

THE TPP, THE FUTURE OF APEC AND THE INCLUSION OF NEW MEMBERS

 **Carlos Aquino Rodriguez**

The TPP, the Trans-Pacific Partnership Agreement currently consist of 12 countries, all members of the Asia-Pacific Economic Cooperation, APEC, that consist itself of 21 members. Peru is in the TPP with Australia, Brunei, Canada, Chile, the U.S., Japan, Malaysia, Mexico, New Zealand, Singapore and Vietnam. Japan was the last member to join this group, in the middle of last year.

APEC, In addition to the 12 members of the TPP mentioned includes China, South Korea, Hong Kong, Philippines, Indonesia, Papua New Guinea, Thailand, Taiwan (called Chinese Taipei) and Russia. In principle any member of APEC can apply to be a member of the TPP.

TPP negotiations are expected to finish this year but this seems to be difficult now. It would be one of the most ambitious liberalizations agreements as it wouldn't leave any sector of the economy out of this process. Furthermore, it is considered that TPP would be a step to complete the process of liberalization between the 21 APEC economies.

From February 22 to 25 there was a meeting of trade ministers and negotiators of the member countries of the TPP held in Singapore but at the end of the meeting some issues remained pending. Obama's trip to four countries in Asia in April was expected to help finish some disagreements in the process also but that could not be achieved. Also a Meeting in last May in Singapore did not achieve any breakthrough in negotiations.

In this article the process of liberalization of the TPP is analyzed, starting first with a description of what TPP is; second we will see the points that are in negotiations in the TPP, especially the most contentious ones and what happened at the meeting in February; Third it is seen what Peru can gain from this process; in fourth term it is seen about the possible inclusion of new members, analyzing the specific case of Taiwan and China; fifth what about the TPP and the future of APEC and finally some conclusions are given.

1. What TPP is?

The TPP, which tried to end negotiations to establish an ambitious free trade area and investment by the end of 2013, had its origins in 2005 when four members, Brunei, Chile, New Zealand and Singapore, established an agreement that year, which went into effect in 2006. Originally known as the P4, these 4 countries reached an agreement to liberalize their economies and this was considered one of the most open and complete agreements because it left very few areas outside the liberalization program. It is interesting to mention that this was possible because these countries were among the most open economies in the world, with few barriers to trade and foreign investment. In the America region Chile is known as a very open country to foreign competition and low tariffs and in Asia that was also the case of Singapore.

In 2008 USA, Australia, Peru and Vietnam, in that order, joined the discussions of this group. In 2010 was the turn of Malaysia, in 2012 Mexico and Canada, and in 2013 Japan was the last to join.

It is interesting to see that in the TPP there are economies with different levels of development. On one side are the U.S., Japan, Australia, developed economies, and on the other hand countries like Peru, and Vietnam, developing economies. The former have an annual Gross Domestic Product, GDP, per capita of over \$40,000, and Peru has one of \$ 6,500 and Vietnam one of around \$2,000. Precisely the different level of development of the countries in the TPP makes them have different interests to defend, where developed countries like USA, want an almost total liberalization and especially want to strengthen the protection of intellectual property of their companies. Other countries, such as Vietnam, want to protect some of their companies that are not competitive with developed countries.

The 12 members of the TPP constitute 40% of the world economy and 35% of world trade. It makes a market of almost 800 million people. In 2012, Peru exported \$14,900 million to the 11 members of the group and this represented 32% of total exports, and

imported \$13,551 million, which also represent about 32% of what we bought from the whole world. In 2013 Peru exported to them \$14,625 million or 35% of the total and imported \$14,579 million or 33% of the total.

2. What is negotiating TPP?

The TPP seeks to have a very comprehensive agreement covering topics in 29 chapters among which are: market access, which seeks to remove all barriers to the entry of goods and services; rules of origin, where countries are looking to harmonized the provisions to define when a product originates from a country; sanitary and phytosanitary measures , which are the provisions that the countries have for the entry of products that have to do with health of humans, animals and plants; technical barriers to trade; the subject of intellectual property; government purchases; investments; financial services; environmental regulations; labor, border trade in services. Also it covers e-commerce issues; trade defense; competition policy; temporary entry of business people; trade facilitation; development; regulatory coherence;dispute settlement; and small and medium enterprises. It seeks to eliminate barriers to the flow of goods, services and capital, to standardize the rules that countries have and which regulate the flow of such goods, services and capital. It seeks to be the most ambitious and comprehensive agreement that eliminates all barriers and do not let exceptions or sensitive sectors outside of the liberalization process, which usually occurs when free trade agreements are signed between countries.

The TPP negotiations are not over because there are still points of contention to be resolved. Negotiations began in 2010 and until December 2013 19 rounds of negotiations were carried out. In Lima there were 2 rounds, the ninth one in October 2011, and the seventeenth one in May 2013.

Some of the contentious points are for example intellectual property, in which the U.S. puts much emphasis, though it faces opposition from several countries, including Malaysia. For example U.S. wants more stringent penalties for countries who pirate Hollywood movies, or for pharmaceuticals products to have patent protection with longer periods, for example a 12 years of regulatory data exclusively. It is said that all this could reduce market opportunities for generics manufactures worldwide and lead to higher prices. Other countries such as Chile, have said that on the issue of intellectual property it will not go beyond the provisions it approved in the FTA it signed with U.S.¹.

The issue of state companies and government purchases is another contentious issue, as some countries oppose to the full opening to foreign competition of these, like Vietnam, that have state companies in various sectors of the economy. Malaysia too, for example favors government purchases from companies members of the Malaysian ethnic group, the majority in the country, and that would be affected because of the demand of open competition. Also Malaysia wants special treatment to small and medium enterprises. How disputes between foreign companies and the state, where companies could take states to international arbitration courts (something that also wants USA) faces opposition (although in other FTAs, this issue has already been dealt with and included, such as in the case of the FTA Peru has with Canada and USA).

