



by Dr. Wayne Sung

## The New Focus of Regional Economic Integration in 2021

On Jan/20/2021, the 78-year-old Democratic U.S. President-elect Joe Biden swore the oath of office as the 46th U.S. President and soon after the inauguration he signed 17 administrative orders, memorandums, and correspondences, and reverted several measures imposed during the term of former U.S. President Donald Trump, in order to correspond with 3 major challenges, i.e. Covid-19, climate change, and race issue. Some scholars also surmised that President Biden was very likely to reconsider going back to the table for CPTPP negotiations. Back to 01/23/2017, the then U.S. President Donald Trump signed an administrative order to secede from The Trans-Pacific Partnership (TPP), and later, on 11/11/2017, TPP was renamed to Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) with 22 articles proposed by the U.S. but declined by many other member countries being frozen. On 03/08/2018, representatives of CPTPP member countries gathered in San Diego (Chile) to sign the Agreement, which has officially come into force since 12/30/2018. CPTPP consists of 11 member countries with the total population of up to 0.5 billion, contributing around 13% of the world's total GDP. Such a giant CPTPP market includes 5 countries in Asia (Japan, Malaysia, Singapore, Vietnam, and Brunei), 1 in America (Canada), 1 in Central America (Mexico), 2 in S. America (Chile and Peru), and 2 in the Oceania

(Australia and New Zealand). Although the economic scale of CPTPP is so comprehensive, still no European country is among the 11 members. However, the vacant position has been taken by the UK when it announced on Feb/01/2021 that it had officially applied for a membership in CPTPP. According to CPTPP regulations, after the UK submitted its application, existing members will have to establish a task force to audit the qualification of the UK. During the audit, the UK has to demonstrate to the task force how many efforts it has made for joining CPTPP, submit a list of acceptance that opens its market to other members, and seek a unanimous support among all members before it can be officially accepted as a member. All these procedures for the UK to apply for a CPTPP membership will be a very good reference for Taiwan and other countries interested in joining CPTPP.

In the chapter of CPTPP, it reads: **“Any economic entity in the world can apply for a CPTPP membership, but it must establish a smooth and unrestricted communication with existing members and get their unanimous support.”** The reason that the UK could become the first non-founding CPTPP member to apply for a membership may be relevant to its capabilities for independently negotiating economic and trade agreements with other countries after leaving the EU and the high compatibility of its own economic

and trade regulations with those of CPTPP. Prior to the application, the UK has signed FTA with 7 CPTPP countries and is also negotiating with Australia and New Zealand for FTA. With many FTA signed already, the UK has basically earned the full support of most CPTPP members, especially Japan, which strongly supports the participation of the UK and has officially included “supporting the UK to join CPTPP” into its FTA with the UK. Generally, it is expected that the participation of the UK in CPTPP as the first new member will not face too many challenges. As a result, I’ll include the data of the UK into the following economic and trade analysis.

**After the UK announced to apply for a CPTPP membership, without doubts it has become a new focus of the global regional economic integration in 2021.** The UK is the world's 7th largest economy. With participation of the UK, CPTPP will become an economic region with the total population of 0.57 billion, contributing around 16% of the world's GDP. **Although the economic scale of CPTPP, compared to RCEP, is smaller with less members, the issues it covers are more comprehensive than Regional Comprehensive Economic Partnership (RCEP) does,** especially those not included by WTO, such as digital trade, labor regulations, competency policies, EP regulations, etc. In addition to the UK,



countries like Taiwan, S. Korea, Indonesia, the Philippines, Thailand, etc. have also expressed their interest in joining. Taiwan has a very good relationship with Japan (the leading role in CPTPP) and also has signed FTA with Singapore and New Zealand. On the other hand, China, the most significant political threat to Taiwan, hasn't become a member yet. All these aforementioned situations may offer Taiwan a better opportunity to join CPTPP, compared to joining RCEP.

