Geo-Economic Challenges for the Asia-Pacific Region in the Post-Crisis Governance and Taiwan’s Roles in the Region

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Preface

This article aims to provide an overview for the post-financial crisis geo-economic landscape, to identify the shifting economic portfolio, to assess the key current global issues of concern—particularly under the auspice of G20, to evaluate the competing paradigms of Asia-Pacific economic integration, and to examine Taiwan’s roles in the Asia-Pacific region and beyond.

The composition of the article will include the following major parts:

Preface: Defining Geo-Economics as Geo-Strategic Paradigm

1. Shifting Geo-Economic Landscape: Changing Fortune of the Powerful, the Resurged, and the Emerging Players;
   (1.1) Europe and America: Sinking Together?
   (1.2) Resurging China: Assertive or Constructive?
   (1.3) G2: Myth or Reality?
   (1.4) The Emerging Markets: from BRIC to BRICS, CIVITS, and beyond

2. Global Governance at Play: G20 as Catalyst?
(2.1) Contention over the Nature & Root Causes of Global Imbalance & Necessary Structural Reform
(2.2) G20: Enlarging Participation for Key Players?

3. Asian Regional Economic Integration: Tug Wars between the Inevitable and the Insurmountable?
   (3.1) Asian Regional Economic Integration: Special Characteristics
   (3.2) Regional Economic Integration: Competitive Liberalization in Sight
   (3.3) Sino-U.S. Relations: Geopolitical Dynamics and Key Determinant for Future Prospect for Regional Economic Integration

4. Taiwan’s Roles in the Regional Economic Integration
   (4.1) Responsible Stakeholder with Unilateral Commitment, Bilateral Efforts, and Regional Contributions;
   (4.2) Delicate Balance of U.S.-China-Taiwan Relations
   (4.3) ECFA as Catalyst to Regional Integration

Conclusion: Towards a Well-Managed Open Regionalism
Defining Geo-Economics as Geo-Strategic Paradigm

During the post cold war era of the 1990s, Edward Luttwak managed to coin a trendy narrative for the geo-strategic reality, and to fold it into the public agenda. The term “geo-economics” highlighted by Luttwak in 1993 connoted "the continuation of the ancient rivalry of the nations by new industrial means". Implied in his view are two basic aspects of geo-economics: (a) the term denotes a new, historically specific geo-strategic phenomenon and (b) a strategic behavior generated by the new situation.

Pascal Lorot helped develop a branch of international relations study known as geoeconomis:

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"Geoeconomics analyzes economic strategies--notably commercial--, decided upon by states in a political setting aiming to protect their own economies or certain well-identified sectors of it, to help their national enterprises acquire technology or to capture certain segments of the world market relative to production or commercialization of a product. The possession or control of such a share confers to the entity--state or national enterprise--an element of power and international influence and helps to reinforce its economic and social potential."

1. Shifting Geo-Economic Landscaped: Changing Fortune of the Powerful, the Resurged and the Emerging

(1.1) Europe and America: Sinking Together?

The post-financial-crisis since the 3rd quarter of 2008 has generated lingering depressing economic downturns and no sign of substantive business confidence is in sight. Whereas the Standard & Poor, a rating agency, downgraded America’s credit rating

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3 Lorot, Pascal, Introduction à la géoéconomie, Economica, Paris, 1999
from AAA to AA+, a possible Quantitative Easing 3 (QE3) is entertained but loathed by the Fed. Developing economies fear that more QE in America will inflate prices and speculative bubbles in their own economies. Meanwhile, the European Central Bank (ECB) has been struggling with bail-out rescue packages to stop the sovereign debt crisis from crippling Portugal, Italy, Ireland, Greece and Spain (PIIGS).

It is unbearable to see the North Atlantic recession, with America and Europe “marching, alone and together, to the denouncement of a grand debacle”, as Joseph Stiglitz, the Nobel Laureate, warned of the contagious effects of political bickering and debatable policies—such as Keynesian stimulus that fueled deeper recession and higher budget deficits. Massive spending cuts in the U.S. and austerity programs in Europe could lead to unacceptably high levels of unemployment, possibly for years.

(1.2) Resurging China: Assertive or Constructive?

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4 This segment draws most of the writing from Mignonne Chan, “Rising China, Shifting Paradigms: What Can the Asia-Pacific Region Do?” in Japan Spotlight, May/June 2011, pp. 40~43.
As China has sequentially overtaken the United Kingdom, Germany, and most recently Japan as become the world’s second largest economy in 2010. Some analysts, such as Angus Madison, pointed less of a “rising China”, but more of a “resurging China”. As the Economist’s chart, quoted below, indicates, China in history before her declining in 1820 has always scored better or in par with India in the history of world GDP. Furthermore, the Economist highlighted China’s provincial economic prowess in the map of GDP and indicated that some provinces carry the weight of national GDP, and are substantial in their trade status. For instance, Guangdong’s GDP (at market exchange rates) is almost the equivalence of Indonesia’s, and its exports are as much as South Korea; Jiangsu’s and Shandong’s output exceeds that of Switzerland’s, and Jiangsu’s export is as much as Taiwan.

As the largest foreign holder of U.S. government debt, China invested in U.S. assets with an estimated 60~70 percent of its $3,200 bn foreign exchange reserves. Xinhua, the official state news wire, criticized the brinkmanship in Washington over the quit-
pro-quo political bickering for raising the debt ceiling as “dangerously irresponsible.”

Chart 1: China as a Resurging Economic Power

Furthermore, the article excoriated U.S. “debt addiction” and contended that “time for Washington to revisit the time-tested common sense that one should live within one’s means.”