Other issues are labor standards. Several developing countries are opposed to being imposed developed countries labor standards on their own countries. Especially U.S. labor unions like the AFL-CIO the American Federation of Labor, and Congress of Industrial Organizations) want developing countries to have the same labor standards as the U.S., in order to, they said, to compete on equal terms. Meanwhile developing countries claim that because of their different levels of development all of them could not have the same standards. Unions in the U.S. for example complain that Vietnam does not allow independent labor unions and use children and prisoners as labor force in the clothing industry².

Another aspect is environmental regulations. Here what is under debate is that some countries, particularly the U.S., want environmental obligations to be subject to the same dispute settlement provisions as trade violations, and the obligations that the parties have committed through multilateral agreements on environmental matters could also apply under the TPP. This point seems to be opposed by many members in the TPP. It is mentioned that in the FTA's that have been signed with the U.S. there are

¹ See: World Trade Online "Incoming Chilean Officials Convey TPP Red Lines In Meeting With Froman". Here also is mentioned that Chile is not willing to compromise on the issue of the prohibition on capital controls, which seeks the U.S. because Chile wants to keep this possibility of using it in the event of a financial crisis.

<http://insidetrade.com/Inside-US-Trade/Inside-U.S.-Trade-02/14/2014/incoming-chilean-officials-convey-tpp-red-lines-in-meeting-with-froman/menu-id-172.html>

² See: InsideTrade.com "Fact-checking Froman: The Top 10 Myths Used by Obama's Top Trade Official" http://insidetrade.com/iwpfile.html?file=feb2014%2Fwto2014_0462a.pdf

chapters about investments where its companies can litigate against states if they feel threatened by an environmental law that could diminish their profits, and apparently U.S. also want to have the same provision in the TPP.³

In the issue of rules of origin also there are discussions regarding textiles for example. Vietnam wants to continue using fabrics from outside the TPP region and still have its apparel products to qualify for tariff cuts when entering the US market. But US do not want this and proposes a yarn-forward rule, which requires a TPP nation to use a TPP member-produced yarn in textiles in order to receive duty-free access. What happens is that Vietnam use fabrics from Taiwan, which is not in the TPP. 82% of US apparel imports from TPP partners came from Vietnam, 9% from Peru and 6% from Malaysia.

On issues of market access, the discussion is on how countries offer to reduce or eliminate tariffs or barriers on foreign goods and services. This is the case for example of Japan, which wants to keep some of their agriculture and cattle sectors closed to foreign competition (as discussed below).

In the case of Peru, its position in the negotiations on the TPP is, according to statements by the Minister of MINCETUR, that it will not go beyond the concessions that were negotiated in the FTA with the U.S., and that Peru is interested in "having more access to markets and easing of regulations in sanitary matters".⁴

One aspect that characterizes the TPP negotiations and that draws criticism, is the apparently secret way in which many of the negotiations take place.

A further issue, which can create delays in completion of the negotiations, in which the U.S. is the main driver, is for the US government having trouble getting "fast track" approval, under the Trade Promotion Act, TPA, to quickly approve the TPP deal in Congress. The TPA, which makes the country's congress approve or reject a trade agreement as it is, without modifications, expired in 2007 and has not been extended, although the government tries to get it renewed again. Latest statements by leaders of the U.S. Congress suggest that they see no urgency in having the "fast track", which is said, could rest impetus to the U.S. government to achieve the end of TPP negotiations soon.⁵ It is feared that the TPA approval will be given by Congress after the midterm elections in November this year in the U.S.

The current opposition of the U.S. Congress to grant "fast track" for approval of an agreement on the TPP is because there is a fear of labor unions and other groups that this agreement may make US lose jobs and force companies to move their production abroad, as some critics said it has happened with the North America Free Trade Agreement, NAFTA, between Canada, USA and Mexico, that is now celebrating 20 years of its implementation. Other critical themes are the lack of transparency in the TPP negotiations, or that the intellectual property rules established will put restrictions on access to generic medicine by developing countries. It is also criticized that the TPP will not set very high standards, or the mechanisms to enforce them, in environmental protection and labor rights issues.⁶

From February 22 to 25 a meeting of trade ministers and negotiators of the TPP member countries was held in Singapore. This meeting did not lead to complete the negotiations as some would have liked. In fact, one of the most important points on the issue of market access was the discussion between Japan and the U.S. to the further opening of Japan's agricultural market, but it did not reach any agreement. As said by the Japanese Minister present during the meetings "there are still considerable gaps between the two countries".⁷ Apparently a political decision to unlock this issue between both sides and was expected to occur during the visit of President Barack Obama to Japan in April, but as it would be seen, this did not happen either.

³ See also: *InsideTrade.com* "Fact-checking Froman: The Top 10 Myths Used by Obama's Top Trade Official", page 6 http://insidetrade.com/wpfile.html?file=feb2014%2Fwto2014_0462a.pdf

⁴ According to statements of the Minister published in *Gestion* newspaper. February 21, 2014, page 14 "Mincetur: Los gremios conocen lo que se negocia en el TPP"

⁵ Ver *Nikkei Asian Review* "America's TPP debacle leaves Hamlet without the prince" <http://asia.nikkei.com/magazine/20140213-SAMSUNG-ON-STORM-WATCH/Politics-Economy/America-s-TPP-debacle-leaves-Hamlet-without-the-prince>

⁶ See: *Los Angeles Times* "The Trans-Pacific Partnership: Who wins, who loses, why it matters" <http://www.latimes.com/nation/politics/politicsnow/la-pn-trans-pacific-partnership-20140219,0,6747764.story#axzz2u61PEfBe>

⁷ See: *Japan Today*: "Japan, U.S. fail to make headway in TPP talks" <http://www.japantoday.com/category/politics/view/japan-u-s-fail-to-make-headway-in-tpa-talks>

On the other hand at the meeting, according to the Trade Minister of Malaysia, agreement on 8 issues or chapters was achieved. These are: in development; consistency in the regulations; competitiveness and business facilitation; SMEs; temporary entry; cooperation and capacity building; institutional and administrative arrangements; and part of the chapter of competition policy not related to state companies⁸, the same as those the Minister had announced in the first day of the meeting⁹.

An agreement was reached in a part of the issue of state owned companies. It was agreed that "governments can continue to provide support to their state companies when they offer services in the domestic market"¹⁰. It was agreed that the disciplines from TPP will apply to state companies when they offer goods in their countries or they offer services in other TPP member countries or in third countries. The services exempted from TPP rules in the domestic market are financial services, telecommunications, health, education, express mail services and distribution services.

