

# A EU-TAIWAN TRADE ACCORD FROM EU MEMBER STATES PERSPECTIVE: Rebalancing regional trade

**By Michal Krol and Hosuk Lee-Makiyama,**

*Michal Krol (michal.krol@ecipe.org) is Trade Policy Analyst at ECIPE*

*Hosuk Lee-Makiyama (hosuk.lee-makiyama@ecipe.org) is Director of ECIPE*

## Introduction

FOLLOWING THE EU's free trade agreement (FTA) with Korea, its trade strategy towards Asia is currently geared towards two objectives. First, to deliver growth that will sustain industrial capacities and employment as EU home markets slow down. Besides that, this strategy orbits around China, both in terms of market and supply chain access to expanding East Asian architecture, where China plays a central role.

As previous studies (ECIPE, 2010; Messerlin, 2012 et al.) have shown, Taiwan mirrors Korea with high levels of income and consumption with consistent GDP growth seen across Asian economies. However, it is also uniquely placed thanks to its unparalleled access to the mainland of China, which has been further improved by a recent FTA (Economic Co-operation Framework Agreement, or ECFA) across the Taiwan Strait. Taiwan is the key portal to China's assembly and

## SUMMARY

Following an FTA with Korea, the EU now takes up the ambitious task of negotiating an FTA with Japan. Inarguably, 'big' FTAs are the way forward in the search for growth, but in parallel, the EU should aim to diversify its regional outreach to rebalance trade accounts. In this sense, Taiwan has the potential to 'repair' some of the effects from other Asian FTAs on EU's sensitive areas and distribute the gains beyond traditional export-driven Member States. Despite its relatively small size, Taiwan can also spur EU growth provided by indirect market access to China.

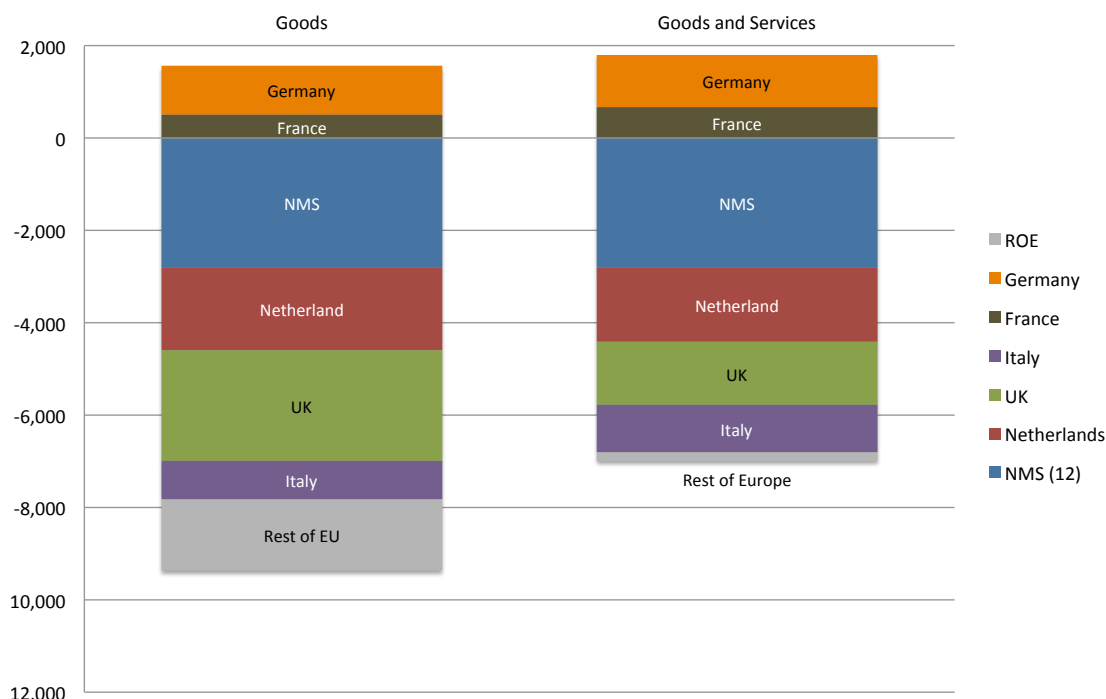
This policy brief looks at the potential gains of a EU – Taiwan trade accord from an individual Member State perspective. It concludes that the expected benefits from such agreement would be equally distributed across key EU Member States - including sectors and countries that are deemed to be on the paying side of EU's FTAs, such as agriculture or cars. Both France and the UK can move from a current motor vehicle deficit to a surplus by doubling its export and improving their surpluses on agricultural products by €200-€300 million each. Individual Mem-

ber State can increase their overall export by at least 50% on sectors where its primary specialization lies – Germany on machinery and cars, France on miscellaneous goods, agriculture and services, whereas the UK foremost on services.

Furthermore, ECFA openings across the Strait provide indirect market access to China aligned with European interests – covering almost 50% of EU's export to Taiwan. Taiwanese businesses run a substantial share of the Mainland's economy thanks to its entrepreneurial, cultural and linguistic similarities with combined value of their operation in China providing twice as much of market expansion for the EU as Korea does. However, EU investment in services and manufacturing hasn't been of critical mass to benefit from long-term cross-Strait development. This is particularly true for European services providers, who could count on increasing Mainland demand for capital and know-how of modern services, such as healthcare, ICT, finance or R&D.

**GRAPH 1. EU TRADE BALANCE WITH TAIWAN BY COUNTRY, MILLIONS OF EUROS**

EU - Taiwan balance of goods and services, 2010 mn euros



Source: Eurostat

processing trade, as Taiwanese industry invested heavily into these capacities.

This review aims to disaggregate these potential gains, as there are reasons to suspect that a free trade accord with Taiwan would impact the economy of the Member States in a vastly different way than agreements currently under negotiation. Unlike other Asian FTAs, Taiwan lacks its own exports of automobiles, a sector where Asian exports are increasingly a political impediment to FTA negotiations for the EU. In theory, other traditionally sensitive area of trade, namely agriculture, should not be an obstacle because of Taiwan's dependency on agricultural products imports. This policy paper briefly scrutinises distribution of FTA gains between the key EU Member States of Germany, France, the UK, the Netherlands and Sweden, exemplifying various degrees of export dependency, manufacturing and services.