In the analysis of shifting power paradigm, evolving from the “rising China”, most inclined to acknowledge China’s rising economic status
and America’s relative decline. However, the U.S. remains to be the world’s largest economy, and the dynamics of the newly emerging economies is on the surge, of which China is an important one. From Chart 2, one notes that China’s huge population is the source of comparative advantage in GDP portfolio. China’s population is 4 times that of the U.S., 10 times that of Japan. However, China’s per capita income is around one tenth of that of the U.S., Japan, and Germany respectively, and one eighth of that of France.

Chart 2: The World’s Top 6 Economies: Comparison in Economic Indicators

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<tbody>
<tr>
<td>U.S.A</td>
<td>14,256.3</td>
<td>14,720</td>
<td>9,629,091</td>
<td>312.10</td>
<td>45,678</td>
<td>3</td>
<td>1</td>
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<td>PRC</td>
<td>6,050</td>
<td>9,872</td>
<td>9,596,961</td>
<td>1,342.4</td>
<td>4,506</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Japan</td>
<td>5,500</td>
<td>4,338</td>
<td>377,930</td>
<td>127.37</td>
<td>43,181</td>
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<tr>
<td>Germany</td>
<td>3,306</td>
<td>2,951</td>
<td>357,114</td>
<td>81.80</td>
<td>40,415</td>
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<td>3</td>
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<tr>
<td>France</td>
<td>2,555</td>
<td>2,160</td>
<td>632,759</td>
<td>65.82</td>
<td>32,816</td>
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No wonder China always maintains that it is only a “developing country.” During the past three decades, China’s “one child policy” was ironically the source of strong criticism in the West. Without the population control, China’s per capita income would be even lower.

As much as China is aspired for “peaceful development,” and its reluctance to assume bigger responsibilities in world stage, the regional emerging economies seem to indicate “decoupling” effects away from reliance on the U.S. and E.U. markets, and a tilting shift of dependency on China. The U.S.-centered democratic market capitalism has raised doubts over whether it is an optimal model for developing economies, and whether China’s authoritarian state-capitalism is not so much as a threat as the communist system in the cold war. The question of whether the coined no-string-attached “Beijing Consensus” is overtaking the oft-preached “Washington Consensus” has been debated around the globe.

(1.3) G2: Myth or Reality?

The notion of “G2” highlights U.S. and China as key players in tackling “global headline issues” such as: climate change,
nuclear weapons proliferation and global economic imbalances, etc. However, China in particular eschewed the notion of G2 to calm other heavy weights, especially the EU and Japan, in order to avoid the deja-vous destiny of being bashed. Nevertheless, to sustain desirable double digit growth by securing much needed fuel and mineral resources and to match its national security might in order to defend the national “core” interests, as others would also desire, could easily project the image of overly self-assertive in China’s handling of various contentious issues. German magazine Der Spiegel argued, "All around the world, from Africa to Asia to South America, Beijing is trying to tout its model of authoritarian state capitalism as the better alternative."

U.S. Vice-President, Joe Biden’s recent visit to China, the largest foreign holder of the U.S. treasury bond, was meant to win China’s vote of confidence: “I am absolutely confident that the economic stability of the world depends on no small part on cooperation between the U.S. and China.

(1.4) The Emerging Markets: from BRIC to BRIS, CIVITS, and beyond?
The acronym “BRIC” was initially coined by an analyst for Goldman Sachs in 2001. “BRIC” stands for Brazil, Russia, India and China. The analyst maintained that, by 2050, the combined economies of the BRIC nations would eclipse the combined economies of the current richest countries in the world. As it turns out unexpectedly, the acronym has come to represent much more than was originally intended. Combined, the BRIC countries currently constitute 26 percent of the world’s land area, 42 percent of the world’s population, and 14.6 percent of the world’s GDP. Goldman Sachs believes that BRIC would exceed the U.S. by 2018 and account for a third of the global economy in purchasing power parity terms, plus 49% of global GDP growth by 2020.

There have been three BRIC summits so far. The first BRIC summit took place in June 2009 at Yekaterinburg in Russia, the second summit was held in Brazil on April 15-16, 2010, and the third summit took place at Sanya in China in April 14, 2011. India is to host the fourth summit in New Dhali in 2012. Participants in the summits were Dmitry Medvedev, President of Brazil Luiz Inacio Lula da Silva, Prime Minister of India Manmohan Singh, and President of China Hu Jintao. At
the third summit, President of South Africa Jacob Zuma was also present. The BRICs seem to have come of age in formulating an envisaged new world order that could balance the agenda of the developed and emerging economies. The BRICs approaches to coping with financial crisis and managing sustainable economic development merit our continuous observation and assessment.

The backdrop of the global financial crisis has driven the formation of the BRIC first, and BRICS later. China’s rise has certainly served as a catalyst for the unlikely partners to form a coalition of sort in the attempt to have stronger voice in forming a new international order in general, and international financial architecture in particular.

(1.4.1) Common Goals, Solidarity and Achievements: Increasing Roles and Development Goals for Emerging Economies

The BRIC nations issued their first joint communiqué during a G20 meeting, calling for a “reform of international financial institutions.” They demanded that developing economies have a "greater voice and representation in international financial institutions, and their heads and senior leadership should be
appointed through an open, transparent and merit-based selection process."