## The Impact of CPTPP on Taiwan

According to "The Evaluation of Certain Impacts on Relevant Industries of Taiwan's Future Participation in Economic and Trade Organizations and Negotiations" Taiwan Executive Yuan released in 2019, "Around 20% of Taiwan's total exports are exported to CPTPP countries and a majority of the products exported are intermediate goods, revealing the fact that CPTPP countries are not only Taiwan's major export destinations, but also significant partners for Taiwan's division of labor. **Around 25.53% of Taiwan's exports are subject to import tariffs in CPTPP countries and up to 57.82% of the products Taiwan exported to**

**CPTPP countries are subject to a tariff rate of at least 5%, which means, if Taiwan can join CPTPP, the resultant reduced tariffs will definitely benefit Taiwan's exports to CPTPP countries.**" In recent years, the percentage of CPTPP countries in Taiwan's global investments varied from 23.9% in 2017, 14.0% in 2018 to 31.0% in 2019, showing the close trade partnership between Taiwan and CPTPP countries. What's worth mentioning is that, in addition to preferential tariff treatment for CPTPP members, **there are also requirements for country of origin, i.e. end products (including materials used) must be of CPTPP countries origin, which is a big challenge to non-CPTPP members.** As a result, some people in Taiwanese industries worry that CPTPP may change the current industrial supply chain or even form a new supply chain under CPTPP. Thus far, many industries impacted by CPTPP have gradually relocated their operations from China and Taiwan to CPTPP countries like Vietnam, Malaysia and Japan, in order to mitigate possible risks to industries in the future.

As far as Taiwanese steel industries are concerned, they have actively extended their business reach to Southeast Asian countries (especially Vietnam) since the beginning of the 21st century. Many Taiwanese companies traded on the stock market or the OTC market have also made investments in Vietnam, such as CSVC invested by Taiwan CSC (put into operation in 2013), Formosa Ha Tinh Steel Corporation invested by Formosa Plastics Group (beginning mass production in 2017), Tung Ho Viet Nam invested by Tung Ho Steel Enterprise Corp. (launched in 2018), and a Vietnam subsidiary invested by Sheh Fung Screws Company, showing that Taiwanese steel related industries have been working really hard to invest in Vietnam (also one of CPTPP countries) in order to maintain the competitive edge of Taiwanese steel related industries in the CPTPP supply chain.

**Table 1** shows the values of fasteners Taiwan exported to CPTPP countries (incl. the UK) from 2016 to 2020. CPTPP countries represented 18.21%-19.43% of Taiwan's total fastener (HS code 7318) export, showing CPTPP countries are important to Taiwanese fastener industry. However, to compare the values in 2020 with those in 2019, it shows that Taiwan's total fastener export value dropped by 8.04% and even dropped by 13.15% in the exports to CPTPP countries. As a result, Taiwanese fastener companies must be cautious about whether the order-switching effect has appeared after RCEP or CPTPP was signed.

Table 1. Taiwan's Fastener (HS code 7318) Exports to CPTPP Countries in 2016-2020

Unit: 1,000 USD

| Export Value                                      | 2016      | 2017      | 2018      | 2019      | 2020      | YoY Ratio (2020/2019) |
|---|-----------|-----------|-----------|-----------|-----------|-----------------------|
| Taiwan's Total Export                             | 3,610,630 | 4,090,044 | 4,638,379 | 4,316,160 | 3,969,106 | -8.04%                |
| Taiwan's Export to CPTPP Countries (Incl. the UK) | 701,652   | 787,480   | 881,314   | 832,314   | 722,866   | -13.15%               |
| CPTPP Countries in Taiwan's Total Export          | 19.43%    | 19.25%    | 19.00%    | 19.28%    | 18.21%    | -1.07%                |

**Table 2** shows the detailed Taiwan's fastener export to each of the 11 CPTPP countries and the UK in 2016-2020. Top 1 export destination was Japan, top 2 was the UK, top 3 was Canada, sequentially followed by Mexico, Australia, Vietnam, Singapore, Malaysia, New Zealand, Chile, Peru, and Brunei. To compare the export values in 2020 with those in 2019, it shows that the top 3 countries with the most significant decline were Japan (-13%), the UK (-20%), and Canada (-11%), and only Vietnam shows a growth of 5%. Although the world's economy was hard hit by the Covid-19 in 2020 and the decline was inevitable, Taiwanese fastener companies should not only be aware of the impacts of regional economic agreements, but should also be aware that if their investments in the world have been concentrated on Vietnam too much.

