RCEP or TPP: Taiwan’s Choice Ahead under the G2 Dynamics

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Abstract

Regional economic integration in the Asia-Pacific today has evolved into the two camps of RCEP and TPP. The Asian financial crisis of 1997-1998 and the treatment of the 2010 Bogor Goals in APEC are the two key factors that have soured mutual confidence and led to the uncertain architecture of regional integration. Whether RCEP and TPP, in their respective pursuits, can be eventually merged into an envisaged FTAAP will hinge upon the evolving Sino-U.S. relationship, also known as the G2.

The U.S. trade strategy of “competitive liberalization” is at play, and the People’s Republic of China’s trade strategy in response to the U.S. “pivot” towards Asia includes peaceful development, Taiwan as a core interest, the rectification of unfair WTO treatment, and the making of a “new type of great power relationship.”

Taiwan as a trading island cannot afford to be marginalized by the regional integration schemes. As it now stands, RCEP is a better and viable choice for Taiwan given its trade and investment interdependency with the RCEP members. Furthermore, the “China factor” continues to haunt geopolitics and constrains Taiwan’s future path.
to regional integration. Taiwan remains torn between the PRC and the U.S. in the midst of G2 dynamics. Taiwan should not have to bear the burden of that choice just as the rest in Asia.

**Keywords:** Asian Regional Integration, TPP, RCEP, G2, Taiwan

### I. Introduction

This paper aims to:

1. identify the reasons behind divergent schemes in the current stage of Asian regional integration, namely, from APEC (Asia-Pacific Economic Cooperation) to Regional Comprehensive Economic Partnership (RCEP) and Trans Pacific Partnership (TPP);

2. analyze the FTA strategies of the U.S. and the PRC (G2)—“the most important bilateral relationship in the world”; and

3. highlight key challenges for Taiwan in preparation for joining RCEP and TPP in the long run.

### II. From APEC to RCEP and TPP

Since the end of the aborted effort of the East Asian Economic Caucus (EAEC) proposed by Prime Minister Mahathir of Malaysia in 1990, APEC has taken the spotlight in Asian regional integration. However, given the following two key factors, there has been a general sense that APEC is declining.¹

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1. The Asian financial crisis of 1997-1998 brought about a reincarnation of the concept of an Asia-only EAEC, and thereby the evolution of “ASEAN+3,” “ASEAN+6,” “ASEAN++,” and the current RCEP.

![Figure 1: Asia-Pacific Regional Economic Integration: Current Contending State of Play](source: Author’s own illustration)

2. The treatment of APEC 2010 when the developed economies were to fulfill the Bogor Goal of trade and investment liberalization has proved that the APEC mode of operation, namely voluntary concerted unilateralism, can no longer sustain the momentum of liberalization. Many from the developed economies and the business community chided APEC for being merely a talk shop, “A Perfect Excuse for Chats.” On the other hand, the developing economies were disillusioned by the voluntary concessions made by the developed econo-
mies, whilst the developed economies were not interested in offering free lunch to the developing economies. The concept of a yet-to-be-negotiated FTAAP was entertained with the diplomatic jargon of setting it as a long term goal.2 The regional dynamic of a rising China has generated a paradigm shift in great power relations.3

III. TPP vis-à-vis RCEP

TPP was initiated by Chile, New Zealand, Singapore and Brunei (P4) in an attempt to carry on the momentum of liberalization by the relatively smaller economies. With U.S. interest in not being left out and sustaining a trans-Pacific structure, TPP has evolved into a group of 12 negotiating members: the P4 plus the U.S., Australia, Vietnam, Malaysia, Peru, Canada, Mexico and Japan. TPP has been proclaimed as the “21st century” gold-standard FTA with issues of WTO-plus. So far, 19 rounds of negotiations have been completed. Despite having missed 3 intended year-end deadlines since 2010, TPP is still aiming to complete negotiations by the end of 2013. However, it has encountered much resistance on all fronts. Some have argued that TPP is a “giant corporate power grab” that would work to the detriment of food safety, access to medicines, and national sovereignty. Others consider TPP as a commercial irrelevance.4

2. As an APEC participant under different hats, including Chief of Staff, Chinese Taipei APEC Business Advisory Council (ABAC), Director-General of the International Secretariat of the PECC (Pacific Economic Cooperation Council) and Executive Director of the Chinese Taipei APEC Study Center since 1992, the author has witnessed the development of APEC in all levels of meetings and engaged in informal dialogue in the corridors of APEC.
4. David Pilling & Shawn Donnan, “Trans-Pacific Partnership: Ocean’s Twelve,”
President Obama’s no show at Bali for APEC 2013 due to the government shutdown in Washington has generated criticism from some that it would hold back progress in TPP and undermine the U.S. “pivot” to Asia. The modern or so-called “next-generation” trade issues comprise the goal to reduce or eliminate barriers at the border, across the border, and behind the border. TPP is said to be a high-quality, gold-standard FTA. RCEP emphasizes ASEAN-centrality, mutual benefit and capacity building. Each faces its own specific challenges in the course of negotiation.