The BRICS call for reform of IMF, with a broad-based international reserve currency system providing stability and certainty. The BRICS expressed welcome to the current discussion on the role of the SDR in the existing international monetary system, including the composition of Special Drawing Right’s (SDR's) basket of currencies. The BRIC called for the inclusion of Russian ruble and Chinese yuan beyond the current basket of the dollar, euro, yen and sterling. They also called for more attention to the risks of massive cross-border capital flows now faced by the emerging economies.

Without ambiguity, BRIC is using its new influence to put pressure on the IMF to reshape its voting structure to better reflect the shift in economic power. Brazil, for example, is the world's 10th largest economy, but has just 1.38 per cent of the IMF board's votes, compared to 2.09 per cent for Belgium, an economy one-third the size.

Thanks to a common approach, BRIC countries were able to successfully redistribute 5 percent of voting shares in the IMF and 3 percent in the World Bank in favor of emerging
and developing economies at the G-20 Summit at Pittsburgh. We advocated the adoption of clear "rules of the game" that would ensure equal participation for all G20 members in its activities.

The BRICS call for achieving the UN Millennium Development Goals (MDGs) by 2015 as scheduled. They stress that “growth and development are central to addressing poverty and to achieving the MDG goals. Eradication of extreme poverty and hunger is a moral, social, political and economic imperative of humankind and one of the greatest global challenges facing the world today, particularly in Least Developed Countries in Africa and elsewhere.” They also urged an earlier conclusion of the Doha Development Agenda in the World Trade Organization, and cautioned against protectionism in the world trading system.

The BRICS reviewed the progress of the BRICS cooperation in various fields and share the view that such cooperation has been enriching and mutually beneficial and that there is a great scope for closer cooperation among the BRICS.

(1.4.2) Common Vision for Global Governance
The BRIC underscore their support for “a multi-polar, equitable and democratic world order, based on international law, equality, mutual respect, cooperation, coordinated action and collective decision-making of all States.”

In the Leaders’ Statement for the first BRIC summit, it was urged that “there is a strong need for a stable, predictable and more diversified international monetary system.” They warned against the global domination of the US dollar as the world’s standard reserve currency.

The BRIC are determined to actively cooperate within the United Nations. The most notable example is the collaboration of these states with the UN General Assembly in drafting resolutions on the prevention of the deployment of any weapons in outer space and of the use of force or threats to use force against space facilities.

Furthermore, the BRIC addressed the global security issues, including economic security, energy security, food security and climate change. They maintained that the prevention of terrorist acts is as important as repression of terrorism and financing.
In addition, the BRIC called for “a comprehensive reform of the United Nations, with a view to making it more effective, efficient and representative, so that it can deal with today’s global challenges more effectively. They emphasized the importance of the status of India and Brazil and support their aspiration to play a greater role in the U.N. BRIC also expressed strong support to Russia’s bid for accession to the World Trade Organization (WTO).

The BRICS also express their commitment to continuing their cooperation in the UN Security Council on Libya. They are of the view that all the parties should resolve their differences through peaceful means and dialogue in which the UN and regional organizations should as appropriate play their role.

(1.4.3) Opportunities for Mutual Benefits:
Natural Resources will Quench China’s Thirst

Charles Tang, head of the Brazil-China Chamber of Trade & Industry told Financial Times that “Brazil will export a lot of the strategic commodities that China needs and China will export manufactured goods and invest in assembly plants in Brazil.”
Brazil has become a convenient one-stop shop for China in terms of commodities shopping. Brazil is the world’s largest exporter of iron ore and of a variety of agro-products, including coffee, sugar and the “soya complex” of beans, oil, and meal.

(1.4.4) Changing Fortune Due to a Rising China

Brazil have benefited substantially from a rising China, most visible from three dimensions:

(1) Brazil’s two biggest export sectors embraced China’s demand for iron ore and soya. So is the oil sector with joint ventures in offshore oil exploitation.

(2) The sharp upward movement in commodity prices derived mainly from Chinese and other Asian economies’ demand for more resources.

(3) Brazil is looking up to China for the industrial policy so far proved to be quite successful.

According to Financial Times, Brazil’s exports to China rose 18 fold between 2000 and 2009. In 2009, China replaced the U.S. as Brazil’s biggest trading partner, accounting for 12.5
per cent of Brazil’s exports.

As to foreign direct investment (FDI), according to Sobeet, a Brazilian think-tank on transnational companies, China accounted for around $17 billion of Brazil’s total FDI of $48.46 billion in 2010, up from less than $300 million in 2009. The investment rolling from China has generated a credit-fuelled economic boom in 2009 and 2010 for Brazil without having to worry about the current account deficit.

The close trade and investment relations between Brazil and China has also sustain the credibility and popularity of Brazil’s previous president, Luiz Inácio Lula da Silva, who won re-election in 2006 after his first four-year term and then to propel his protégée, Ms. Dilma Rousseff, Brazil’s new president in 2010.

(1.4.5) Challenges Ahead: Industry Competition from China

In Brazil, the made-in-China goods can be find everywhere, from lipsticks, handbags and costumes for carnival festival to electric appliances. Brazilian manufacturers considered the danger of China’s cheap imports as “deindustrialization” drive, and
urged the government to install protectionist measures. Fifty out of 144 anti-dumping investigations started by Brazil in the fourth quarter of last year were against China.

To ease the growing anxiety from Brazil, China agreed to buy more regional jets from Brazil’s Embraer. In addition, Foxconn, Taiwan’s company in China, pledged to invest $12 billion for iPod manufacturing in Brazil.