## The Efforts Taiwan Has Made for Joining CPTPP and Difficulties It is Facing

Taiwan is an export-oriented economy highly depending upon external material supply and markets, so almost all Taiwanese people are looking forward to participating in transnational trade organizations and agreements as more as possible, as by being included in economic and trade agreements, Taiwanese industries can get more opportunities to expand their business reach around the world. As a matter of fact, Taiwan has expressed its interest in participation since TPP (already renamed CPTPP) was seeking more members. It should be one of the countries expressing their interest in participation, but has not been accepted yet. After CPTPP was officially signed, Taiwan also expressed its strong interest in participation. In a public statement announced on Dec. 13, 2020, Taiwan's MOFA said Taiwanese Government was in non-



**Table 2. The Detailed Taiwan's Fastener Export to Each of the 11 CPTPP Countries and the UK in 2016-2020** Unit: 1,000 USD

| Region          | Country     | 2016    | 2017    | 2018    | 2019    | 2020    | YoY Ratio (2020/2019) |
|-----------------|-------------|---------|---------|---------|---------|---------|-----------------------|
| Asia            | Japan       | 182,441 | 207,135 | 230,497 | 241,269 | 209,479 | -13%                  |
| Asia            | Vietnam     | 44,718  | 49,010  | 47,936  | 32,719  | 34,370  | 5%                    |
| Asia            | Singapore   | 26,324  | 31,015  | 31,884  | 27,781  | 21,916  | -21%                  |
| Asia            | Malaysia    | 19,503  | 17,911  | 18,720  | 16,506  | 17,077  | 3%                    |
| Asia            | Brunei      | 84      | 37      | 68      | 110     | 76      | -31%                  |
| America         | Canada      | 106,384 | 127,046 | 163,066 | 145,031 | 128,758 | -11%                  |
| Central America | Mexico      | 70,659  | 81,487  | 94,919  | 97,385  | 77,863  | -20%                  |
| South America   | Chile       | 6,022   | 5,954   | 9,106   | 6,001   | 4,020   | -33%                  |
| South America   | Peru        | 2,731   | 3,445   | 5,158   | 3,149   | 2,796   | -11%                  |
| The Oceania     | Australia   | 62,062  | 67,138  | 80,345  | 69,2332 | 69,804  | 1%                    |
| The Oceania     | New Zealand | 18,064  | 18,877  | 21,267  | 21,872  | 19,869  | -9%                   |
| Europe          | U.K.        | 162,660 | 178,425 | 178,348 | 171,259 | 136,838 | -20%                  |

official negotiations with existing CPTPP members and was trying to reach a consensus with them under the requirements of CPTPP for new membership applicants. However, Taiwan's participation in regional economic agreements are sometimes influenced by political pressure from China. On the other hand, its economic and trade measures also play a critical role in influencing its participation. For example, Taiwan is currently facing the pressure from Japan to open up its market to Japanese food imported from prefectures impacted by the 311 nuclear plant explosion as a prerequisite for joining CPTPP.

Taiwanese Government is actually working hard to reform relevant regulations. For example, on July 2019 it completed the reform of "Customs Import Tariffs Regulations" which reduced the tariffs against 15 items of agricultural/fishery products and processed food, especially, yams, tangerines, Sake. All these tariff reforms of Taiwanese Government specifically for Japanese products are basically for deepening partnership with Japan and creating opportunities for further CPTPP negotiations. These efforts did actually gain some positive feedback. For example, former Representative of Japan-Taiwan Exchange Association said that Japanese Government should lend strong support to Taiwan's participation in CPTPP in the future; Australian former Prime Minister Malcolm Turnbull also hoped that Taiwan could join CPTPP; one survey conducted by Asia Pacific Foundation of Canada also shows that 68% of Canadian nationals support the participation of Taiwan in CPTPP. On the other hand, after the public statement of China's President Xi Jinping expressing his will to join CPTPP, Chinese Government also expressed its will to join and determination for times. Although Japan spoke bluntly that there still exist many obstacles ahead for China to join for the time being and many other CPTPP countries also raise doubts that if China is able to abide by the strict requirements of CPTPP, it is unquestionable that the participation of China will definitely influence the participation of Taiwan and Taiwanese Government will be forced to stay on the same stage with China to compete for the ticket to CPTPP. If Taiwan wants to join CPTPP, in principle, it has to follow the existing CPTPP requirements, however, Taiwan also has its own advantages for negotiations, which it can make the most of. For example, TSMC plays a leading role in the world's chip manufacturing industry. In the beginning of 2021, the shortage of chips seriously influenced the production lines of European and U.S. car manufacturing and caused the lines to stop temporarily, Taiwanese Government should utilize this advantage to seek CPTPP countries' support.