The meeting ended with a Declaration of Ministers where they say they have made progress on some issues, without specifying them, and will continue to make efforts to have an agreement on the remaining ones¹¹.

A Ministerial Meeting took place in Singapore following one of trade negotiators in Vietnam last May. The meeting of Ministers was on 19 and 20 May, but not final agreement was reached¹².

1. How Peru could benefit from the TPP?

While Peru already has FTAs with some members of the TPP, as with Canada, Chile, the U.S., Japan, Mexico, and Singapore, being in the TPP would allow Peru to get greater benefits than with the bilateral FTAs that has with every one of them. For example, in the FTA Peru has with Japan (called Economic Partnership Agreement) this country exempted from the opening of its market to Peru many products of its agricultural sector.

In the TPP, Japan has committed to liberalize almost the totality of its agricultural sector, except five categories of products, which are beef and pork, rice, sugar, wheat and barley, and dairy products, although even this issue is being discussed in the negotiations of the TPP to see if any or some of these products can be opened to foreign competition. Japan wants to continue protecting about 586 items under those 5 categories but U.S. for example is one of those who want no protection for any of them or at least to reduce that list, and these two countries are negotiating this, but apparently there is no agreement reached yet¹³. As a reference, in Peru FTA with Japan, this country excluded from the agreement 749 tariff lines¹⁴.

Japan protects those sectors with high tariffs or with a tariff-rate quota system. For example for beef it has a tariff of 38.5% and for natural cheese 29.8%. For rice has a tariff rate quota, which allows an annual import of 787 thousand metric tons a year (of which almost half comes from the U.S.), in which these imports do not pay duties but above that quota they pay a high tariff which make in practice that there is no imports beyond that amount. Still, Japan imports a large amount of the products they protect, for example 60% of the beef that it consumes, one third of the dairy products, 90% of the wheat (of which U.S. supplies 60% of its imports), etc.¹⁵

⁸ See: *Insidetrade.com* "Malaysia Flags Major TPP Outstanding Issues, Says U.S. Needs TPA To Conclude" <http://insidetrade.com/201402212461982/WTO-Daily-News/Daily-News/malaysia-flags-major-tpp-outstanding-issues-says-us-needs-tpa-to-conclude/menu-id-948.html>

⁹ After the first day of meetings Trade Minister of Malaysia said that they had agreed in only 8 of the 29 chapters, and that these were nor the most important nor the most controversial. See: *Japan Today* "Trade ministers resume TPP talks in Singapore" <http://www.japantoday.com/category/politics/view/trade-ministers-resume-tpp-talks-in-singapore>

¹⁰ See: *World Trade Online* "U.S., Other TPP Countries Agree To Narrow Scope Of SOE Chapter" <http://insidetrade.com/201402252462235/WTO-Daily-News/Daily-News/us-other-tpp-countries-agree-to-narrow-scope-of-soe-chapter/menu-id-948.html>

¹¹ See: *World Trade Online*: "TPP Ministers Announce Agreement On Majority Of Landing Zones, Say Work Remains For Market Access" <http://insidetrade.com/201402252462236/WTO-Documents/Text-Document/tpp-ministers-announce-agreement-on-majority-of-landing-zones-say-work-remains-for-market-access/menu-id-174.html>

¹² *ICTSD*: "Ministers Pledge to Intensify TPP Talks at Singapore Meet": <http://www.ictsd.org/bridges-news/bridges/news/ministers-pledge-to-intensify-tpp-talks-at-singapore-meet>

¹³ See *Nikkei Asian Review*: "Japan, U.S. still slogging on in TPP talks", <http://asia.nikkei.com/Politics-Economy/International-Relations/Japan-U.S.-still-slogging-on-in-TPP-talks>

¹⁴ See: *agraria.pe*: "Tras TLC Perú Japón. Destacan el café y espárragos 99,8% de productos con acceso preferencial a Japón" <http://www.agraria.pe/noticias/998-de-productos-con-acceso-preferencial-japon>

¹⁵ See: *World Trade Online*: "Beef, Pork, Dairy Are Likely Sticking Points In U.S.-Japan Agriculture Talks"

What apparently will determine how many of the products that Japan still protects of those categories will be put on the negotiation table will depend in the dealing that this country has with the U.S. Japan is said to be willing to allow more imports in some of these categories if the U.S. for its part eliminate tariffs of 2.5% that still has against Japanese cars and especially the 25% tariff against Japanese light trucks¹⁶.

In the end it seems Japan will stop protecting some products of these 5 sectors, because according to a report, in the fiscal year 2010 apparently 40% of these protected products were not imported that year, which means that there is no demand for them and therefore no need to put barriers to their entry.¹⁷

The rice issue is the most sensitive for Japan so this product will offer more resistance, although radical protection is not in accordance with the changing position of this product in Japanese diet nor in Japanese agriculture. According to a study the value of Japanese agriculture declined a third from 1984 to 2011, incomes from the agricultural sector fell by half from 1990 to 2007. In 1960 rice represented half of the value of agricultural production, in 2000 its share fell below 20%, farmers are increasingly older, and in 2010, 400 thousand hectares were left unused or were abandoned by aging farmers or because it was not very profitable. Rice has a tariff rate of nearly 800% in Japan¹⁸. It is interesting to note that several countries in the TPP look with much attention to the negotiations between the U.S. and Japan to see how Japan open its market in agriculture because that way they will ask Japan and the U.S. to open their markets too. For example Australia and New Zealand, which are competitive in dairy products, and face some barriers in the U.S. to sell these products, hope that if Japan opens its market to U.S. to dairy products for example, also U.S. would do the same in its market. In the FTA the U.S. signed with Australia, it did not fully liberalize its dairy market fearing an increase competition from Australia¹⁹.

