges of the China factor. As stated, the form, scope, depth and progression of the two integration models in East Asia are all determined by the intentions and interests of the United States and China. However, China has always defined RTAs as agreements between countries. This is the main reason that Taiwan has been unable to be fully incorporated into the East Asian integration trend. Even so, the China factor has experienced a major breakthrough with the positive interactions in trade between Taiwan and China, and the signing of ECFA. Cross-strait relationships are gradually developing in a positive direction.

# Opportunities and Limits of Signing a EU-Taiwan ECA

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The signing of an economic cooperation agreement with the EU would not free Taiwan from the limitations of the subjective environmental factors discussed above. The EU has an almost absolute competitive advantage in terms of investment and trade in the Taiwanese market. Thus, the successful negotiation of a EU-Taiwan ECA crucially depends on generating both the motivation for bilateral collaboration and incentives for signing such an agreement.

## *Challenges to a EU-Taiwan ECA*

In the European Union's 2006 Global Europe – Competing in the World policy, the roadmap for external policy established five major standards for the selection of partners, listing ASEAN, South Korea and the South American Common Market (MERCOSUR) as the priority parties for signing RTAs with the EU, along with India, Russia, the Gulf Cooperation Council (GCC) and China.<sup>9</sup> Currently, the EU's active work in building contacts, negotiation and signing bilateral RTAs shows that it is gradually moving toward a global Europe objective. However, the recent influence of the EU in the Asia-Pacific market is facing the challenge of the American TPP strategy in the region. As previously stated, if a highly integrated TPP indicates American institutional containment of China in the Asia-Pacific region, when this American strategy takes shape it will redraw the global strategic map, which will seriously affect the EU's trade and strategic positions in the Asia-Pacific region.

The EU is not Taiwan's highest RTA priority. President Ma Yingjeou has announced that the TPP will be an important objective in the next eight years.<sup>10</sup> It is estimated that follow-up negotiations with China concerning ECFA-related arrangements is the most urgent issue in Taiwan's RTA strategy. Talks with the TPP member states, such as the United States, Singapore and New Zealand, constitute the second rank of Taiwan's RTA priority list. Japan is the third partner to promote an RTA with Taiwan, and the European Union

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<sup>9</sup> Peter Mandelson (2006); European Commission (2006).

<sup>10</sup> Legislative Yuan Foreign and National Defense Committee (2012).

could be considered the fourth priority of Taiwan's RTA target, before India and Indonesia.<sup>11</sup>

EU-Taiwan ECA predictions that favor the EU are important reasons for Taiwan's lack of proactive promotion of the ECA. First, the EU is Taiwan's fourth largest trading partner, behind ASEAN, Japan and the US.<sup>12</sup> Even though EU exports to Taiwan increased by 12.5% in 2011, Taiwanese exports to EU grew by just 4.6%, lower than the 8.1% growth in exports to China, and 22.8% growth in exports to the United States.<sup>13</sup> Finally, the EU's foreign import total ratio for Taiwan continues to decline, from 2.9% in 2000 to 1.4% in 2011.<sup>14</sup>

In 2008, the Chunghua Institute for Economic Research in Taiwan proposed that a EU-Taiwan ECA would provide greater benefits for the EU. It projected that it could increase Taiwan's real GDP by USD 1.374 billion (a growth rate of 0.49%), while the EU's real GDP could increase by USD 3.543 billion (growth rate of 0.04%). After simulating a cancellation of agricultural, industrial, commercial and service tariff and non-tariff obstacles, the overall production value of Taiwan could increase by USD 2.503 billion, and that of the EU by USD 7.294 billion. In addition, in terms of total exports, a EU-Taiwan ECA could increase Taiwan's total exports by USD 2.797 billion, and the EU's by USD 2.828 billion.<sup>15</sup> Since Taiwan has higher average tariffs than the EU, it is expected that, in the future, trade in goods between the two sides will result in higher economic benefits for the EU after the cancellation of tariffs.<sup>16</sup>

Next, in relation to the agro-industry sector, simulations of a EU-Taiwan ECA show that the sectors with the greatest production value and exports in the EU agro-industry are the automobile and components industry, machinery and equipment, and plastics and chemicals industries. It is estimated that the EU agro-industry sector's production value would increase by USD 2.822 billion, with an increase in exports of USD 2.142 billion. The sectors with the greatest production value and exports in the Taiwan agro-industry are other vehicles, the automobile and components industry, the textile industry, and other manufacturing. It is estimated that the Taiwan agro-industry sector production value would decrease by USD 0.94 billion, with an increase in exports of USD 1.179 billion.<sup>17</sup>

As for trade in services, the EU also has an advantage, in principle. The simulated results of a EU-Taiwan ECA show that the areas with the greatest growth in EU exports to Taiwan are

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<sup>11</sup> United Daily News (2012).