In the light of the Euro crisis, improving terms of trade with Taiwan and removing its remaining trade barriers could 're-balance' some of the effects from other Asian FTAs by dispersing the gains of free trade beyond the traditional export-driven Member States. This over-focusing

on exports and trade balances is unfortunate and even misguided – yet they have become an unavoidable political reality in EU trade policy. In this regard, this review assesses Taiwan as a trading partner providing indirect benefits through links with China and further improving Member States' trade balances, particularly in sensitive sectors such as agriculture and automobiles.

### Current bilateral relations between EU Member States and Taiwan

TRADING RELATIONS WITH Taiwan have never been strained with deficit concerns. In fact the EU has been steadily improving its trade balance with Taiwan, reaching almost €5.5 billion in 2010. Despite an €8 billion deficit in goods, the EU has earned a €2.5 billion surplus on services. Among Member States, only Germany and France maintain an overall surplus with Taiwan, while the Netherlands, the UK and Italy run a deficit. Yet, the bulk of the EU deficit comes from New Member States' (NMS) production facilities depending on Taiwanese components imports for further export. These trade deficits are recouped as exports to other countries, which makes overall EU trade balance even better in real terms.

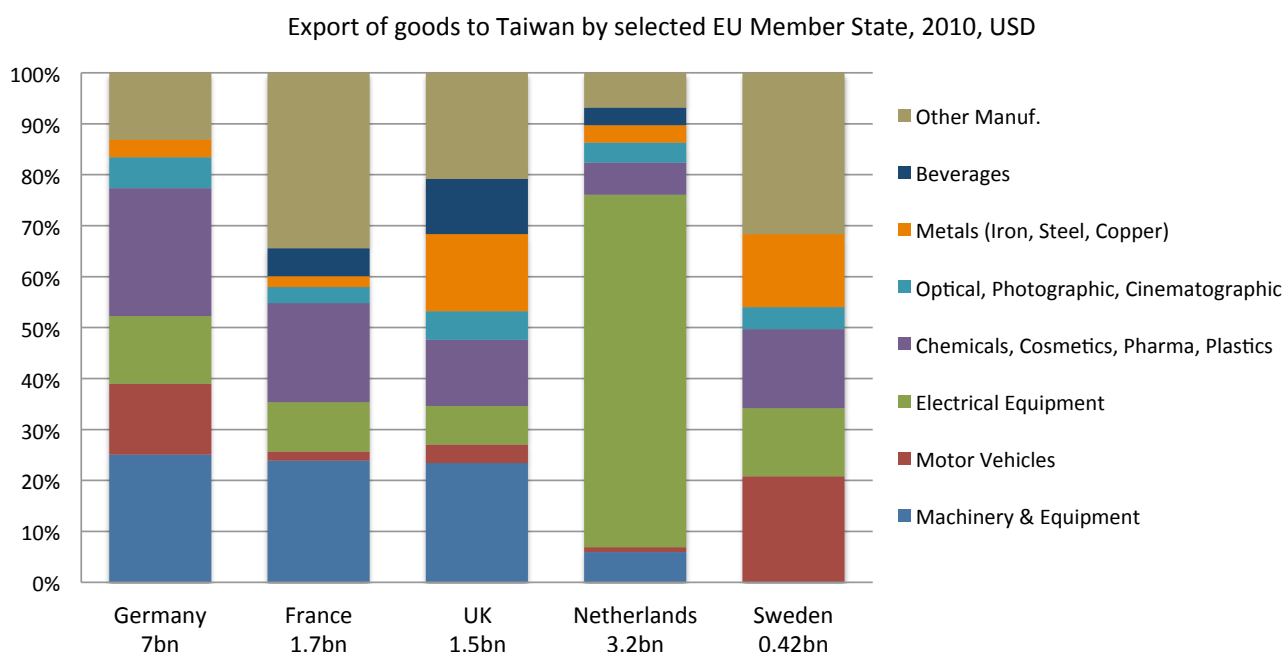
The sectoral trade compositions of each EU Member State follow their typical export profiles. All key EU countries export heavy and electrical machinery, transportation and products of chemical industry with each specialising in distinct sub-products categories. Some of the most illustrative examples of EU Member States trade relations with Taiwan are:

- The German trade surplus with Taiwan, which comes from motor vehicles as well as machinery, electrical equipment and chemicals used in semiconductor and foundry industry (Graph 2). Among services, Germany exports mostly transportation and business services to Taiwan, but these export volumes are 3~4 times less than to South Korea. Even with market size differences, this leaves much room for EU services export to grow.
- France has a diversified export basket to Taiwan across miscellaneous manufacturing products, such as aircraft, pharmaceuticals, cosmetics and plant equipment. Importantly, France has secured a strong place as an exporter of chemicals, machinery and complementary electrical equipment to Taiwan's foundry and semiconductor industry. French exports

of services are dominated by business services, but exports of transportation and finance services are way below French export volumes to similar in size Asian economies like Korea.

- The United Kingdom has a strong services-oriented export profile to Taiwan. Half of the exports are within finance, business and transportation services, which is an extremely rare situation. Exports of goods are in the machinery, alcoholic beverages, pharmaceuticals, turbo-jets, propellers and metal products sectors. In final calculation, the UK's deficit on goods overshadows the services surplus.
- The Netherlands' exports are centred around the Taiwanese foundry industry, where 70% of export consists of heavy electrical machinery for IC production and complementary equipment. On the services side, the Netherlands exports business services and derives revenues from royalties and licence fees.
- Sweden maintains balanced trade with Taiwan, based on robust export of services and goods such as business, motor vehicles, chemicals, metals and paper products and substantial revenues from royalties and licence fees. Despite being primarily an industry-