TPP is conducted largely by bilateral negotiations, even in the realm of market access, and will not “tame the noodle bowl.” Tariff rate quotas (TRQs) and all sorts of “product forward” rules will be used as barriers at the border. It seems that the U.S. will be even more reluctant to accept any restrictions on arbitrary resort to anti-dumping and safeguarding measures against any economy. Intellectual property rights, the environment, labor, and person-to-government dispute settlements remain big challenges to moving the negotiations forward.

In Article 6 of the “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership,” RCEP has an open accession clause:

Any ASEAN FTA Partner that did not participate in the RCEP negotiations at the outset would be allowed to join the nego-
tions, subject to terms and conditions that would be agreed with all other participating countries. The RCEP agreement will also have an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations.

The notion of “ASEAN centrality” offers a way out of the rival Sino-Japan leadership contention, and an insurance to ensure consensus building in accordance with the “ASEAN Way.” The ASEAN Economic Community (AEC) aims to achieve a single market in 2015. The AEC is to establish competitive economic regional equitable economic development and integration into the global economy. RCEP is to be completed only after the AEC is in place so as to have ASEAN serving as the hub, with 5 FTAs with the other 6 member economies as spokes (please refer to Figure 2).

Given the current inter-independency with the Asia-Pacific region in trade and investment, it is inconceivable that there could be a TPP without the world’s second largest world economy — the PRC. It is also undesirable that an RCEP could exclude the world’s No. 1 world economy — the U.S. Whether APEC is capable of integrating RCEP and TPP in the long run will very much hinge upon the evolving G2, namely “the most important bilateral relationship in the world,” as President Obama has described it.
IV. U.S. FTA Strategy

1. Competitive Liberalization at Play

U.S. FTA strategy is basically what Fred Bergsten called “competitive liberalization.” By using alternative approaches of unilateral, bilateral, plural, multilateral, and global trade policy, the U.S. sustains...
the momentum of trade liberalization by peddling through these approaches, and at times by using them as bargaining chips. For example, the first ever APEC Leaders Summit organized in Seattle in November 1993 enabled Washington to lead the WTO Uruguay Round to a successful conclusion in December 1993. Firm support for TPP at the APEC Leaders’ Meeting in Honolulu in turn rekindled Europe’s interest in forging the TTIP (Trans-atlantic Trade and Investment Partnership).7

2. TPP as the Economic Leg of the U.S. “Pivot” to Asia

As part of its proclaimed “strategic turn” toward Asia since the fall of 2011, the United States has included the following measures in its “pivot”-to-Asia strategy:8

• announcing new troop deployments to Australia, new naval deployments to Singapore, and new areas for military cooperation with the Philippines;
• stating that, notwithstanding reductions in overall levels of U.S. defense spending, the U.S. military presence in East Asia is to be strengthened and be made “more broadly distributed, more flexible, and more politically sustainable”;
• releasing a new defense planning document that has confirmed and offered a rationale for the rebalancing to Asia while retaining an emphasis on the Middle East;

RCEP or TPP: Taiwan’s Choice Ahead under the G2 Dynamics

• joining the East Asia Summit (EAS); and
• securing progress in TPP negotiations.

3. Criteria for Potential FTA Partners of the Office of the United States Trade Representative (USTR)

The U.S. Trade Representative has charted out 13 criteria for potential FTA partners:\(^9\)

• guidance from the U.S. Congress both from those who support a specific agreement as well as those who oppose it;
• support from the U.S. business community, particularly the agricultural sector;
• the extent to which the influence of special interest groups might affect whether the FTA can pass in Congress;
• seriousness of the partner in terms of high-level government support, negotiations that include all sectors, fulfillment of past commitments, and having negotiating teams that can work with one another;
• commitment of the partner to work within the World Trade Organization (WTO), particularly the dispute resolution process;
• The extent to which the FTA will encourage “competitive liberalization” in the region;
• the extent to which FTA negotiations will help push through local reforms by the partner that can then be supported through the agreement;
• the extent to which the FTA will support the partner’s civil society in areas such as the environment, the labor market, the business

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environment, and the general degree of openness in society;

- how much the partner cooperates with the United States on foreign affairs and security issues;
- whether the FTA with the partner runs counter to preferential agreements that either the partner or other countries in the region have with U.S. competitors;
- regional feasibility of the FTA, particularly in terms of promoting regional integration; and
- developed and developing countries are welcome to participate in FTAs;
- whether there are other FTAs under negotiation in the region that might be of a higher priority for the U.S.