<sup>12</sup> European Economic and Trade Office (2012).

<sup>13</sup> European Economic and Trade Office (2012).

<sup>14</sup> European Chamber of Commerce, Taipei (2012).

<sup>15</sup> Taiwan WTO center (2008)

<sup>16</sup> Taiwan WTO center (2007); Taiwan WTO center (2008).

<sup>17</sup> Taiwan WTO center (2008).

commercial services, transportation services, and trade services. It is estimated that the overall production value of the EU service sector would grow by USD 4.472, with increased exports of USD 0.686 billion. In terms of the service sector in Taiwan, the areas of greatest growth in exports to the EU are transportation services, commercial services, and trade services. It is estimated that the overall production value of the Taiwan service sector would increase by USD 3.443 billion, with increased exports of USD 1.619 billion. However, even without a EU-Taiwan ECA, the service trade between the EU and Taiwan has greatly increased, from EUR 5.8 billion in 2009 to EUR 8.3 billion in 2010. Among the various exports, EU exports in services to Taiwan increased by EUR 2 billion in one year; however, Taiwan's services exports to the EU increased by just EUR 0.5 billion.<sup>18</sup>

In addition, short-term studies have found that the EU-Korea FTA, which took effect on 1 July 2011, has not had the expected impact on trade in Taiwan. This is an important factor affecting Taiwan's RTA priority configuration. In theory, Korea's FTA should place pressure on trade between Taiwan and the EU. Seen in terms of the tariff structure faced by Korea and Taiwan in their exports to the EU, Taiwan and Korea's top five exports to the EU include electronics and electrical machinery products, basic metal products, transportation equipment products, precision instruments, and plastic and rubber products. There is a high likelihood of Taiwan being replaced by Korea in the future.<sup>19</sup> However, observations up to this point have shown that the EU-Korea FTA would have a limited influence on EU-Taiwan trade. A possible reason is that, even under the EU-Korea FTA, many products remain limited by non-tariff obstacles. In addition, the European debt crisis and low demand in the EU market have reduced the scale of imports; thus, it is impossible in the short term to accentuate the economic benefits of the EU-Korea FTA;<sup>20</sup> this may be another potential reason. In fact, the total trade volume between the EU and Taiwan grew by 3.12% in 2011, which was even higher than the trade growth rate between the EU and Korea.<sup>21</sup>

Most importantly, China-US competition over the leadership of regional integration has had a great impact on the level of Europe's importance in Asia. At the very least, a rapidly-crystallizing TPP has marginalized European importance in Taiwan's RTA policy-making. In the future, a well-formed TPP or ASEAN+N model of Asian regional integration could seriously discriminate against EU goods in this region. Finally, based on the competitive relationship between Taiwan and Korea in the EU market, EU hesitations in concluding an ECA with Taiwan have persuaded Taiwan to realign its efforts by speeding up trade liberalization with both China and the United States.

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<sup>18</sup> European Chamber of Commerce, Taipei (2012).

<sup>19</sup> Taiwan WTO center (2008).

<sup>20</sup> European Chamber of Commerce, Taipei (2012).

<sup>21</sup> European Economic and Trade Office (2012).

## ***Positive factors in promoting a EU-Taiwan ECA***

Both Taiwan and the European Union have worked hard to overcome marginalization in the development of Asia-Pacific regionalism; they have common objectives and share various common trade interests that have yet to be recognized. First, Taiwan has completed FTAs with five countries in Central America, as well as the ECFA with China. If the EU can create a comprehensive economic and trade cooperation relationship between itself, China and Taiwan, it will create a model for inclusive trade cooperation. This could then be used as a basis for broadening opportunities for the EU to freely enter northeastern and southeastern Asian markets. By leaving behind the trade integration competition between the United States and China in the Asia-Pacific region, the EU will be able to create new profit and new opportunities. It will also be possible for the EU to provide breathing space for all the Asia-Pacific countries that remain outside the political and economic competition between the US and China, leading to another view of the global character of the European Union. In other words, the EU and Taiwan face different but similar challenges. RTA cooperation between the two will not only bring trade growth benefits for each but also create new opportunities for the EU as it seeks a reorientation of its role.