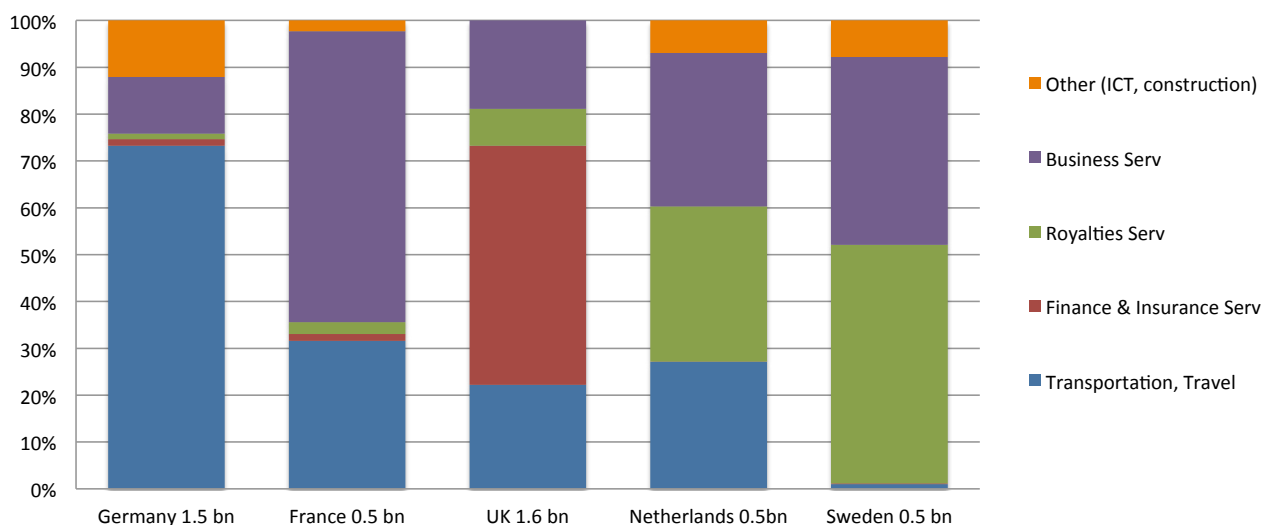
GRAPH 2. CURRENT EXPORT OF GOODS TO TAIWAN BY KEY MEMBER STATES, 2010



Source: EUROSTAT

**GRAPH 3. CURRENT EXPORT OF SERVICES TO TAIWAN BY KEY MEMBER STATES, 2010**

Services export distribution by key EU Member State, 2010



Source: Eurostat

driven economy, Sweden exports more services than goods to Taiwan, which has a positive effect on Sweden's goods deficit.

- Other countries, such as Italy, Spain or Belgium export a broad spectrum of goods and services, the largest of them being machinery, motor vehicles and chemicals products, as well business and IT services.

To summarise, Member States' trade with Taiwan largely follows their export profiles. However, when compared with the rest of world trade, EU countries have unrealised potential on vastly different export sectors to Taiwan (Graph 4). For example, countries like Germany and the UK underperform on their key export products such as motor vehicles and business services. Not to mention France's sluggish export of autos, machinery, beverages and travel services to Taiwan relative to the rest of the world exports. As these are leading European export sectors, their underperformance can hardly be explained by Taiwanese competition. More likely it is a lack of industry attention and market barriers deterring EU export that ought to be negotiated in the FTA.

**GRAPH 4. COMPARISON OF SELECTED SECTORS' SHARE IN EXPORT BASKET TO TAIWAN AND REST OF THE WORLD (ROW) – VALUE LOWER THAN 1 INDICATES UNDERPERFORMANCE RELATIVE TO ROW.<sup>1</sup>**

Export Basket	Germany	France	UK
Machinery	1.41	0.82	1.64
Motor Vehicles	0.76	0.19	0.33
Beverages & Spirits	0.34	0.60	6.00
Travel Services	0.64	0.13	1.44
Transportation Services	2.04	1.08	1.09
Business Services	0.65	2.70	0.81

Source: UN Comtrade

### The impact of an EU-Taiwan trade deal

COPENHAGEN ECONOMICS ESTIMATES A €12 billion increase in Taiwanese imports from the EU as a result of full trade enhancing measures (TEM).<sup>2</sup> These gains are proportional to gains from the EU-Korea FTA, given the two countries' differences in GDP and market size. The following is an assessment on how these gains are played out between Member States and their export sectors.

Despite high tariffs on certain manufacturing and agriculture goods that EU exports faces, the biggest export gains come from negotiating non-tariff barriers (NTBs). Particularly, liberalisation of services is a key driver of trade. Taiwan's barriers on services trade and investment, such

as licensing, national and service product restrictions have a prohibitive effect equivalent to an additional surcharge of 37% on imported European services, while the same figure against Taiwanese services in the EU is only 17%.<sup>3</sup> In fact, the lion's share of the trade gains from an FTA with Taiwan (between 60%-90%) could come from services, and the distribution of these benefits are well diversified between countries and sectors:

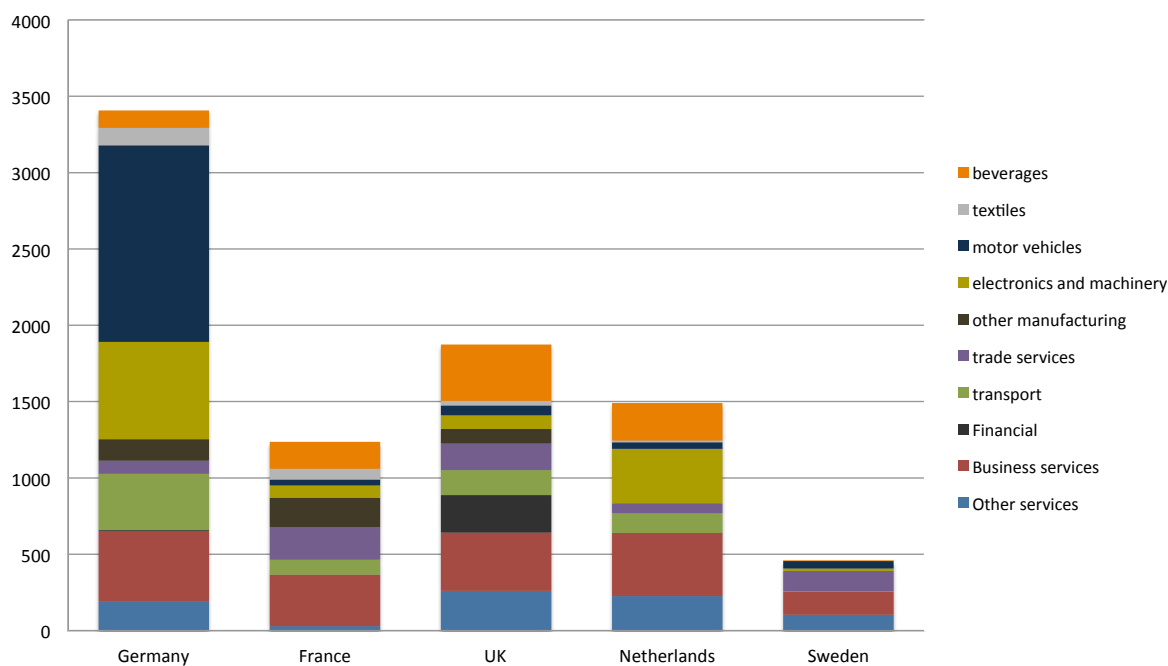
- The United Kingdom as a leading services exporter has the potential to integrate into expanding Taiwanese services economy. Taiwan strives to become a financial hub for regional trade and investment and the UK's financial services providers are well positioned to capture the developing landscape of capital markets in Taiwan and its partners. Gains of almost equal share are channelled to ICT services, innovation and professional business services. In addition to services, benefits to the UK include export increases on motor vehicles, beverages and goods supplying the Taiwanese IT industry, such as chemicals, first-tier machinery and components.
- Germany's export gains are distributed between manufacturing and the services sectors. The largest