V. The PRC’s FTA Strategy and Its Approach to the U.S. “Pivot” toward Asia

1. The PRC’s FTA Strategy

After the impasse of the Doha Round and the existence of the European Union and NAFTA, Asia came to catch up with a rapid proliferation of “noodle bowl syndrome.” After the PRC’s first launch of Closer Economic Partnership Agreements (CEPA) with Hong Kong and Macau in 2003, it proceeded to sign China-ASEAN FTA (CAFTA) and RCEP. The PRC also signed six bilateral FTAs with Chile, Pakistan, Singapore, New Zealand, Peru and Costa Rica.

There seem to be four distinct features in the PRC’s FTA strategy: 11

A. To consolidate “One Country, Two Systems”: The CEPAs with the two Special Administrative Regions (SARs) reinforce the eventual goal of national unification, initially also designed for Taiwan. Early harvest provisions are designed as a “gift” to win over the two SARs and Taiwan, the latter set out in the ECFA (Economic Cooperation Framework Agreement) with Taiwan.

B. To rectify discriminatory measures of other WTO members: The PRC is quite anxious over “abusive” measures against the PRC’s non-market-economy status in trade remedies. Since 2009 China has become the number one target of many anti-dumping cases. By implanting the requirement of recognizing its market economy status, the PRC has made its FTA partners get rid of undesirable abuses.

C. To integrate a “peaceful development” and counter-balance the U.S. influence in Asia: The PRC has also stood on the side of the developing economies by supporting the East Asia Economic Caucus in the early 1990s, and by standing against the developed economies in APEC. Although having maintained that the “Pacific is big enough to accommodate two big powers,” the PRC is not prepared to accommodate the U.S. in the RCEP scheme, just as the U.S. is not prepared to accommodate the PRC in TPP.

D. From “Calm Observer” to “Diligent Researcher” on TPP: Researchers in digital business have confirmed that several Ministries, including the Ministry of Commerce, have begun to conduct research and debate on the pros and cons of having the PRC join TPP. Three major obstacles are identified: Provisions on State-Owned Enterprises (SOEs), labor protection, and agricultural products. If the treatment on “exception” is in place, then the PRC is more likely to join. According to Foreign Ministry spokesman Hong Lei, Beijing

Prospect Journal No.10

has always attached importance to, and tracked the progress of, the TPP negotiations, and hopes that transparency in the TPP negotiations would be enhanced.

2. Initiating the “New Type of Major Power Relationship”

This idea was floated during then-Vice President Xi Jinping’s visit to Washington in February 2012 and subsequently reinforced and elaborated upon by the major players, including President Hu Jintao, State Counselor Dai Bingguo, Foreign Minister Yang Jiechi, and Vice Foreign Minister for North America and Oceania, Cui Tiankai.

The PRC called for the U.S. to move beyond a rhetorical announcement that it was seeking a cooperative partnership with China, and to curb actions which run counter to the PRC’s interests and erode mutual strategic trust. The list which the PRC called for included the following actions:

• to stop selling arms to Taiwan;
• to abandon efforts to expand the U.S. military’s forward-deployed presence in Asia,
• to lift controls on exports to China;
• to withdraw from security arrangements with allies and partners in the region (particularly from those with ongoing maritime and territorial disputes with China);
• to remove theater missile defense capabilities; and


to cease sea and air reconnaissance operations around China.

3. China’s Tactics towards Taiwan’s FTAs

In accordance with Article XXIV of the GATT and Article V of the GATS, WTO members are entitled to sign FTAs. Beijing declined to consider Taiwan’s status as a “separate customs territory” on a par with the PRC’s “full” WTO membership as a sovereign state.14

The PRC’s strategy towards Taiwan’s FTAs is that of isolation, especially during the rule of the Democratic Progress Party under Chen Shui-bian during 2000-2008. Beijing has created a “political chilling effect” on Taipei’s potential trade partners, who in turn are wary of retaliation from the PRC on the diplomatic and trade fronts, should they sign FTAs with Taiwan.

Before signing the ECFA with the PRC in 2010, Taiwan had signed FTAs with only five of its Central American diplomatic allies: Panama, Guatemala, Nicaragua, El Salvador and Honduras. By way of utilizing the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), Taiwanese exporters may take advantage of preferential treatment to increase their share of the U.S. market. However, Taiwan’s trade with these Central American nations constitutes merely 0.187% of Taiwan’s total exports.