(1.4.6) China’s Growing Economic Prowess and Active Financial Management

China overtook India to become the largest market for gold bars and coins in the first quarter of this year, as rising inflation inspired a surge in bullion investment. Chinese investors bought 93.5 tonnes of gold between January and March this year in the form of coins, bars and medallions, a 55 percent increase from the previous quarter and more than double the level of a year earlier, according to data released by the World Gold Council.

(1.4.7) Toned Down Accusation of Currency Manipulation

In January this year, Guido Mantega, finance
minister, pointed to China’s undervalued Renmibi as source of distorted global trade. However, China’s contribution to Brazil was enough to restrain Brazil’s further negative comment on China’s currency manipulation in the midst of her given predicament derived from the currency war, Brazil is on the verge of debt crisis, and China has filled the vacuum and provided $100 billion to “save the country” from the debt crisis at the beginning of the century and made possible the social spending and the minimum-wage legislation.

(1.4.8) The Name of the Game: Inclusiveness

China is envisioned a more formalized mechanism in shaping an emerging new world order, but not at the expense of rest of the developing countries from Asia, Latin America and Africa.

The BRICS leaders declared that such cooperation is inclusive and non-confrontational. We are open to increasing engagement and cooperation with non-BRICS countries, in particular emerging and developing countries, and relevant international and regional organizations.
Since inclusiveness is the proclaimed manifestation of BRICS, emerging economies could put forth various key agenda items in due course, and even joined the club if opportunities surface in the near future.

CIVITS:

During the last quarter of 2010, the new buzzword among hedge fund managers in London was “CIVITS” – China, India, Viet Nam, Indonesia, Turkey and South Africa—when Brazil and Russia fell out of favor from the BRICS. South Africa, as the largest energy producer and consumer in Africa, and a top producer of gold, platinum and palladium, was seen as a proxy for Africa as a whole, with its collective GDP soar to equal roughly Brazil’s or Russia.

Indonesia, a member of the G20, is the largest economy in Southeast Asia, with enormous natural resources of oil, natural gas, tin, copper and gold. Indonesia has endured the global economic downturn, and emerged in better shape than its neighbors.

Viet Nam, one of the world’s fastest growing economies and a significant agricultural exporter, attracts vast foreign investment.
PriceWaterhouseCooper estimated that Viet Nam could be the fastest growing of the emerging economies by 2025 with a potential annual growth rate of almost 10%, marching toward the size of the country’s economy to around 70% of the U.K.’s by 2050.

As to Turkey, it is also considered as one of the fastest growing economies, boasting low inflation and soaring foreign investment following a series of key economic reform.

**Asian Emerging Markets: Obama’s Hope for Export**

In 2010, President Obama completed the 4-nation state visits, which he rests high expectation to achieve enhanced bilateral relations with the 4 democratic states--India, Indonesia, South Korea and Japan. To achieve the doubling export within the next 5 years in the National Export Initiative, Asia is pointed as the main export target by the President.

On his first stop in India, he hinted at entertaining India’s list of 126 new jet fighters in a coveted tender of about US$11bn. Pakistan, despite being near bankrupt, is
ordering up to 250 Chinese-designed JF-17s and will also receive from the U.S. 18 F-16s by the end of the year. There is also a policy shift in easing of the “dual use” restrictions, which bar American export of technologies that might be used to build weapons. It is estimated that US$10 billion export will help create more than 50,000 jobs in the U.S., therefore it is a “job creation strategy” to respond to the voters back home.

In Indonesia, heavy-weight of the Association of South East Asia, Obama reiterated the importance of U.S. relations with ASEAN--a market of more than 600 million people, and to which the U.S. exports US$80 billion in goods and services each year.

In South Korea, Obama, for lack of a Congressional renewal of Trade Promotion Authority, tried to complete a modified bilateral FTA, particularly in the automobile industry.

In Japan, Obama attended the important APEC Informal Leaders Meeting. The focus was less on the self-congratulating achievement of 2010 Bogor Goal where developed economies were expected to achieve trade and investment liberalization. Instead, the U.S. very much hoped that Japan
would work through domestic consensus and announce Japan’s willingness to negotiate the Trans Pacific Partnership (TPP). Furthermore, the U.S. set the stage and paved the way for hosting this year’s APEC summit in Honolulu.

2. G20: Catalyst for Global Governance?

(2.1) Contention over the Nature & Root Causes of Global Imbalance & Necessary Structural Reform

There has been no consensus in terms of what constitutes global imbalance. While the United States points to trade imbalance and inflexible currency exchange policy, China insists on inadequate development of the emerging economies.

Given the various stages of historical evolution and different levels of development, is the “global imbalance” really an issue? There has always been global imbalance over time in human history, and the colonized never had any say about “global imbalance”. The issue of “global imbalance” has become a hot topic in the aftermath of the U.S. initiated global financial crisis, and when China has leaped up and surpassed the United Kingdom,
Germany, and Japan and become the world’s second largest economy.

The U.S. insisted the objection against China’s continued large current account surplus and managed exchange rate. “The key challenge is to enable exchange rates to perform their critical function in facilitating adjustment,” said a senior official, according to Financial Times. Tim Geithner, U.S. Treasury Secretary, identified the asymmetric problem between freely floating currencies and the “tightly managed exchange rate regimes and very extensive capital controls” of “some emerging markets. In addition, Geithner said: “This asymmetry in exchange rate policies creates a lot of tension. It intensifies inflation risks in those emerging economies with undervalued exchanged rates. And, finally, it generates protectionist pressures.”

Li Yong, China’s Vice Minister of Finance, maintained that developed economies’ concern over current account imbalances and China’s managed exchange rate was simply “another political tool to contain China’s economic development.”