Taiwanese fastener companies have taken several actions to deal with possible impacts of CPTPP on the supply chain since the beginning of the 21st century. However, **due to the considerations of locations and costs, their investments were mostly made in Vietnam rather than other Southeast Asian countries. In recent years, problems like appreciating VND and the shortage of labor force in Southern Vietnam continue to emerge, as a result, if Taiwanese fastener companies would like to go invest in Vietnam, they have to be cautious and make some prior assessments. Below are my suggestions:**

**1. To integrate their overseas plants in RCEP and CPTPP countries for tax avoidance:**

Besides Vietnam, Taiwanese fastener companies can consider investing in Malaysia, Brunei, Singapore, Australia, New Zealand, and Japan, which are RCEP and CPTPP countries, or consider investing in Mexico or Chile in America, which are both CPTPP members.

**2. To improve innovation and technology and find out niche markets:**

After 2020, low-price fasteners of Taiwan face more and more fierce competition from China and Vietnam. Vietnam, in particular, enjoys preferential tariffs almost around the world, which causes a huge impact on Taiwanese fastener industry. As a result, instead of getting involved into the price cutting competition, Taiwanese manufacturers should turn to seeking orders at high unit prices with high quality and technology, and even seeking orders for various niche products in low volumes, and adopting the strategy of differentiation, and improving their patented technology, special material & manufacturing procedure innovation to consolidate their presence in Taiwan.

**3. To introduce smart manufacturing to mitigate cost pressure:**

While AI equipment and robotics are being widely used in high-tech plants, Taiwanese fastener companies must also have their old-fashioned

equipment and devices replaced with new ones as soon as possible, increase product precision, establish intelligent SOP, and introduce automated equipment, in order to lower labor demand and increase product quality.

#### 4. Relentless Quality Improvement is the Basis of Competition

I once referred to International Organization for Standardization (ISO) for more than one time and suggested that Taiwanese fastener companies should try their best to meet the requirements of ISO-9001 (for quality), ISO14001 (for the environment), and ISO45001 (for work safety) as well as fulfil the goal of PDCA (Plan/Do/Check/Act) for continuous improvement and quality enhancement.

Setting up overseas plants to avoid tariffs and keeping operations in Taiwan and improving products are both options Taiwanese fastener companies can take into account. If Taiwan can successfully join CPTPP to enjoy preferential tariff treatment, those companies still keeping plants in Taiwan will also get benefited. In terms of technology reinforcement and development or considering setting up overseas plants, Taiwanese fastener industry should also accelerate its steps for industrial upgrade and strengthen its competitive edge in export. Facing the new market scenarios brought by RCEP and CPTPP in

2021, most Taiwanese fastener companies have had their own solutions for years. The most common way is to set up overseas plants, register companies in other countries, applying for processing export tax refunds in countries where their plants are located, or cover the tariffs from other items. However, the influence of CPTPP on Taiwanese fastener companies has been shown in **Table 1** of this article, which shows the decline margin of Taiwan's fastener export to CPTPP countries in 2020 compared to the result in 2019 has been much more significant than that of Taiwan's fastener export to the world during the same period.

In the beginning of 2020 when the Covid-19 pandemic broke out, China adopted full city lockdowns to contain the spread, which later proved to be effective, so its economy started to recover in H2 2020. On the contrary, in Europe and USA, the virus was initially neglected until it became a nationwide pandemic. In the beginning of 2021, although some European countries and USA have started to get their people vaccinated, the complete recovery of their economy still remain uncertain. As a result, many countries around the world seem to depend more upon Chinese economy, so what Taiwanese Government should be eager to do now is to keep pace with the trends and make the most of its advantages to sign FTA/ECA with other countries and seek the participation in CPTPP. People should also support the policies the Government proposes for joining regional economic agreements. What's the most important is, the Government should also propose relevant subsidies and guidelines to Taiwanese fastener industry before Taiwan can be accepted as a member of certain regional economic agreements.

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