benefits come from professional services, such as business, trade-related and transportation services, effectively repairing Germany's export underperformance. Germany can expect large increases in exports of manufacturing goods, particularly motor vehicles and chemicals.

- France's export gains are diversified across the sectors of transportation and travel and trade-related services, as well as ICT and construction services. In addition, France reaps the largest share of beverages, spirits and tobacco export increases to Taiwan and gains additional export of motor vehicles and miscellaneous manufacturing goods.
- Both the Netherlands and Sweden benefit from increased export of business and ICT and innovation-related services. The Netherlands can gain broader access to the Taiwanese IC related industry, while Sweden can secure exports on the motor vehicles market and retail trade.
- Among other EU countries like Italy or Spain, potential export gains are within business and trade-related services as well areas of luxury goods such as clothing apparel, autos and alcohols.

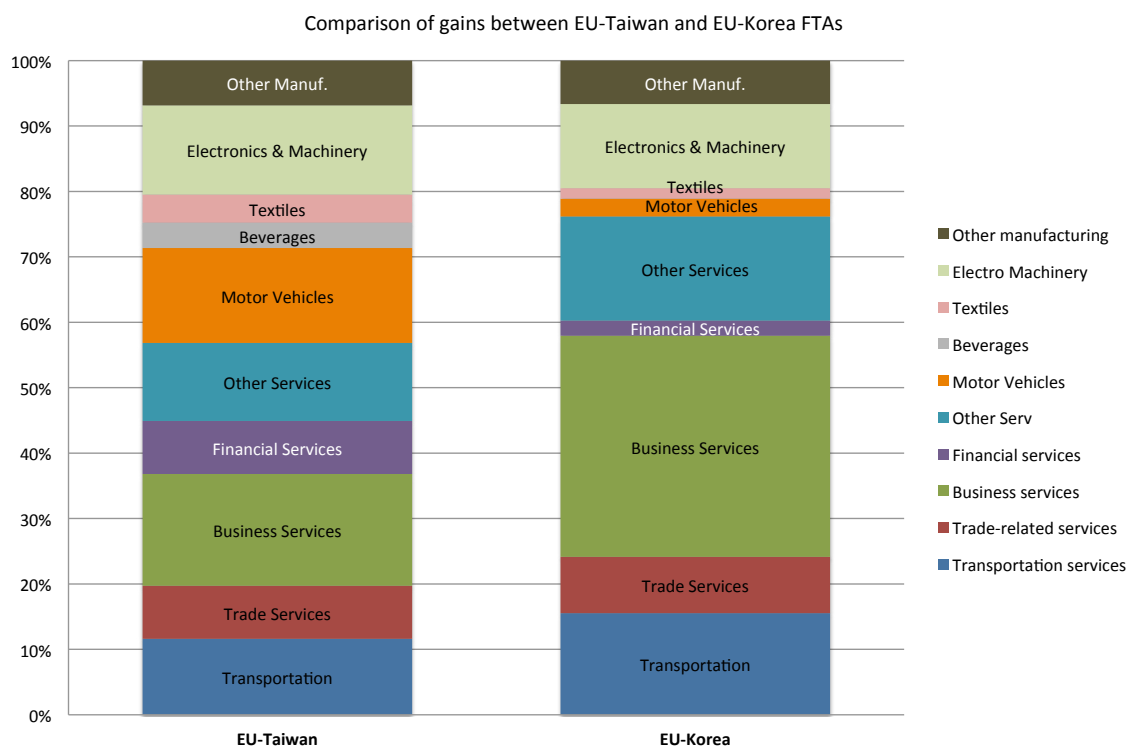
**GRAPH 5: EU-TAIWAN EXPORT GAINS BY MEMBER STATE AND EXPORT SECTOR**

Export gains to Taiwan by selected EU Member States, mn Euros



Source: Approximations based on Copenhagen Economics projections.<sup>4</sup>

**GRAPH 6. COMPARISON OF GAINS BETWEEN EU-TAIWAN AND EU-KOREA FTA**



Source: own calculations based on Copenhagen Economics projections

It is important to note that trade is never a zero-sum game – and the best example is France: Germany’s export gains against Taiwan are not France’s losses (nor Taiwan’s). Increases in France’s exports, despite being lower than the others, are not only substantive compared to other FTAs, but also most diversified across sectors. Similarly, Member States’ sectoral gains do not compete head-to-head with Taiwanese goods. Two-way trade gains translate into clear-cut market access for European services, manufacturing and agricultural products benefiting each Member State and in return imports of goods where EU countries do not hold competitive advantage, benefiting consumer welfare and increasing export competitiveness.