Furthermore, in contrast to G20, the BRICS summit was convened sequentially in
Sanya, China, with the newly emerging economies of Brazil, Russia, India, China and South Africa. Hu Jintao, China’s President, asserted during the BRICS summit that “the biggest imbalance in the world economy is the development imbalance between the north and the south and the most fundamental problem in the world economy is the inadequate development of developing countries.”

There, one notes the disparity in perceiving the nature of imbalance. On the one hand, the U.S. argues the current account imbalance and manipulation over currency. On the other hand, China asserts developing the economy as fundamental right to any developing nation. For those who have promoted liberalization of trade and investment, managed trade and investment policies during specific timeframe are only logical for good governance. If there is no market mechanism at play, there will be no trade. Under the free market capitalist world, nobody could threaten a trade partner to buy or sell products or services. Therefore, the periodic trade imbalances happened at all times. By the same token, under the free market capitalist world, nobody could stop a consumer from saving and not purchase
objects of desire. Therefore, the consequential trade deficits surface, but not beyond remedy.

So far, there is merely a consensus on technical approaches to measuring imbalance. Four approaches were identified to measure imbalance. From the structural and statistical approaches, benchmarks will be in place to measure past trends and future possibilities. According to the French President, seven countries are to be evaluated with any two of the four approaches.

(2.2) G20: Enlarging Participation for Key Players?

There is no set criterion for G20 membership although the financial significance, geographic representation, and population size are all taken into account. G20 members do not necessarily rank within the world’s top 20 in their economic size. All 19 members of G20, with the exception of European Union, are among the rank of world’s top 28 in terms of GDP in nominal price. However, in terms of PPP, all 19 members are among the top 25 in the world as of October 2010, according to the IMF.
According to the International Monetary Fund, in 2010, Taiwan ranks 24th in GDP, and 19th in PPP. Iran (18), Taiwan (19) and Thailand (24) are not G-20 members, whereas Spain (13), Poland (20) and Netherlands (21) are only included in the EU delegation. In the span of 1999 to 2008 at both nominal GDP and PPP rates, only Spain, Netherlands, Taiwan, and Poland appear above any G20 members. Spain requested access to G20 individually, and has been invited by the hosts to attend the last 4 G20 summits with its own delegation.

For the 2010 summits, both Canada and South Korea, as hosts, invited Ethiopia (chair of NEPAD), Malawi (chair of the African Union), Viet Nam (chair of ASEAN), and Spain. Canada also invited the Netherlands (16), whereas South Korea invited Singapore.

Seven international organizations were invited by both Canada and South Korea, including the United Nations, the International Labor Organization, the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, the World Trade Organization, and the Financial Stability Board. Taiwan could
perhaps participate as one of the organizational delegation members, if not individually.

Taiwan, under President Ma Ying-jeou’s administration has been endeavoring in meaningful participation in the international community. G20 consists of developed and developing economies, and constitutes 90% of the world’s GDP, 80% of the world trade, and two thirds of the world’s population. It is by far the most influential body in terms of shaping future global economic agenda. It would be most beneficial if Taiwan kept monitoring the G20 development, participated in the process and contributed as a stakeholder.

Unilateral Commitment to Structural Reform and Mitigating Global Imbalance

Taiwan possesses the world’s 5th largest foreign currency reserves, and has long had close relationship with the U.S. In President Ma’s administration, Taiwan has been undertaking historic breakthrough with the cross-strait Economic Cooperation Framework Agreement, which was also welcome by President Obama. Taiwan has now established credibility not only in sustaining a
delicate U.S.-China-Taiwan triangular relations, but also as exemplary for conflict resolution and regional integration.

3. Asian Regional Economic Integration: Tug Wars between the Inevitable and the Insurmountable

(3.1) Asian Regional Economic Integration: Special Characteristics

Asian Development Bank conducted a study in 2008 with a focus on a group of 16 Asian economies: including 10 members of the Association of Southeast Asian Nations (ASEAN)—namely Brunei Darussalam, Cambodia, Lao People’s Democratic Republic, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam -- as well as People Republic of China; Japan; the Republic of Korea; India; Hong Kong, China; and "Taipei, China". In the study, some special features were highlighted.

(3.1.1) Asia’s Formal Economic Cooperation Lagged behind Market-Driven Integration:

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5 Emerging Asian Regionalism: A Partnership for Shared Prosperity (Asian Development Bank, 2008.)
Asia’s earliest regional organizations emerged within the United Nations network: United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the Mekong River Commission are within the UN framework, and the Southeast Asia Treaty Organization (SEATO) is the security framework of the Cold War. Asian Development Bank was established in 1967, and Asia-Pacific Economic Cooperation was established in 1989. The longest-standing regional grouping is ASEAN, which has still claimed a crucial element of the region’s emerging policy architecture, known as “ASEAN centrality.” Asian economic integration is more on the defensive, given the emergence of the European Union and the NAFTA. It is not until the 1997/98 financial crisis that the Asian economies started to take economic integration more seriously.

Generally speaking, the success of the “flying geese” development in Asia relies on policies that welcome foreign companies, encourage technological upgrading, and build strong connectivity with world markets, as well as on their proximity to Asian neighbors following similar strategies.
(3. 1.2) Asia's Approach to Regional Integration is Market-Friendly, Multi-Track, and Multi-Speed Open Regionalism:

There has been a wave of bilateral and sub-regional plurilateral cooperation initiatives. The agreements vary substantively in objectives, partners, and trade coverage. Asia’s larger economies have substantive trade and investment relations with the U.S. and Europe, and remain cautious about exclusive regional integration. For example, the Republic of Korea recently completed a free trade agreement with the European Union, and negotiated a free trade agreement with the U.S. Singapore initiated ASEM for Asia and Europe in the existence of APEC for Asia and the Americas.