But Japan and Australia recently signed an Economic Partnership Agreement. Under this "Australia will eliminate 5 percent tariffs on Japanese electronic and household goods, while a 5 percent car tariff will end within three years". For Australia, "there were significant cuts to Japanese beef tariffs, with a 38.5 percent tariff on frozen beef to drop to 19.5 percent over 15 years, and a similar tariff on fresh or chilled beef to decline to 23.5 percent over the same period". Besides this "Australian cheese exporters also gained with duty-free cheddar exports to grow to 27,000 metric tons over 20 years, with other concessions for horticulture, seafood, sugar and wine"²⁰.

In any case, besides what has being said above, Peru would gain access to markets of countries to which currently do not has FTA with but which are in the TPP, as are Australia, Brunei, Malaysia, New Zealand and Vietnam. Australia is a market with 23.5 million inhabitants, with consumers with percapita income of more than \$65,000, while Vietnam, although its inhabitants have a percapita GDP of just \$2,000, they are 90 million, and is a country that is growing at very high rates in Asia.

For example, Peru exports seafood to several countries but Vietnam has tariffs in these areas as high as 35%. It could export wood products to Vietnam but this has a tariff of 31% and Malaysia one of 40%²¹.

2. Possible new members in the TPP and the specific case of Taiwan and China

In this section we shall first briefly summarize the economic development of Taiwan, and second how would be the process of accession of Taiwan to TPP, the issues involved, as well as the advantages of its admission to this agreement. The same will be done for China case.

<http://insidetrade.com/201402242462158/WTO-Daily-News/Daily-News/beef-pork-dairy-are-likely-sticking-points-in-us-japan-agriculture-talks/menu-id-948.html>

¹⁶ See Japan Times "Concessions on farm products eyed as advance TPP talks with U.S. begin"

www.japantimes.co.jp/news/2014/02/18/business/amari-hints-japan-may-make-concessions-over-farm-products-tariffs/#.UwNpzGJ5MhM

¹⁷ See: Global Post "40% of TPP sensitive farm goods never imported into Japan in FY 2010"

<http://www.globalpost.com/dispatch/news/kyodo-news-international/131218/40-tpp-sensitive-farm-goods-never-imported-japan-fy-20>

¹⁸ See: Forbes "TPP Or No TPP Japanese Agriculture Must Be Reformed"

<http://www.forbes.com/sites/stephenharner/2013/08/19/tpp-or-no-tpp-japanese-agriculture-must-be-reformed/>

¹⁹ See: insidetrade.com "japan's market access offer, if accepted by the u.s., would be a radical departure from past u.s. Trade policy and create a horrible precedent" http://insidetrade.com/iwpfile.html?file=feb2014%2fwto_02222014_b.pdf

²⁰ See The Diplomat: "Australia and Japan Conclude Free Trade Deal" <http://thediplomat.com/2014/04/australia-and-japan-conclude-free-trade-deal/>

²¹ See: foreign affairs, trade and development Canada "benefits across Canada of a trans-pacific partnership agreement" <http://www.international.gc.ca/trade-agreements-accords-commerciaux/aqr-acc/tpp-ptp/benefits-avantages.aspx?lang=eng>

2.1. Economic Development of Taiwan

Taiwan is one of the successful cases of rapid economic development in East Asia. Considered one of the 4 tigers, along with South Korea, Hong Kong and Singapore, it went from being a predominantly farming economy in the 1950s to become an industrialized economy in the 1980s. Its percapita income went from \$213 in 1952 to \$2,835 in 1980 and in 2012 reached a level of \$20,386²². The size of its economy went from 1,711 million dollars in 1952 to 474,269 million dollars in 2012 (all the economic data that are mentioned in this part, unless otherwise indicated, are from Taiwan Statistical Data Book 2013, published by the Council for Economic Planning and Development, CEPD, Taiwan).

Taiwan is an island with only 36 thousand square kilometers, and its population at the end of 2012 was 23.3 million. It has no major natural resources, except for agricultural land, especially for tropical cultivation, and is totally dependent on imports of mineral and energy resources.

The most spectacular aspect of Taiwan and what makes its economic development very commendable is that this rapid development has been achieved with an income distribution that is the most equal in the world. The Gini index, which measures this, was 0.342 in 2012 (while in China and Peru, for example, this index was around 0.45-0.48)²³. Its unemployment rate was 4.24% in 2012, and in the decades from 1970 to 1990, this rate was about 2% or less.

Taiwan's economic development has been driven largely by exports. These increased from 116 million dollars in 1952 to 19,811 million dollars in 1980 and 301,101 million dollars in 2012 (and it was 308,257 million dollars in 2011). This has allowed it to accumulate international reserves by its central bank, in late 2012, by an amount of 403,169 million dollars.

Taiwan could develop, and did so in an equitable manner, for taking a series of measures that began with an agrarian reform that developed the rural area, then an industrialization process that went first from being labor-intensive, then capital-intensive, and finally technology and knowledge-intensive industry, with an educational system that allowed it to have an educated workforce. The government implemented Five Year Plans for Economic Development and gave facilities to their companies so they can achieve the goals of economic growth and exports

One of the most successful examples of how an industry was promoted was the establishment of Science and Industrial Parks. In 1980 the Hsinchu Science and Industrial Park was created, allowing Taiwan to become today a world leader in several industries of information and communication technology (see below about this).

In 2012 research and development expenses were 3.02% of GDP, one of the highest in the world (by comparison in Peru that spending is around 0.15% of GDP). It has a very educated workforce, and by 2012 almost 40% of its population (exactly 39.45%) had higher education (in 1974 this level was only 6.47%).

In 2012 Taiwan was in 13th place as the most competitive country in the world according to figures from the World Economic Forum, WEF, and according to the International Institute for Management Development, IMD, was in 11th place in 2013.

2.2. About the possible admission of Taiwan to the TPP

It has been said that the TPP is open to other members of the APEC forum. Taiwan and South Korea have expressed interest in participating in the TPP negotiations. Both are members of APEC, and already have FTAs with some of those in the TPP.

In the case of Korea, the country has already started consultations with members of the TPP in January this year, with Chile, USA, Malaysia, Mexico, Peru, Singapore, about its possible participation and it seems that these countries have shown sympathy for Korea entering the TPP, while seeking to ensure that Korea fulfill the high quality standards of this agreement. In February Korea consulted with the remaining 6 countries of the TPP about its possible membership. A decision by the Korean government to formally apply for membership apparently will be done after the end of March, when a research institute that receives government funding finishes a study on the implications of Korea's participation in the TPP.