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VI. Challenges for Taiwan

1. Taking Notes on Tough TPP Issues under Negotiation

So far, 15 out of the TPP’s 29 negotiating Chapters have been completed. Some of the key contentious issues are listed as follows:\(^5\)

A. Much stricter protection of Intellectual property than many would accept: Drug patents are one of the sticking points in the TPP negotiations. Doctors without Borders issued an open letter expressing “serious concern”: “[TPP] threatens to restrict access to affordable medicines for millions of people ... Unless certain damaging provisions are removed, the TPP has the potential to become the most harmful pact ever for access to medicines.”\(^6\) Poorer countries fear that such provisions will make it more difficult for them to use cheaper generic drugs, and so will deny them access to life-saving medicines.

B. The role of state-owned enterprises (SOEs): The restrictions on SOEs enjoying unfair access to licenses, contracts or state finances is considered to be an assault on the sort of state capitalism practiced in countries such as China, a non-TPP negotiator. SOEs are used in Vietnam as a cash cow for favored projects and at times as personal piggy banks. Japan’s Post Office, the U.S.’ Fannie Mae & Freddie Mac, and Singapore’s Temasek will all be concerned over the new rules which could affect corporate performance. Malaysia’s bumiputra policies, which give special treatment to the ethnic Malays, may also run counter to TPP.


C. Investor-State dispute settlement: There are arguments from Australia that allowing companies to sue governments for unfair treatment will weaken sovereign power in favor of multi-nationals. Canada has also raised concerns that tobacco companies could use this provision to take governments to court over anti-tobacco regulations. Malaysia views TPP as a U.S. attempt “to impose its brand of economic model” on unwilling countries.”

D. Treatment of sensitive industries: There are many sought-after exceptions for sensitive sectors: Japan listed “five sacred” agricultural commodities, namely rice, wheat, beef, dairy products, and sugar. Canada and the U.S. want to protect the dairy industry in the face of strong competition from New Zealand. Vietnam opted for an exception for the textile industry so as to enjoy tariff-free access to the U.S. while using yarn made in non-TPP countries, especially China.

2. The Haunted “China Factor” for Taiwan’s Potential Trade Partners

After the signing of ECFA, Taiwan is enacting President Ma Ying-jeou’s FTA approach of “First the Mainland, then the World” and “Multiple Contacts, Individual Consultation” with potential trade partners, so as to avoid being marginalized by trade diversion.

There are basically four different reactions from Taiwan’s potential FTA partners:

A. Decoupling Articulation: The United States has maintained that forging a TIFA (Trade and Investment Framework Agreement) with Taiwan has nothing to do with any third country. However, over the past two decades, the U.S. has never stopped urging Taiwan to prove its worth as a credible trade partner. By dangling one carrot after another as a “precondition” for a TIFA, the U.S. has gained
concessions from Taiwan on intellectual property rights, in the pharmaceutical market, and on beef imports.

B. Sequencing Clarity: Singapore’s Minister Mentor, Lee Kuan Yew, said in 2009 that it remains Singapore’s position that Singapore-Taiwan relations should not develop faster than Taiwan’s ties with China. “We cannot go faster than your relations with the mainland. That’s the position. Once you improve your relations with the mainland, that’s no problem.” Lee said.17

C. Ambiguous Shy-Away: In response to Taiwan’s inquiry about a feasible bilateral FTA, some countries express awareness of implicit difficulties or sometimes give an explicit wink meaning “you know... we need to talk to the ‘big brother’!”18

D. Tease-Me-On: Should Taiwan commit herself to more unilateral liberalization, then Taiwan would certainly be less attractive as a priority compared to other countries. Nevertheless, ECFA has served as a good teaser for hot pursuit since it offers WTO-plus, and Taiwan may well serve as a great partner for win-win-win. Japan’s Investment Pact with Taiwan in April 2012 and the EU’s interest in forging a strategic alliance with Taiwan in the health-care sector for the China market19 are cases in point.

3. The Accession Clauses of TPP & RCEP:

The open accession clause of TPP, Article 20.6.1, states that the agreement “is open to accession terms to be agreed among the Parties

18 Here, the author should adhere to the confidentiality rule of dialogues.
19 Patrick Messerlin at the Roundtable discussion at the International Conference on “TPP, RCEP and the Asia Pacific Regional Integration,” (Taipei: China Institute of Economic Research, October 2, 2013).
by any APEC Economy or other State.” However, according to Taiwan’s Bureau of Foreign Trade, the P4 members do not support Taiwan’s “unilateral accession” to TPP because they find it “sensitive.”