Due to its deficit with the EU and US in high-tech intermediate products, Asia remains a net importer of parts and components. Asian economies should seek to weave together the increasingly tangled web of preferential agreements into a comprehensive and outward-looking regional framework. They should be aspired to a single Asian market, seamlessly connected to the global economy as well.
(3. 1.3) **The Spectacular Rise of the PRC Has Given Impetus to Asian Integration:**

The PRC’s accession to the World Trade Organization in 2001 has created the regional hub of global production networks. Although some Asian economies have been displaced by the PRC from some of their traditional export markets, they have found new niches, often as links in global supply chains through the PRC. They have therefore sought closer trading ties with the PRC, as well as with each other. Thereby, smaller Asian economies have benefited from more attractive gains from specialization, economies of scale, and increased competition. Undoubtedly, the PRC’s rise has somewhat unsettled the region, but it has also helped Asian economies to draw closer together. In 2006, the PRC’s imports of parts and components were 37% of its total manufacturing imports, whereas exports were only 15.5% of the manufacturing total. Final goods account for a larger share of its manufacturing exports, bolding the PRC’s role as Asia’s assembly factory.

Technological upgrading also contributed to increased regional integration. With the
foreign direct investment (FDI) by MNCs, new technologies were generated from imitator to innovator by more investment in research and development. The United Development Program (UNDP)’s score for Asian economies, analyzed by ADB, indicates the technology spillover effect for the Asian economies. The study found that:

... while Japan and the U.S. remain the dominant sources of knowledge diffusion for East Asia, knowledge flows from the Republic of Korea and Taipei, China are increasing, reflecting their rising technological sophistication as well their role in regional economic integration. For example, controlling for the much larger stock of Japanese and US patents, the study found that patents from the PRC and Malaysia cite patents from the Republic of Korea and Taipei, China more frequently than they do Japanese and American patents.

(3.2) Regional Economic Integration: Competitive Liberalization in Sight

In the Asia-Pacific region, there are basically two paralleled competing approaches to economic integration (see
One track stems from ASEAN-centered schemes originated with “Asia Only” members, but then given the geopolitical importance of other players, especially with the recent Korea Peninsula tension, and the perceived “overly assertive” China in the region, there seems to be an inclination, though an immature consensus, to break away the originated “Asia Only” insistence. This track includes AFTA (ASEAN Free Trade Agreement), “ASEAN + 3” (ASEAN plus China, Japan, and Korea), “ASEAN + 6” (ASEAN plus 3 plus Australia, New Zealand, and India), and East Asia Summit (also known as “ASEAN + 8”; ASEAN + 6 + the United States and Russia). Another track is trans-Pacific based, high-quality claimed, and yet-to-expand for significance TPP (Trans Pacific Partnership). So far, the Pacific9 members include the original Pacific 4 (Brunei, Chile, New Zealand and Singapore) plus Australia, the U.S., Peru, Viet Nam and Malaysia. TPP proclaims that it will expand to APEC members later and beyond, and is expected to deliver meaningful outcome by November this year when the U.S. will host the APEC Informal Leaders Meeting in Honolulu. The strategic posture of competitive liberalization is at play with these two tracks of FTA in the making,
as the bicycle theory has it in that the paddles ought to be strived forward lest the momentum of liberalization vanishes as the bicycle falls without paddling.

Chart 3: Asia-Pacific Regional Integration

(3.3) Sino-U.S. Relations: Geopolitical Dynamics and Key Determinant for Future Prospect for Regional Economic Integration

Despite the fact that no major powers seem to be happy over the term of “G2” in highlighting the importance of the United States and the People’s Republic of China
in world stage, we are witnessing an era where the Sino-U.S. relations take the central stage in any international negotiations and consensus-building efforts. Obama has announced that the Sino-U.S. relationship is the world’s most important bilateral relations. No doubt, the twice-a-year bilateral Strategic and Economic Dialogues (S&ED) earmarked the pre-stage for further multilateral negotiations, be it the United Nations Framework Convention on Climate Change (UNFCCC), the G20, or the IMF, etc. The issues of concern at the S&ED include, among others, energy security, climate change, global economy, the U.S. deficit and the weak dollars, the Reminbi under-valuation, and military cooperation, etc.

The seemingly China-preferred and China-centered, though ASEAN-as-the-hub is proclaimed, “ASEAN + X” stands contrasts first, then complements now, to the U.S.-led TPP. Hilary Clinton announced during this year’s first APEC Senior Official Meeting in that the U.S. is not only to engage in Asia, but also to lead Asia. Ideally, the competitive schemes will serve as catalysts for further trade and
investment liberalization in the region and in the World Trade Organization sooner than later. In the meantime, the balance of power and influence between the U.S. and the PRC should be an added value towards regional economic integration.