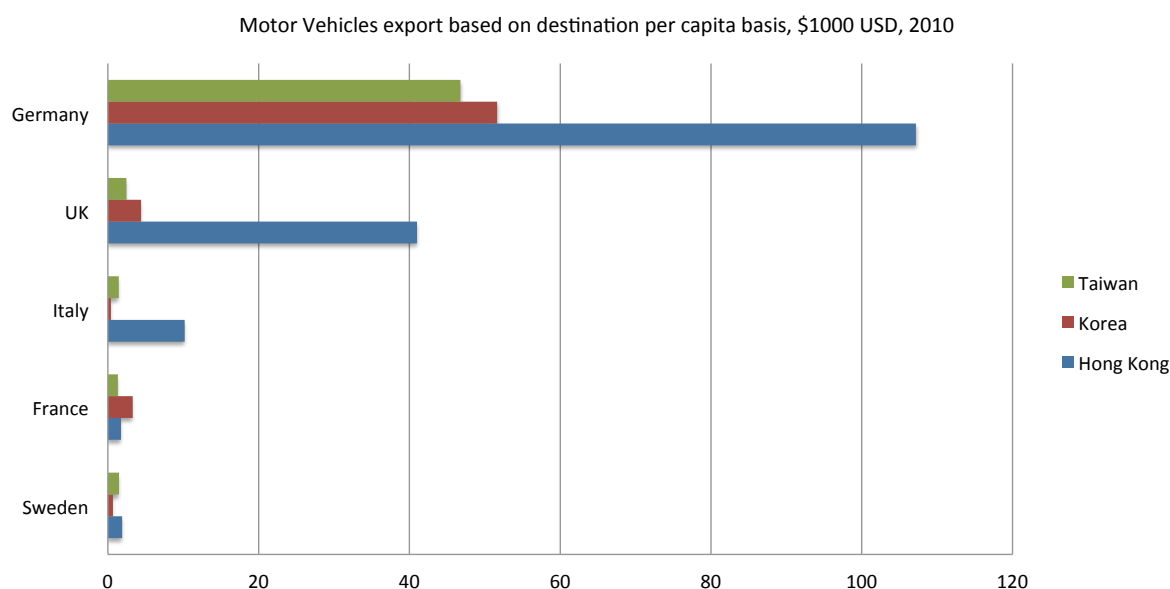
### Comparison of EU-Taiwan with the EU-Korea FTA

THE FTA WITH Taiwan could be more sectorally and geographically diversified compared to the EU-Korea FTA. With equal distribution of gains between goods and services, each Member State can accrue export gains on categories where its primary specialisation lies – such

as motor vehicles, agricultural products, clothing, electronics and machinery or respective services (Graph 6). Furthermore, the EU-Taiwan FTA provides for a wider spectrum of sectors, absent from EU-Korea FTA, such as beverages and spirits, which can boost France’s or UK’s export by €00-€00 each. For example, it is often claimed that France or its car industry is on the “paying end” of Asian FTAs – but in an FTA with Taiwan, France improves its exports of cars by 200% and gains the biggest share of other manufacturing goods and trade-related services.

The logic of EU-Korea and EU-Taiwan is similar in the sense of improving the overall trade balance; with both driven by services export gains. However, gains from Korea are concentrated on a few sectors and are largely driven by business services. Conversely, the export increase to Taiwan is evenly spread between business, trade, transportation, financial, ICT as well as a whole spectrum of manufacturing and agricultural goods.

**GRAPH 7. COMPARISON OF EXPORT PERFORMANCE OF KEY EU MEMBER STATES TO ASIAN COUNTRIES, 2010**



Source: UN Comtrade, CIA

### Impact on EU Member States trade balances

THE MERCANTILIST NOTION of exports being good and imports bad is misguided. Increased imports from removing trade barriers do not mean job losses, but efficiencies imported from abroad and increased welfare gains that in turn lead to exports. In line with the EU's mercantilist trade approach are genuine political concerns that the net benefits of free trade are asymmetrically distributed among EU members. For example, the car industry has become yet another sensitive sector in negotiating an FTA with Korea or Japan. Despite the fact that most Member States are filing record export profits, a few others suffer from overcapacities and poor export performance. This is the subject of discussion of other ECIPE reports, where it is firmly established that imports are unrelated to the failures of European industry.<sup>5</sup> In this narrative, imports become an unavoidable political problem, which has to be resolved, given the EU's pressing need to conclude a 'big' FTA with large economies. Each FTA requires broad

#### *Each FTA requires broad concessions by Member States across all sectors*

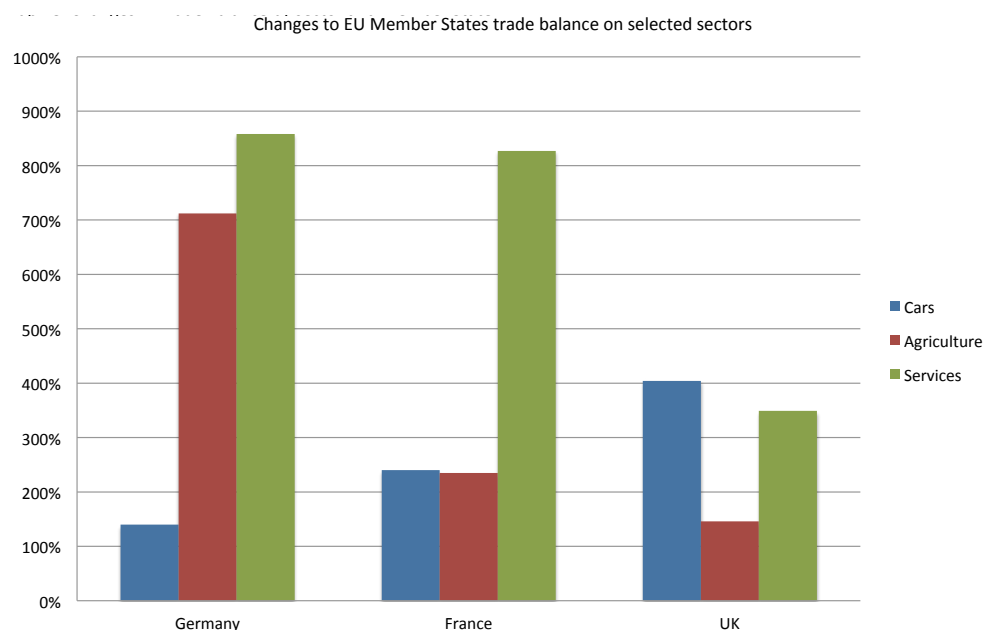
concessions by the Member States across all sectors, to reap the overarching benefits from free trade.