²² See: "Taiwan Statistical Data Book 2013" From CEPD, Taiwan, Page 19. For further description of economic development in Taiwan see Chapter IX of my book: "Introducción A La Economía Asiática", 2000, San Marcos, which is available on the website <http://economia.unmsm.edu.pe/servicios/publicaciones/libros/libro2.htm>

²³ The Gini index varies from 0 to 1, where 0 indicates perfect equality and 1 means perfect inequality, the lower the index, a country is more equal.

Korea already has trade agreements or FTAs with various countries of the TPP, as with U.S. Chile, Peru, among others. In the case of Taiwan, it has free trade agreements with Singapore and New Zealand, two members of the TPP.

Is interesting to note for example that South Korea ranks fourth as a trading power in APEC and if this country enters the TPP it would be the third largest in this group. In the case of Taiwan, it occupies the tenth place as a trading power in APEC and if enters the TPP it would be the 6th largest here.

Considering in more detail the specific case of Taiwan and its possible entry into the TPP, there are several elements to consider, specially its relationship with other members of the TPP and with China in particular, given the peculiar situation of Taiwan, a major player in the world trade and economy, but which does not participate in most international organizations for not being considered a sovereign state by the majority of countries.

Note that Taiwan has a Framework Agreement Economic Cooperation with China, called ECFA, a type of FTA, in force between them since 2010, and this has greatly boosted economic relations between the two. It covers not only trade in goods but in other sectors, such as banking and insurance. For Taiwan China currently is its largest trading partner and largest investment destination. Last year, trade between China and Taiwan was more than 180 billion dollars, an amount that is perhaps similar to the amount that Taiwanese companies have invested in China until last year (according to Taiwan official statistics, from 1991 to 2012 it had a cumulative total of approved investment in China of 124 billion dollars, and only in 2012 that amount was 12.7 billion dollars²⁴).

In 2012 around 26.8% of Taiwan's exports went to China, and to the U.S., which ranked second, was 10.9% of total. On the imports side that year from Japan came first with 17.6% of the total and from China was 15.1%.

In addition, Chinese tourists are the majority of tourists visiting Taiwan, and in 2013 about 2.87 million of them visited the island, a 36% of a total of 8 million. Meanwhile 3.07 million Taiwanese visited China last year.²⁵

It is interesting to see how China's relations with Taiwan have advanced to the point that for example Chinese currency can be changed more easily for dollars in Taiwan than in China itself. This author could verify this last year when was invited in March to attend the 5th World Forum on China Studies in Shanghai. At the end of my stay in China I had Chinese currency, Yuan, in my pocket by more than \$500, so I wanted to change everything to dollars, but I did not know that there is a regulation in China which stipulates that a foreigner may only change Yuan to dollars up to an amount of \$500 per day. As it was my last day in China I could only change Yuan up to the amount of \$500, but had to go to Taiwan to attend a Congress in Taipei, and found out that in Taiwan practically there are no limits on the amount of Chinese currency that could be changed for dollars.

To enter the TPP, that seek to liberalize or eliminate almost all barriers to the flow of goods, services and capital, Taiwan will have to make some reforms in its economy and reduce the barriers that still have to trade with other countries. For example it still has barriers or quota for imports of rice, and also there is a discussion with the U.S. to allow the entry of pork from that country treated with ractopamine, a drug that is used as feed additive to accelerate the growth of these animals, which Taiwan prohibits, like many other countries, but which the U.S. allows and wants also Taiwan to do the same.²⁶

Taiwan might lose by not entering the TPP, because for example this agreement tries to establish rules of origin (which determine the percentage or content of origin of a product of a determinate place so it can be imported enjoying benefits from the other member of the agreement). In the case of textiles or clothing for example U.S. will ask that a percentage of the value added of those products it imports will have to be made of yarns from the US or from other members of the agreement, restricting the use of yarns made in other countries that are not members of the TPP. Vietnam, which is one of the largest exporters of textiles and clothing to the US, use a lot of yarn from Taiwan in its garment that exports to the US and if that rule is agreed, Vietnam would stop buying yarn from Taiwan.

²⁴ See: "Taiwan Statistical Data Book 2013" del CEPD, Taiwan, page 266

²⁵ See: Focus Taiwan "China largest source of visitors to Taiwan in 2013: MOTC" <http://focustaiwan.tw/news/asoc/201402070018.aspx>

²⁶ See: The Brookings Institution Center For East Asia Policy Studies "Taiwan And The Trans-Pacific Partnership: Preparing The Way"

<http://www.brookings.edu/~media/research/files/papers/2013/10/taiwan%20transpacific%20partnership%20bush%20meltzer/taiwan%20and%20tpa%20bush%20and%20meltzer%20103013.pdf>

The global value chains or global supply chains involve many countries in the production of a product, some providing parts and components that are processed in other countries and finally assembled into a final good in another country. The automobile industry, electronic products, textiles and clothing are very involved in this. An example is also the manufacturing of the iPad, which is assembled in China with parts and components coming from various places among them many from Asia, including Taiwan and iPad is precisely assembled by Foxconn, a Taiwanese company, in China²⁷.

This shows how important global value chains in Asia are, and particularly how Taiwan is involved in this.

Taiwan has competitors like South Korea and Singapore in industries like electronic products, certain types of machinery, products from information and communication technologies industries, and these two countries have different free trade agreements that allow their products to enter with preferential access, while Taiwan is limited in this. Therefore for Taiwan it is important to enter the TPP to remain competitive compared to these countries.

It is said that for Taiwan to enter the TPP, in a way China would also have to enter, as has been the case for example in the APEC, when in 1993 China, Hong Kong and Taiwan joined it together.

It should be pointed that in recent years the relations between Taiwan and China have improved not only in economic terms as seen but also even in political terms. One proof of this is the meeting held in early February between the chief of the Taiwan Affairs Office of China, and the chief of the Continent Affairs Office of Taiwan.