Could China eventually rise with peaceful development in the long run? Should China shy away from a prominent position (韬光养晦) to avoid China-bashing of sort? Should China come out from the nutshell of reluctance and play the role of a stake-holder (有所作为) in world affairs? Given the financial crisis starting from the last quarter of 2008, regional emerging economies have experienced the “decoupling” effects and shifted away from reliance on the U.S. and E.U. markets, and tilted their dependency towards China. It is clear that the power shifts are at play, and constant spates are persisting between the U.S. and the PRC over unfair trade, currency manipulation, the outward movements of sovereign wealth funds, cyber security, quantitative easing monetary policy, external-induced inflations, core interests in South China Sea, and navy exercises, etc.
Whether the U.S. and the PRC could exercise not only hard power (霸道), but also soft power (王道) would determine the future shape of regional integration. There is no doubt that the axis of the U.S.-China Relations would determine the regional geo-political and geo-economic dynamics. (See Chart 4)

Chart 4: Axis of the U.S.-China Relations

4. Taiwan’s Roles in the Regional Economic Integration
(4.1) Responsible Stakeholder with Unilateral Commitment, Bilateral Efforts, and Regional Contributions

Taiwan, with the leadership of President Ma Ying-Jeou since May of 2008, has made unilateral commitment to peace and prosperity since Ma’s declaration on “Three Nos—No Unification, No Independence, No Use of Force” policy. The bilateral cross-strait economic agreement, Economic Cooperation Framework Agreement (ECFA), has served as a catalyst to regional integration and a model for conflict resolution. KIEP, a South Korean think tank, has advised that ROK quickly negotiate with China on an FTA in its post-ECFA evaluation. ECFA will bring along more opportunities for Taiwan to be linked to regional integration schemes, including the yet-another-step of the Agreement of Singapore and Taiwan Economic Partnership (ASTEP), and a possible revitalization of U.S.-Taiwan Trade and Investment Framework Agreement (TIFA).

- Taiwan’s current investment constitutes 74.35% of the total outward investment.

- Taiwan’s trade dependency on China market has a 24% stake, the biggest among partners.
• Taiwan’s total trade with ASEAN members constitutes 12.8% of total trade, with a surplus of US$1.9 billion.

• If Excluded, Taiwan’s GDP would be reduced by 0.98%, trade conditions worsened by 1.14%; and Social Welfare diminished by US$4.3 billion.

• As WTO member, Taiwan’s committed obligations have not matched her envisaged benefits due to political factor.

On the multilateral front, Taiwan cherishes Asia-Pacific Economic Cooperation (APEC) and World Trade Organization (WTO) memberships. In APEC, “Chinese Taipei” has made and promoted several initiatives, including APEC Digital Opportunity Centers, One Village One Product, SME Risk Management Center, and APEC Typhoon Center, etc. This year, Taipei will continue to collaborate with like-minded partners, and support the host, the U.S., for some initiatives.

(4.2) Delicate Balance of U.S.-China-Taiwan Relations

Taiwan has always been in a delicate position in the U.S.-China-Taiwan triangular
relations. Instead of taking side on the camp of “China as a Threat” or “China as an Opportunity”, Taiwan should serve as a catalyst for China’s evolving development. In the debate of shifting paradigm, Taiwan need not take side, and should cheer every developing country on, in its own chosen development path. Taiwan could be constructive by providing its own experience in sorting out its own development path in the fabrics of political, legal, economic, and social development. As the world’s 18th largest economy and as the guardian of Chinese traditional culture, Taiwan has a lot to offer in the wake of global re-balancing and structural reform.

This year, the U.S. is serving as APEC host with three main themes on Regional Economic Integration, Green Growth, and Regulatory Cooperation. Taiwan should and will continue to be an active participant in the process by being a collaborator of initiatives and focus on promoting economic cooperation. Taiwan will continue to collaborate with the U.S., China, Japan and all other like-minded APEC partners in projects such as SME Crisis Management Center, Emergency Prepareness, and Green Building and Low-Carbon City, etc. Taiwan should also be aspired to extend the
benefits of ECFA to others by joining other regional economic integration schemes, including ASEAN+X, Trans Pacific Partnership, and the Concerted Unilateralism of APEC.

As President Obama gave supporting hands to ECFA, and provided Taiwan with most of the needed defense capability, U.S. is playing an indispensable role in ensuring that the rising China, in the midst of shifting paradigm, continue to be a responsible stakeholder. The balancing act of engaging and putting a check on China is not only good for Taiwan, but also good for China. In each and every step of the paradigm shift, the emerging multilateral world should see a more harmonious international system, a much better structured world order, and a more humane integration process.

(4.3) the Cross-Strait Economic Cooperation Framework Agreement (ECFA): Catalyst to Regional Economic Integration

President Ma’s cross-strait policy of “sideline confrontation, create win-win” has taken us as far as the implementation of the early harvest provisions in ECFA (Economic Cooperation Framework Agreement). ECFA could well serve as catalyst for deepening regional
economic integration, intensify the regional supply chains, and contribute to regional peace and prosperity.

(4.3.1) Engine of Growth and Model for Conflict Resolution

The value of ECFA as a catalyst for regional harmony and prosperity is most evident when Taiwan’s global official and non-official partners expressed their welcome sentiments after the inking of ECFA, including Singapore, Japan, E.U. and the U.S. It was duped as “landmark” pact beyond the economic cooperation. Foreign chambers of commerce also click the Champaign glasses for benefiting from the reduction of business transaction costs, and tapping into potentially wider scope of operation. The win-win-win potentials are enormous with the wildest imagination for strategic alliance of various sorts. Integration rhythms of vertical, horizontal and criss-cross sorts are widely explored at an unprecedented tempo.