Since the breakthrough in cross-strait relations in 2008, China has continued to demonstrate a friendly attitude toward Taiwan by continuously adjusting relevant policies and by beginning to focus on and flexibly treat Taiwan's appeal for more international space. These developments have created an excellent opportunity for trilateral collaboration between the EU, China and Taiwan. For instance, starting in May 2009, each year Taiwan has been invited to attend the World Health Assembly (WHA) as an observer, under the name Chinese Taipei. After signing ECFA with China in June 2010, the Taiwan-Japan Investment Arrangement was signed on 22 September 2011, which has created a good basis for interaction between Japan and Taiwan. Finally, on 31 December 2008, the President of the People's Republic of China, Hu Jintao, announced "Hu's Six Points of Policy" in relation to Taiwan, which also clearly indicated the possibilities for Taiwan and China to jointly expand outward, using ECFA as the foundation.<sup>22</sup> The second point clearly states that Taiwan and China "can establish mechanisms for economic cooperation unique to Taiwan and China, to explore possible paths toward joint economic development and connections to the cooperative mechanisms of the Asia-Pacific economy." In view of this, using ECFA as a basis to sign trilateral agreements may dispel Chinese doubts and help find a solution for the China factor.

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<sup>22</sup> Hu Jintao (2008).



In view of the fact that ECFA conveys a strong political signal of improved relationships with the outside world, it is not unfeasible for China, Taiwan and the EU to begin Comprehensive Economic and Trade Cooperation (CETC), based on ECFA, in order to lower the impact of the American policy of returning to the Asia-Pacific region. First, a CETC between Taiwan, China and the EU could help the EU to break through the obstacles of stagnant trade negotiations with ASEAN. The China-ASEAN Free Trade Area (CAFTA) was officially activated on 1 January 2010. If Taiwan can act as a buffer zone for trilateral cooperation along with the EU and China, it will not only dispel EU doubts about developing a cooperative relationship with China, but the EU will also use cooperation in ECFA to promote competitive liberalism for ASEAN and other Asian countries,<sup>23</sup> thus providing possibilities for ASEAN to actively seek cooperation with the EU.<sup>24</sup> Third, EU goods could be successfully diffused into the ASEAN market through trilateral trade cooperation between China, Taiwan and the EU. Most importantly, the cooperation between China, Taiwan and the EU in the Asia-Pacific region could help in canceling out some of the effects of the TPP and in balancing American influence in the Asia-Pacific region.

Further, through Taiwanese businesspeople in China and Southeast Asia, the benefits of introducing the European Union into the Asia-Pacific market could be another path for Taiwan-EU cooperation. After CAFTA took effect in 2010, the EU set its sights on the third largest free-trade area and actively reinstated FTA talks with ASEAN, hoping to enter the Chinese market in this way, in order to lower the risks of signing an FTA with China. In fact, there are numerous Taiwanese businesspeople in China and Southeast Asia, and there are also many influential Taiwanese people in these areas. If the EU can use more flexible methods in its RTA strategy, after deciding to initiate contact and discuss an FTA with Japan, it could emphasize and use Taiwanese businesspeople and overseas Taiwanese connections, which would be another value option for developing East Asian regional integration networks. This could be used to consolidate the EU's position in East Asian regional integration and in the global labor distribution system.

In fact, a EU-Taiwan ECA could prevent the FTAs of the EU in Asia from becoming weakened and exceptional, thus avoiding a singular benefit to Korea in the EU market under artificial factors and threatening the survival of European companies. In addition, the EU-Korea FTA may cause trade diversion for Taiwan, by transferring

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<sup>23</sup> A concept proposed by the United States, so-called competitive liberalism refers to the US policy of simultaneously seeking trade liberalization at the global, regional and the bilateral levels. These actions seek to inspire the pursuit of trade liberalization by various countries and the signing of FTAs with the US.