It is said that it was the first time that senior officials from both sides of the Taiwan Straits meet since 1949 when the civil war ended in the continent where the Communist Party won the war to the Nationalist Party or Kuomintang, who retreated to Taiwan where it formed a government apart. Since then both sides of the Strait are separated²⁸.

In the process of joining the TPP Taiwan would have to win the consent of the other members and in this circumstance support by the U.S. will be vital. It is said that for this to happen Taiwan will have to complete an investment agreement with the U.S., the Trade and Investment Framework Agreement, or TIFA²⁹. Usually an investment agreement precedes an FTA between two countries, that's why the importance for Taiwan to reach that agreement with the U.S.

Taiwan currently trades nearly 30% of the total with members of the TPP. In the year 2012 30% of its exports went to the 12 members of the TPP and 28% of its imports came from these countries.³⁰ Joining the TPP could increase their business with these partners. Now, with China trades nearly 23% of the total (and if we add Hong Kong, almost 40% of Taiwan's exports go to China and Hong Kong) and this trade has increased since Taiwan made the ECFA agreement with China. Taiwan need not to be so dependent on this country and this would be achieved with its entry into TPP.

Taiwan also has an interest in negotiating the TPP as it is almost the only one in East Asia that is not present in the great scheme of economic integration to be formed in that region, the Regional Comprehensive Economic Partnership, RCEP (see below about this). An estimated 57% of trade in Taiwan is done with members of the RCEP³¹.

Due to the special status of Taiwan of not being recognized as a sovereign state by most countries, it has been excluded from most trade agreements in the region. But because it participates in APEC, and also because it is a major trading power, as it was the eighteenth largest exporter and importer in the world in 2012, with 301 billion dollars and 270 billion dollars respectively³², it could be an important partner for other TPP members. By entering the TPP it also would be easier for Taiwan to enter the RCEP³³.

²⁷ See about this in an article published in the magazine *Pensamiento Crítico*, Faculty of Economic Sciences of San Marcos National University, Volume 18, Number 1, June 2013, p. 7 to 42 "El rol de China en la economía asiática e implicancias para la economía mundial"

²⁸ See: BBC News "China and Taiwan in first government talks" <http://www.bbc.co.uk/news/world-asia-china-26129171>

²⁹ See: *Want China Times* "Taiwan to seek US support for TPP bid at TIFA talks"

<http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20140218000099&cid=1201>

³⁰ According to statistics from "Taiwan Statistical Data Book 2013" del CEPD, Taiwan

³¹ See: NEWSLETTER about Taiwan, "Reafirman el deseo de Taiwan por ingresar a dos bloques regionales". Here it is stated that trade in Taiwan with TPP members represent 34.3% of the total. <http://noticias.nat.gov.tw/ct.asp?xItem=214792&ctNode=1718&mp=12>

³² See Table I.7, page 24, from *International Trade Statistics 2013*, OMC.

³³ Roy Chun Lee: "The importance of TPP for Taiwan" http://iis-db.stanford.edu/evnts/7924/Lee.Taiwan%E2%80%99s_View_of_the_TPP.pdf

Taiwan has actively participated in APEC and has made important contributions. For example there is a project to bridge the digital gap between APEC members that Taiwan proposed at the APEC Leaders Meeting in Bangkok in 2003, digital gap which has grown larger among members by the rapid surge of infrastructure in the information and communications technology. Taiwan contributed to financing the APEC Digital Opportunity Center, ADOC, to close that gap, turning it into a digital opportunity. As it is a place where most of the parts, components and final products in the computer industry in the world are produced, Taiwan was well positioned for this (see Tables 1 and 2). Started in 2004, after 10 years of successful implementation, its continuation faces new challenges, one of which is funding³⁴.

Tables 1 and 2 show how Taiwan is the most competitive in the world in many of the products in the information and communication technology industries and it is precisely in those sectors where countries can benefit from having a trade agreement with Taiwan. For example, in Notebook and Netbook Computers Taiwan in 2012 had a share of 89% of world production, in personal tablets this was 87.8%, in LCD monitors 67.8%, to mention some of them.

By admitting Taiwan to the TPP, the other members would enjoy better access to these products, and could also think of attracting more Taiwanese investment to their countries.

Table 1: Products in which Taiwan was among the three largest producers in the world in 2012, including offshore production

1st Place Worldwide (20 Items)				2nd and 3rd Place Worldwide	
Items	Taiwan's Global Market Share	Items	Taiwan's Global Market Share	Items	Taiwan's Global Market Share
1. Notebook PCs (2) (including netbook)	89.0	13. IC packaging and testing (1)	55.3	-- 2nd Place Worldwide (11 Items)	
2. Tablet Personal Computers (2)	87.8	14. Servers (2)	54.6	1. Electronic/digital blood press monitors (2)	38.4
3. Cable CPE (2)	86.0	15. Desktop PCs (2)	45.7	2. TN / STN LCD panels (1)	27.5
4. Motherboards (1)	84.5	16. Secondary battery pack assembly (2)	43.0	3. TFT-LCD panels (>10") (1)	25.5
5. Golf heads (2)	80.1	17. Digital Cameras(2)	41.2	4. Electro-deposited copper foil (2)	25.5
6. Optical discs (1)	77.0	18. PCBs (1)	27.6	5. IC substrate (1)	25.9
7. DSL CPE (2)	68.0	19. ABS (2)	27.3	6. TFT-LCD panels (<10") (1)	25.0
8. LCD monitors (2)	67.8	20. Instant noodles (2)	23.3	7. IC design (1)	19.7
9. Foundry (1)	67.8			8. Crystalline silicon solar cells (2)	16.2
10. WLAN (1)	66.9			9. Power wheelchairs & power scooter(2)	15.9
11. PND (1)	64.0			10. PTA (2)	14.7
12. Glass fiber (2)	60.7			11. OLED panels (1)	5.8
				-- 3rd Place Worldwide (3 Items)	
				1. Ball screw(1)	35.9
				2. LED (1)	20.0
				3. TPE(2)	17.1

12 (1) Production value; (2) production volume.
Source: Industrial Technology Information Service (ITIS) Program.