In the future, the already signed EU-Korea FTA and the under negotiation EU-Japan FTA could have a trade distorting effect away from Taiwan<sup>6</sup>. In this economic and political dynamic, the rationale of comprehensive agreement has the advantage of significantly improving key member state trade balance on areas where countries' special interests or deficits lie. Whilst most EU countries report an overall trade deficit with Taiwan, accessing the Taiwanese auto market has the potential not only to erase the current EU deficit on motor vehicles with Taiwan, but also rebalance the negative effect from regional FTAs. Similarly, Member States can improve the overall deficit, by diversifying export gains into agriculture and services.

#### *EU – Taiwan trade relations are largely free from automotive or agricultural sensitivity*

To begin, the EU could improve balance on motor vehicles by €1.5bn or 5 times the current surplus level. Export gains and the resulting trade balance effects from the Taiwanese market are in fact larger than from Korea as they are free from reciprocal imports. Germany alone captures almost €1bn of trade balance improvements, while the rest is distributed among other European auto exporters, such as France, the UK, Italy or Spain – who will effectively move away from motor vehicle deficit to

**GRAPH 8. EU POST-FTA TRADE BALANCE WITH TAIWAN IN SELECTED SECTORS**



Source: own calculations based on Copenhagen Economics estimates.

surpluses with Taiwan. Currently, it should be noted that most Member States export fewer motor vehicles to Taiwan than to neighbouring markets like South Korea or Hong Kong (Graph 7). In real value, France exports 5 times, the UK 4 times and Germany 2.5 times less to Taiwan than to Korea. Provided gain estimates can in fact be a gross underestimation – for example, if the UK or Italy exported as much to Taiwan as to much smaller Hong Kong, their annual trade balance with Taiwan would improve by \$230mn and \$30mn annually. Evidently, a small and unnoticed market can seriously affect auto trade balances after an FTA, as European producers can boost export of premium and mass brands without fear of import inflows in exchange.

Similar logic applies to agricultural and food products, projected for almost a one billion euro increase, coming largely from beverages, spirits and dairy products. This is an unprecedented export gain, from literally flat trade volumes. Taiwan as an agricultural import-dependent country has huge potential for agricultural exporters from France, the UK, the Netherlands, Italy or Germany, with each potentially improving trade balance by between €100 and €300 million.

The Member States' trade balances are by far improved in the services sectors – where Germany, France and the UK can gain an additional €0.5bn to €1bn on their trade

balance. In consequence, the EU can improve the already substantial services surplus of €2.5bn up to €6.6bn.

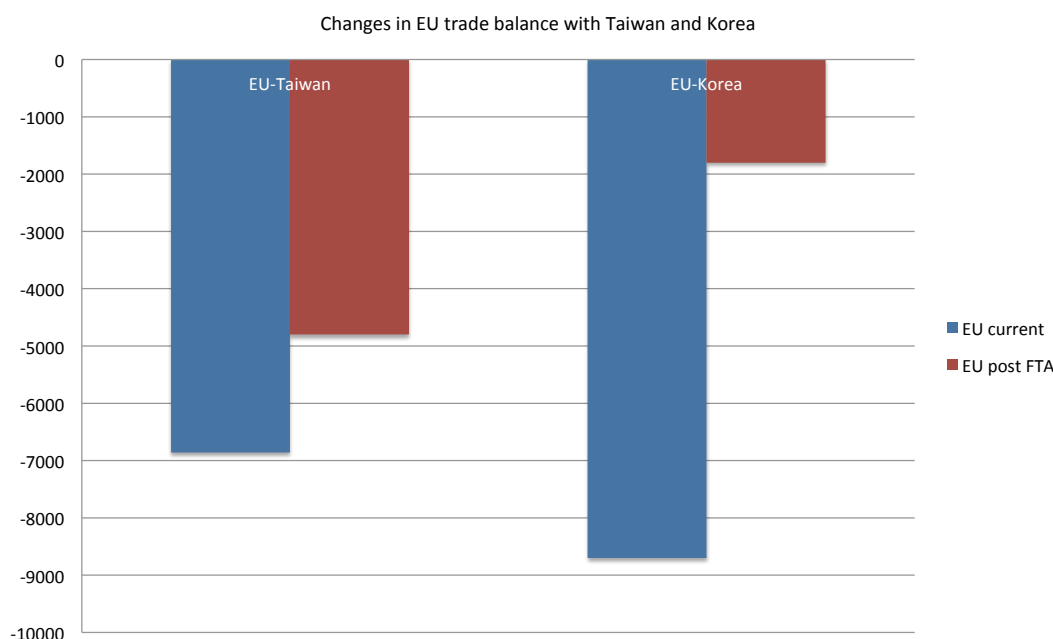
Taking the EU-Korea FTA as a benchmark, an FTA with Taiwan provides equivalent short-term export gains, as well long-term proportional overall trade balance improvements by at least €2bn. Taiwan's economy is much smaller than Korea's, but a high two-way trade exchange makes the real welfare benefits more meaningful, not to mention benefits related with ECFA and indirect access to the Greater China region for EU countries. In the future, EU initiatives in the Far East, such as the EU-Korea FTA and its ambition to reach agreement with Japan could have a trade distorting effect away from Taiwan.<sup>8</sup> Yet, new regional developments in Asia-Pacific only increase EU rationale for trade enhancing measures with Taiwan to participate in the emerging world's largest trading block, be it TPP or RCEP or 'just' the Greater China region.

### EU Member States indirect access to China

As TAIWAN'S INCOME level is increasing, so is demand for services, high-end consumables, especially on smaller cars, imported food, branded goods and retail services, which is typically produced by non-export led economies. Interestingly, the coverage of ECFA is very much aligned with Member States export profiles and competi-



**GRAPH 9: EU TRADE BALANCE WITH TAIWAN AND KOREA**



tiveness. First of all, goods covered by the ECFA early harvest list account for approximately 20% of the Taiwanese export basket to China, while in theory the same set of goods covers 50% of European exports to Taiwan. The EU Member States stand to benefit from Taiwanese market opening in the component and investment sectors, where ECFA has opened up cross-strait trade.