RCEP has an open accession clause in Article 6 of the “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership”:

Any ASEAN FTA Partner that did not participate in the RCEP negotiations at the outset would be allowed to join the negotiations, subject to terms and conditions that would be agreed with all other participating countries. The RCEP agreement will also have an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations.

4. Minimizing the Negative Effect of Trade Diversion

According to Table 1, Taiwan’s trade relations with the TPP members constitute 35% of its total trade, whereas Table 2 indicates that Taiwan’s trade relations with the RCEP members constitute 56.5% of its total trade. The negative effect of trade diversion should Taiwan be excluded from RCEP would be much worse than if it were excluded from TPP. This complements the study by Peter Petri and Michael Plummer in that, in terms of GDP and social welfare gains, Taiwan would benefit 3 to 4 times in terms of GDP and social welfare gain as much from RCEP as from TPP.20

5. Increasing Taiwan’s Competitiveness via Structural Reform

President Ma Ying-Jeou has eased the tension across the strait. The crucial vehicle for cross-strait connection is the Economic Cooperation Framework Agreement (ECFA) which entered into force on September 12, 2010. The Early Harvest Provisions showcased the PRC’s intention to earn people’s trust, and therefore seem to be disproportionately in Taiwan’s favor.\(^{21}\) The latest development was the ECFA Services Agreement which was signed on June 21, 2013.

On investment, Taiwan also revoked the past practice of the “WTO-Minus” for the PRC and opened up to Chinese investors in the manufacturing, services and financial sectors. Market-driven investment has led to Chinese investment in Taiwan rising from U.S. $94m in 2010 to $328m in 2012.

The ECFA has not only brought economic growth, but also has become a gateway for foreign investment in China.\(^{22}\) An investment pact was signed in April 2012 with Japan, and the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC), was signed on July 10, 2013. The FTA with Singapore (ASTEP) is expected to be finalized by the end of 2013.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Trade (Unit: US$ &amp; %)</th>
<th>Investment (Unit: US$1,000)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Trade Total</td>
<td>%</td>
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<td>U.S.A.</td>
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<td>Canada</td>
<td>4,113,429,318</td>
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<td>Mexico</td>
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<td>1,213,785,798</td>
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<td>Australia</td>
<td>12,940,805,189</td>
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<td>Malaysia</td>
<td>14,398,911,372</td>
<td>2.519</td>
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<tr>
<td>Vietnam</td>
<td>10,726,622,984</td>
<td>1.876</td>
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<tr>
<td>Brunei</td>
<td>71,136,950</td>
<td>0.012</td>
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<td>TPP Total</td>
<td>200,168,287,574</td>
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Source: BoFT, MoEA.
Table 2: Taiwan’s Trade & Investment with the RCEP Members

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<tr>
<th>Countries</th>
<th>Trade Total (2012)</th>
<th>%</th>
<th>Export to</th>
<th>%</th>
<th>Import from</th>
<th>%</th>
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<td>47,573,055,614</td>
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<td>ROK</td>
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<td>15,073,110,760</td>
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<td>9,287,882,942</td>
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<td>India</td>
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<td>Cambodia</td>
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<td>RCEP Total</td>
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<td>56.561</td>
<td>175,651,173,265</td>
<td>58.322</td>
<td>147,687,579,789</td>
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<th>Countries</th>
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<tr>
<td>Inbound FDI 2012</td>
<td>503,634 (2009-2012)</td>
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Source: Board of Foreign Trade, and Ministry of Economic Affairs; organized by the author.
6. Torn between the Contending G2 Leaders

The U.S. has been the dominant power in the region after WWII both in economic terms and in the security realm. Asian countries, including Taiwan, have benefited greatly over time in terms of economic aid, post-war reconstruction, and security assurance. A general sense of uncertainty remains in concurrence with the rising or resurging PRC.

The two prominent U.S. trade policy experts, Fred Bergsten and Jeffrey Schott of the Peterson Institute of International Economics, are strong proponents of TPP. They warned of the reality that “China propelled the advance of Asian regionalism,” and that “These countries are well on the way toward creating an Asian bloc, a development that could ‘draw a line down the Pacific’ by discriminating against [the U.S.].”

Sino-U.S. relations, particularly whether the two countries can cooperate and compete, will determine whether Taiwan will be inclined to be torn between the two major powers, or be able to integrate itself into the region with less distraction along with the U.S. and the PRC. Taiwan should not bear the burden of this choice alone.
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