Source "TaiwanStatistical Data Book 2013" from CEPD, Taiwan, page 12

³⁴See: Taiwan Focus "Bridging the Digital Divide 1: Taiwan project faces unknown future <http://focustaiwan.tw/news/aeco/201401010027.aspx>

Table 2: Products in which Taiwan was among the three largest producers in the world in 2012, excluding foreign production

1st Place Worldwide (5 Items)		2nd Place Worldwide (11 Items)		3rd Place Worldwide (8 Items)	
Items	Taiwan's Global Market Share	Items	Taiwan's Global Market Share	Items	Taiwan's Global Market Share
1. Foundry (1)	66.0	1. PNDs (1)	39.5	1. Ball screw(1)	18.0
2. Optical discs (1)	61.6	2. IC substrate (1)	25.1	2. PCBs (1)	16.4
3. IC packaging & testing (1)	52.1	3. TFT-LCD panels (>10") (1)	22.4	3. PTA (2)	10.0
4. Chlorella (2)	47.0	4. TFT-LCD panels (≤10") (1)	20.8	4. Nylon fiber (2)	8.3
5. Glass fiber (2)	29.2	5. Electro-deposited copper foil (2)	20.0	5. TPEs (2)	8.2
		6. IC design (1)	17.7	6. Beta-carotene (2)	5.0
		7. ABS (2)	16.8	7. Polyester filament (2)	3.5
		8. TN / STN LCD panels (1)	16.5	8. WLAN (1)	1.2
		9. Crystalline silicon solar cells(2)	14.9		
		10. Power wheelchairs & power scooter(2)	9.5		
		11. OLED panels(1)	5.8		

Source: "TaiwanStatistical Data Book 2013" from CEPD, Taiwan, page 13

Taiwan is a big market for some products that Peru exports. For example, in 2012 it imported a total of 14,672 million dollars in agricultural, cattle, fishery and forestry products. Only in fishery products it imported 1,186 million dollars in 2012. If Taiwan joins the TPP, Peru could get that some barriers and tariffs that Taiwan maintains against imports on some of those products could be reduced or eliminated.

In 2013 trade between Peru and Taiwan was 211.2 million dollars of exports and 442.3 million dollars of imports. In 2012 Peru had exported \$251 million and imported \$442 million from Taiwan³⁵. In 2013 Taiwan occupied the 25th place as a destination for our exports, and the top 10 products we sold to them were copper cathodes, petrol, fishmeal, unalloyed zinc, copper concentrate, copper wire, copper bars, grapes, sheets and strip of copper, and zinc oxide. Among the most important products imported from Taiwan were polyethylene terephthalate, unrecorded optical media, mobile phones, data storage devices, digital cameras (data according to Customs of Peru).

Taiwan is a big investor abroad, mainly in Asia, as seen in the case of China. There is no registered investment of Taiwan in Peru, which monitors foreign investment in our country. But according to figures provided by the Economic and Cultural Office of Taipei in Lima, there is a stock of 140 million dollars of Taiwanese investment in Peru. This is mainly in Construction, Tourism, Real Estate, Mining, and for example in the Commercial sector in the imports of auto parts³⁶.

Taiwan has contributed to Peru through grants to government and private institutions, and in scholarships for studies in universities in Taiwan. For example, within the APEC project, the APEC Digital Opportunity Center, ADOC, Taiwan donated 16 of these centers nationwide, including 8 in Lima, the capital, where they donated computers, taught courses for its proper use, teaching programs, etc. Some of these are for example in ADEX, Lima Chamber of Commerce, Promperu. According to information from the web site of this project, from 2005 to September of 2012, 13 ADOC Centers have been established in Peru and 79,248 people have been trained there³⁷.

There is interest in Taiwan and several countries of Asia in the Pacific Alliance, where besides Peru are Colombia, Chile and Mexico. Chile and Mexico are members of the TPP, so Taiwan's entry to the TPP would mean a greater chance of business of the members of the Pacific Alliance with a very competitive economy in Asia as it is Taiwan.

Taiwan on the other hand has to do its homework, to convince the sectors opposed to a more open economy of what means and what are the benefits of entering the TPP, especially to the agricultural and livestock sectors, and to reform and privatize state

³⁵ See Peru Customs statistics: http://www.aduanet.gob.pe/aduanas/informae/BalContiZonaPais_01122013.htm

³⁶ According to the interview given by Elena Yaling Chen of the Economic Division of the Economic and Cultural Office of Taipei in Lima. March 14, 2013.

³⁷ ADOC Portal, Peru: <http://www.apecdoc.org/site/pmes/peru-pme/>

companies, and the service sector. Taiwan has to make reforms to stay competitive, and its entrance in the TPP will also serve to drive these reforms.

In any case Taiwan is preparing a study to see the benefits and costs of entering the TPP and is expected that this be ready by July and by that date it may request its entrance.

It would be ideal if Taiwan enters the TPP before current members reach an agreement. If it enter after that Taiwan would find rules already made and its ability to negotiate would be small. The negotiations on the TPP would continue and it seems difficult it could finish this year.

2.3. About China interest in the TPP

An interesting thing is that China is exploring the possibility of joining this group, because even though this country protects certain sectors of its economy that would be affected by entering in the TPP, it is considering the gains for the sectors that are competitive and could access to larger and more open markets. Also in China it is thought that if it does not join the TPP it would be marginalized and isolated and will left the field open to other countries like USA and Japan. China will also be left out of the negotiations to define the new rules of a more open international trade system which is supposed the TPP aspires to do. It is considered that the TPP would have an agreement with high quality standards, as it aims to leave few sensitive sectors or areas outside of the liberalization process.

In any case this year 2014, APEC meetings are taking place in China so the internal debate in this country to join the TPP will increase³⁸.

China however has to reform various sectors of its economy to enter the TPP, eliminating and/or reducing various barriers that have against foreign goods and services. For example on the issue of foreign films it has a market quota for it. It allows only 34 foreign films a year to be exhibited, and U.S. films collect only 25% of the income from the exhibition of these films, despite the fact that China has the world's second largest film market in 2013 after the U.S., with revenues of 3.6 billion dollars³⁹.

The entrance of China in the TPP will be a great boost to this group, as it is the second largest economy in the world and many members of the TPP has China as it biggest trade partner (as is the case for example with Chile and Peru). With China in the TPP, this group will become the biggest in the world, with the most population, trade and in economy size.