*Taiwanese firms account for 25% of total Chinese exports – in other words, China with its world’s largest trade surplus would go into trade deficit without Taiwan*

ECFA is not only politically significant, but arguably the best market access tool on non-tariff measures in China, facilitating extensive cross-strait trade and investment flows. This will substantially increase integration of supply-chains within the Greater China region, evident from the already high levels of component trade: intermediate goods account for 80% of total Taiwanese exports to China, and approximately 80,000 Taiwanese-controlled firms have investments there. These firms account for 25% of total Chinese exports – in other words, China with its world’s largest trade surplus would go into trade deficit without Taiwan.<sup>8</sup> Some analysts talk about ‘Chiwan’: the de facto economy of Taiwan is 50% larger than

the island itself, when all Taiwanese operations on the Mainland are taken into account.<sup>9</sup> This is particularly important for Member States that export raw materials or high-end specialised components and machinery, especially in the electronics sector.

Second are new trade and investment avenues to China opened through the ECFA. The first step – the early harvest list – covered 539 goods items and 11 services sectors with another 5,800 goods and 100 services on the review list. Arguably, few quantitative methods capture the precise impact of ECFA opening on demand for the EU’s goods and services. These methods take little into account of what specific types of processors are used and where; or which sectors are going to be in demand; not to mention practical ECFA implementation by its signatories. Nevertheless, proximate assessment, economic logic and past experience give a clear picture for EU potential benefits:

1. ECFA impact assessment projects a Taiwanese export increase to China of between 5% and 8%.<sup>10</sup> The EU as the largest intermediate goods supplier to Taiwan will naturally benefit from increased triangular trade flows. With Taiwanese foreign content of export being as high as 55%,<sup>11</sup> the argument follows that an increase in

Taiwanese exports to China must entail more demand for components and raw materials from EU Member States. In fact, taking the current EU share of Taiwanese imports, which stands at between 10% and 20%, EU Member States can gain an additional \$0.5bn~\$2bn.<sup>12</sup> Although, non-German intermediate exports account for only one-third of today's exports, new demand arising from ECFA is going to have a more balanced composition as the export growth and utilisation rate of ECFA is the highest in chemicals, pharmaceuticals, food and beverages.<sup>13</sup>

2. Taiwanese economists project 5% of GDP increase as a result of ECFA. These welfare gains directly translate into higher demand for European goods and services. An FTA with Taiwan puts the EU in an advantageous position to increase export beyond Taiwanese GDP increase, given that all tariffs and NTBs are dismantled on motor vehicles, foods and services.
3. Finally, the example of Dutch investment in Taiwan is illustrative of how European companies can benefit from the Taiwanese industrial landscape and proximity to Mainland China. Dutch companies provide heavy machinery for leading IC manufacturers and in total make up 60% of total EU investment on the island. Apart from Taiwanese orders, these establishments benefit from business networks on the Mainland and the enlarged 'Chiwan' market. Additionally, services providers such as finance or healthcare could be granted access to the vast Chinese market as an ECFA qualified Taiwanese institutions.

Perhaps the most important and controversial point in triangular trade is how an FTA between the EU and Taiwan might impact services access to the Chinese market. Taiwan has already been granted access to a few sectors, including business, financial, ICT and health-related sectors – in short, prime examples of EU services exports and competitiveness. For example, retail banks can operate wholly owned branches, conduct business in RMB and underwrite Taiwanese businesses in China. Theoretically, the stars are aligned – between EU competitiveness, Taiwan's need for investments in services sector, opening in

ECFA and Mainland growing appetite for modern services. Taiwanese business in China now valued at \$140-\$260 billion requires up to 20% of specialised services input from wholesale, retail, finance, ICT and business services.<sup>14</sup> In this sense, Taiwan becomes an investment experience, networking platform and access portal for growing in demand services market in China.

*Theoretically, the stars are aligned – between EU competitiveness, Taiwan's need for investments in services sector, opening in ECFA and Mainland growing appetite for modern services*

Most important for Taiwan are concessions on commercial establishment (mode 3, or services investments) in China. Studies project a \$1bn increase in services investments as a result of ECFA.<sup>15</sup> The reality is far more promising – one year after ECFA entered into force, more than \$2 bn of Taiwanese-funded investment has been made in the sectors of finance, ICT and business services.<sup>16</sup> For the EU, the ability to take a substantive share in Taiwanese businesses and receive ECFA qualification becomes an opportunity to shape the framework of the developing Asia-Pacific services trade, as the Greater China region moves into the next phase of services liberalisation and a services-driven economic model.

The EU is the biggest foreign investor in Taiwan, however, only Dutch investment have been of substantial size and position to benefit from long-term ECFA developments – and these are mostly in the semiconductor industry and financial services respectively. With Mainland ambitions to deliver social welfare, European know-how and capital in healthcare, R&D, environmental or banking services is a welcoming sign. Taiwan in this respect is becoming an experimentation portal for European business models and a strategic partner for venturing into the Greater China region.

### Policy recommendations

GIVEN THE DIVERSITY of sectoral gains, only broad and comprehensive trade liberalisation is beneficial from the perspective of the EU Member States, including all sectors of manufacturing, agriculture and services – with strong commitments on investments that would reflect ECFA sector-by-sector liberalisation.

Taiwan already applies low tariffs on goods, with the exception of its tariff hikes on EU export volumes of motor vehicles, textiles, electrical machinery and agricultural products.<sup>17</sup> Besides these – regulatory divergences in NTBs, services, intellectual property, investment and government procurement ought to be prioritised. All Member States should be aware of the strategic role that Taiwan may play in improving the quality of the regulatory framework in the Greater China region, thanks to its business and cultural proximity. First mover advantage increases the odds of influencing regional market architecture.

The EU Chamber of Commerce in Taipei (ECCT) states a number of non-tariff issues, such as NTBs on manufacturing (53 cases), trade in services (51), customs and trade facilitation (13), general non-trade issues (10), barriers to investment (9) and agricultural products (6).<sup>18</sup>

Among numerous issues regarding investment, establishment rules for services investment (mode 3) become important for indirect market access to the region – especially on ICT, financial, healthcare, business and professional services. EU services providers should closely follow implementation and content of current as well as subsequent services negotiations under ECFA. Alternatively, the prospect of a stand-alone services and investment agreement (specifically permitted under the WTO), is worth exploring, especially for the UK's financial sector. It is worth noting that Japan has already entered into a broader bilateral investment treaty (BIT) with Taiwan covering both the manufacturing and services sectors.