<sup>24</sup> Robert B. Zoellick (2001).

some trade from Taiwan to Korea.<sup>25</sup> As such, it could weaken the competitiveness of Korea and other Asian countries in the European market. A EU-Taiwan ECA benefiting Korean interests would limit the role of other Asian countries in checking Korean interests in the EU market, seriously threatening the interests of European companies in the EU and in the rest of the world.<sup>26</sup>

Additionally, the EU-Korea FTA has created an optimal environment for Korean companies to compete with European companies in Europe, and a EU-Taiwan ECA would help lower the impact on European companies. For instance, European companies that produce LCD monitors, televisions and automobile components are facing the crisis of a relative decline in competitiveness. First, since Korean LCD displays and televisions are already competitive in the European market, the strengthening of the EU-Korea FTA through the removal of tariffs means that Korean products would compress the market for domestic European LCD television companies. However, Europe is an important LCD market for Taiwan. If it is possible to use the labor division chains formed by a EU-Taiwan ECA to promote collaboration between European LCD brand companies and Taiwanese LCD manufacturers, to commission original equipment manufacture (OEM) by Taiwanese manufacturers, or commission Taiwanese manufacturers to supply LCDs, it would be possible to alleviate the competitive pressure from Korean companies on EU companies, after the implementation of an EU-Korea FTA.<sup>27</sup>

Another example is that of automobile components. Cooperation between the EU and Taiwan would lessen the threat of Korean automobile companies to European automobile companies through the EU-Korea FTA. In the future, Korean automobiles will enjoy zero tariffs, which will intensify the competition with European automobile companies, and also affect the growth of European automobile components. This will increase pressure on Taiwanese companies for EU automobile components, because the EU's export market for the automobile component industries in Taiwan and Korea is second only to the United States. However, Taiwanese automobile component manufacturers are not only highly competitive but also have international-level research and development capabilities. They will be able to provide the manufacturing techniques of low quantity and high diversity for European automobile companies, as well as automobile components that conform to international standards. They could also be important research and development partners for European automobile companies.<sup>28</sup>

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<sup>25</sup> Especially for items with which there is even competition between Taiwan and Korea, such as the LCD industry, automobile components, consumer electronics, and information and technological products.

<sup>26</sup> European Chamber of Commerce Taipei (2012).

<sup>27</sup> Taiwan WTO Center (2008).

<sup>28</sup> Taiwan WTO Center (2008).

## Conclusions

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Although Taiwan should indeed work diligently to deal with the challenge of being marginalized in the process of East Asian regional integration, at the same time the European Union faces the possible risk of a rapid decline in its influence in the process of global economic and political power redistribution. The EU is now beleaguered by its debt crisis, and it has been forced to devote more efforts to adjusting its internal trade integration methods. Compared to the passivity of the EU in the Asia-Pacific region, after a series of economic and financial disasters, in 2008 the United States began promoting a “return” to the Asia-Pacific market as the main policy focus to revitalize its power. This policy of returning to the Asia-Pacific region, and especially the new forms of politics and economics in the region (including after the TPP takes shape), will all weaken the importance of the EU in the Asia-Pacific region; it may even change the global political and economic structure and further weaken the global role of the European Union.

The EU needs to deepen its understanding of the East Asian situation. For many Asian countries, negotiation with the EU is a difficult challenge, with highly professional and technical demands. Given the expected low economic benefits of an ECA, most Asian countries have not been strongly motivated to sign RTAs with the EU. In the face of the rising Chinese economy, as well as pressure from the US in its Asia-Pacific and TPP policies, and although Taiwan has not been excluded from the development of deeper trade and cooperative relationships with the EU, its RTA focus is still on deepening its ECFA-related agreements with China, while seeking to join the TPP integration path led by the US.

Even so, the Asian countries surrounding China, including Taiwan, are still safety valves for EU access into the Chinese market. Since the conditions for a bilateral RTA between the EU and China are not yet ripe, if the EU can fully avail of the political harmony between Taiwan and China after ECFA and use Taiwan as a buffer for bilateral collaboration with China, this will dispel the EU’s doubts over collaborative relationships with China. The promotion of a EU-Taiwan bilateral ECA could use cross-strait ECFA trade collaboration to access the Chinese market and intensify the possibility of ASEAN’s renewed efforts at seeking collaboration with the EU.

There is still much room for the further strengthening of the Taiwan-European Union trade question, including lessening the economic distance between Taiwan and the EU and consolidating the

economic interests of the EU in the Asia-Pacific region. The EU-Korea FTA has created an optimal environment for Korean companies to compete with European companies in Europe and has seriously threatened the core competitiveness of some European companies. A EU-Taiwan bilateral ECA could not only prevent the EU-Korea FTA from becoming a tool that only benefits Korea, but also create a significant tool for creating checks against Korean companies in the EU market and lowering the impact of the EU-Korea FTA on European companies.

In view of this, it seems to be a necessity that the EU re-evaluate its RTA strategy blueprints and rethink its political and economic context in the Asia-Pacific region, in order to reorient its trade interests in the area, as well as its role in the integration process.

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