• For details on this segment, see "Mignonne Man-jung CHAN, "Implications of the Economic Cooperation Framework Agreement (ECFA) for Taiwan, Cross-Straits Development and Regional Integration," Prospects and Perspectives 2010 (Prospect Foundation, March 2011; 13: 75–86).
With the birth of ECFA, there was a sense of urgency in the regional business community in that they urge for speedier efforts in forging integration, such as South Korea’s call for faster negotiation with early harvest of sort to avoid losing competitive advantages, and the U.S. urge for reviving TIFA (Trade & Investment Framework Agreement with Taiwan). ECFA will not only dissipate the risk of being marginalized, but also bring about sequential economic linkage with the region for Taiwan. ECFA will add much value to regional integration via vertical and horizontal integrations of regional and global supply chains. The stakes of ensuring the stability of economic linkage will in turns strengthen regional collaboration in facilitating ease of flows for goods, services, manpower, and technology.

In a post-ECFA occasion, Singapore and Taiwan have publicly announced in August 2010 that bilateral FTA negotiations will commence by the end of this year. It is expected that more ASEAN members are to join the bandwagon for similar talks.

(4.3.2) **ECFA Could Serve as the Embodiment of Hope for Taming the Seemingly Unruly Mainland China:**
China’s approach to ECFA, especially the proportional—not absolute—equilibrium in Taiwan’s favor in the Early Harvest negotiations further enhance China’s image of capable of being a reasonable and responsible stakeholder. In addition, Taiwan’s accession to the Government Procurement Agreement in the World Trade Organization in July 2009, will serve as an exemplary for China to follow suit. Furthermore, Taiwan is more or less a success story of the West-inspired democracy and West-model capitalism. ECFA will facilitate more cross-strait exchanges and collaboration in capital, work force, management style, technological innovation, business culture, and hence could contribute to transforming the mainland China into a milder, not tougher, hegemony.

(4.3.3) ECFA Will also Contribute to Opening Up Wider International Space for Taiwan and for a Win-Win-Win Global Safety Belt:

The cross-strait rapprochement under President Ma’s administration, even though before ECFA is signed, is a key factor contributing to Taiwan’s aspiration for wider international space. In May of 2009, Taiwan’s participation in the World Health Organization
as Observer, earmarks international support, including that of China’s, and ensure that there is no missing gap in the global health security web. China’s change of approach to Taiwan’s participation in International Health Regulations was a noted and well received gesture. Taiwan, in the name of Chinese Taipei, and PRC have launched joint projects in APEC and proved to be capable of extending the bilateral rapprochement to international community. The joint project on Emergency Preparedness after the Sze-Tsuan Earthquakes in 2008 and the Paperless Trade initiated in 2009 all contributed to the wider community of APEC in the area of human security and economic security.

Taiwan will continue to apply for international participation for practical reasons for global security. Taiwan does not need to be an open gap for health or environmental security. Taiwan has a lot to contribute to economic security with the efforts in establishing a SME Crisis Management Center in APEC, for instance. The sensitive issue of Taiwan’s de-facto, if not de-juri, sovereignty will need to be address in equally important domestic, cross-strait and international elaborations. Any oversight or misstep of the treatment could ignite tension of various
intensities in the region. Due democratic process and government accountability regardless of any ruling parties in Taiwan should be ensured. Cross-strait dialogues on the issue should deem “sensible, reasonable, and legal” (合情、合理、合法). International support in due course for appropriate treatments of the critical issue would determine the sequential and evolving value of the landmark deal so elaborated.

The current cross-strait model could serve as an exemplary for conflict resolution. With concerted efforts, we could transform the weaknesses and threats so identified with open communication. Political wills from core quarters for high-level communication are indispensable for dissipating potential or perceived weaknesses and threats. The strengths and opportunities should be well grasped and modified behaviors should be rewarded in a mutually reinforcing confidence-building mechanism. Regional security is in our hands. Are we simply to moan and groan over the unsettling yet evolving dynamics, such as ECFA? Or are we capable of excising joint wisdom with strong political will for conflict resolution? A viable environment for peace and prosperity will be ours to orchestrate.
Taiwan does not want to be left out in the regional integration process simply because we will continue to resist the possibility of being marginalized, and believe in a conducive environment for joint collaboration and healthy competition. Apprehension and suspicion will render no utility if a maxi-min paradigm is undertaken with gradual build-up of mutual confidence.

ECFA need not be alarmed as a hopeless trap, a curious zero-sum game. ECFA need not be a dangerous threat, a winner-take-all bombshell. In due course, ECFA could prove to be engine of growth, catalyst for regional integration, and a model for mutual learning in the process of globalization. With a maxi-min paradigm for implementation, we could ensure that regional security is here to stay.

**Conclusion: Towards a Well-Managed Open Regionalism**

The geo-economic challenges in the Asia-Pacific region are inseparable from the overall global economic landscape. The global imbalance and structural reform are the key issues of concern. Whereas the U.S. and E.U. are currently in great economic distress, the surging of the emerging markets has become
a new source of hope for economic growth. The international institutional arrangements of global scope, such as G20, have attempted to address the global imbalance and reconstruct a global economic order in the post-crisis era.

With the ongoing pre-election political bickering in the U.S. and the uncertain need for yet another round of quantity easing, the emerging markets are floating a sense of unease over possible mismanagement and negative social impacts. U.S.-China bilateral relations remain to be key determinant for global recovery and regional stability.

Regional peace and prosperity may never be taken for granted, and require much nurturing in due course. Taiwan, though ranked as the 18th in world economy, has not had the pleasure of contributing to the G20. However, Taiwan has been undertaken bold endeavors in unilateral reform, bilateral trade agreements, plural endeavors in APEC, and multilateral efforts in WTO. Taiwan stands ready to continue our efforts in ECFA with China, and some potential bilateral and plural deliberations in the region. The spirit of open regionalism, which underlines the construct of APEC, should be a good reminder for us all.
when we are building towards well-managed cross-Pacific relations.