For China TPP members accounted for 33% of its total trade in the year 2013 and several of its most important partners are members of TPP.

But as said before it would not be easy for China to accept the rules of the TPP or to implement reforms to liberalize many sectors of its economy and open it to foreign competition. Also the possible entrance to China could make negotiations with the members of the TPP probably longer that is now the case with Japan.

Now, China is a recent newcomer to the world of FTAs. Just after joining the WTO in 2001 China began signing FTA with partners in Asia and outside the region, to the point that now China, a country that only 35 years ago began embracing a market driven economy and letting behind its socialist state driven economy, has more FTAs than other long established capitalist economies in Asia, as Japan and South Korea.

One reason why could be good for China to join the TPP is that by doing it the country will be forced to reform faster its economy and become more efficient. It is said this will have the same effect as when China joined the WTO in the year 2001. China had to

³⁸ Since 2013 China is discussing the convenience of entering or not in the TPP. See for example, the interviews I gave in October last year, published in some Chinese media, under the title "TPP negotiations in Bali on a dilemma" <http://world.people.com.cn/n/2013/1006/c369582-23111473.html>, and another one published in April this year under the title "Obama's Asia trip difficult than TPP threshold" http://wenhui.news365.com.cn/qj/201404/t20140421_1832156.html

³⁹ See: BBC News "China retains grip on foreign film quota" <http://www.bbc.co.uk/news/entertainment-arts-26152190>

agree to open more its economy at that time. And another reason why could be good for China to join the TPP is that, perhaps not now, but as China advance in the value added chain, it will just not be the final place where many parts and components produced elsewhere are assembled, but also China will be producing parts and components to be assembled in places cheaper than it, as India or Vietnam, or Indonesia, or some countries in Africa, but also by others countries in the TPP. If that is the case, if China is not in the TPP, its parts and components will be excluded from the benefits of the rules of origin that favor the use of parts and components of members within the TPP (this is for example why South Korea and Taiwan are worried about, of being excluded from the value chains being formed among members in the TPP, and that is why they want to join the group).

Anyway, China is balancing the positive and negative effects of it joining the TPP. It will be interesting to see which will be the final outcome.

3. The TPP and the Future of APEC Forum

APEC was created in 1989, and in 1994 the Bogor goal established that by 2010 the more advanced members of the group, like the U.S., Japan, Canada, Australia and New Zealand would open their markets to other member economies, and by 2020 could exists a free trade area of trade and investment between all members. As this is not progressing as it should be, the goal of 2010 for example has not been fulfilled;it is thought that the TPP, by slowly adding more members of APEC could achieve the ultimate objective of APEC. There is the proposal for the creation of a Free Trade Area of the Asia Pacific, or FTAAP, including all members of the APEC. A TPP that includes all members of APEC would be this FTAAP.

Something that is considered when discussing about economic integration agreements in East Asia is the Regional Comprehensive Economic Partnership, or RCEP, a group that seeks to have a comprehensive trade and investment agreement by 2015. It is integrated by the 10 countries of ASEAN, or the Association of Southeast Asian Nations, plus 6 more countries: Australia, China, South Korea, India, Japan and New Zealand. ASEAN already has FTAs with each of these 6 countries.

The 10 members of ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Singapore and Vietnam. Of these, 7 are members of APEC (non-members: Cambodia, Laos and Myanmar).

It is said that this RCEP can be together with the TPP a way to reach an agreement on complete economic integration in the Asia Pacific, although in the RCEP there is no country across the Pacific. It is also said that the RCEP is led by China, for its size, as opposed to the TPP which is led by the U.S.

But it really seems a bit difficult for the RCEP to be able to become in the near future an agreement of deeper liberalization or high quality, as many countries in this group, to mention only two, India and China, have many sectors of their economy protected, so the TPP could be the first to reach the ultimate goal of APEC.

It should also be remembered that China, Korea and Japan are negotiating a free trade agreement between them⁴⁰. This is important as they are the three largest economies in East Asia, with Japan and Korea being the most industrialized economies.

4. Conclusions

For Peru the fact of being in the TPP presents the opportunity to access with fewer barriers to several markets which are the largest in the world. It is possible that other economies, like Korea, Taiwan and China, could join the current 12 members. In this way the TPP will include the majority of members from APEC and will fulfill its objective of reaching a free trade and investment area by 2020. It is a task for Peru to take further advantage of this agreement by preparing its export supply, attracting more foreign investment, strengthening the physical and human infrastructure to have industries that can give more value added to the raw materials which currently are the main products that Peru exports.

In April the President of the US, Barack Obama visited Japan, South Korea, Malaysia and Philippines, and the TPP issue was in the agenda of the meetings but no significant advance was achieved⁴¹.

⁴⁰See Post "China, South Korea, Japan to hold FTA talks" <http://post.jaaran.com/china-south-korea-japan-to-hold-fta-talks-1393321904>

The inclusions of new members like South Korea and Taiwan could be possible before the end of negotiations, as it seems there is no foreseeable end in sight. Korea may be closer to be admitted, as political rather than economic consideration will decide the admission of Taiwan, taking in consideration the China factor. This country debates its entrance to TPP, although for this to happen it would have to make reforms to many sectors of its economy now protected of foreign competition.

For Taiwan it is a need to enter the TPP as this will allow it to remain competitive and not fall behind such rivals as Korea and Singapore, also it will not be excluded from the value chains that are formed between TPP countries, will make it easier to enter other agreements as the RCEP, will also serve to boost its domestic reforms in its economy, and would also allow it to remain competitive with China and avoid depending on it too much.

Regarding China, its decision to consider the merits and demerits of joining the TPP is an interesting fact, and it will be more interesting to see which decision will adopt regarding that.

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***Professor at San Marcos National University, Peru, Specialist in Asian Economies, Master and Doctor Course at Kobe University, Japan. E-mail: carloskobe2005@yahoo.com**

⁴¹ Se EIR: "Obama's Failed Asia Trip: Nothing Left But War" http://www.larouhepub.com/other/2014/4118obama_trip_war_asia.html