Most NTBs in Taiwan are associated with product certification, homologation, double testing, customs procedures, procurement regulations, SPS licence requirement and many Taiwanese-specific compliance standards diverging from EU or international benchmarks. These NTBs can be traced to sectors where the EU holds competitive advantage such as motor vehicles, electrical and medical equipment, pharmaceuticals, cosmetics or agricultural products effectively hindering access and rising costs.

Some of the NTBs can be explained by Taiwan's involuntary exclusion from international co-operation such as UNECE, which are applied by the EU motor vehicle industry. Taiwan's adoption of EU emission and fuel-ef-

iciency regulations and full acceptance of standards and certifications is particularly valuable to Member States exporting cars of a lower engine sizes (e.g. France, Italy, Spain or CEECs), facing prohibitive administrative costs. Foreign cars have a large share of Taiwanese market with Japanese, Korean, American, few premium European brands taking a lead and literally no smaller EU automakers. Backdoor harmonisation to UNECE via the EU could substantially change this reality on the ground in Taiwan, which itself is weary of the influx of Chinese car imports.

Finally, government procurement rules on medicines disadvantage notable exporters, such as France and the UK, while subsidising local generic manufacturers with price incentives. Lack of transparency affects pharmaceuticals as well as cosmetics that need to meet pre-market Taiwanese-specific compliance regulations. Access for high-end agricultural products should also be of special interest to economies such as France, Italy or the UK, which currently face barriers related to classification and mislabelling issues.

## Conclusions

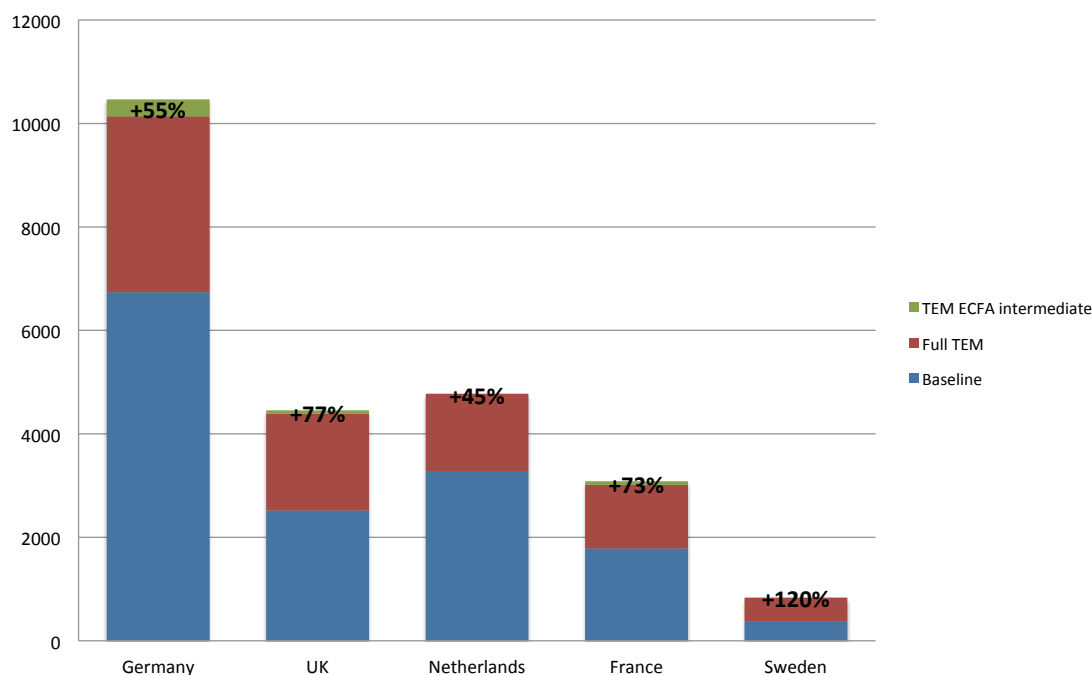
IN THE FINAL overview, three scenarios are given to illustrate EU Member States' export volumes to Taiwan, which incorporate long-term triangular trade development (Graph 10):

- Firstly, the baseline scenario assumes no FTA with Taiwan and continuing the trade deficit in the region.
- The second scenario incorporates the gains from EU-Taiwan, which helps to leverage overall EU deficit with other Asian FTAs (full trade-enhancement measures, or 'full TEM')
- The last scenario adds gains attributed to increased intermediate export distributed between selected individual Member States.

As we see, there is a substantial relative increase for Member States from TEM itself, where countries like Sweden, the UK and France double or nearly double their exports to Taiwan (an increase of 120%, 77% and 73% respectively), whereas Germany and the Netherlands can expect a

**GRAPH 10: EXPORTS OF EU MEMBER STATES UNDER THREE SCENARIOS**

Three scenarios for EU Member States export to Taiwan, mn EUR



Source: own calculations

±50% export increase. At first glance, the impact from ECFA may seem modest, and this is largely due to two reasons. Firstly, much of the multiplier effect from the EU-Taiwan agreement will come from increased investment, particularly in the services sectors, which is not captured in the above calculation, as there are no precise methods to establish increased demand for services from Taiwanese firms in Taiwan and China. Secondly, the increased consumption of European goods and services, coming from ECFA welfare effect on Taiwanese economy is not accounted for the same reasons. These immeasurable effects of triangular services trade may lead to a much greater export increase than TEM itself.

It is indisputable that ‘big’ FTAs are the way forward for EU Member States under the current policy climate and the political need for growth in Europe. However, smaller FTAs play a fundamental role in enabling these FTAs by rebalancing the gains from trade. As we have seen, Taiwan and its extension as regional hub is a prime example of such a trade link with automobiles and agriculture as the main beneficiaries of improvements in EU-Taiwan bilateral trade. Furthermore, Taiwan as one of the world’s most trade-dependent economies faces an imperative to

conclude FTAs with global players or regional initiatives such as the Trans-Pacific Partnerships, and has bigger incentives to meet EU demands on non-tariff issues that have made some of the EU’s FTAs difficult to conclude.

## Endnotes

1. Value lower than 1 indicates underperformance, i.e. lower share of given good in export basket to Taiwan than to the rest of the world (ROW).
2. Copenhagen Economics, 2008
3. Ibid.
4. Copenhagen Economics, 2007
5. Lee-Makiyama, Hosuk (2012), FTAs and crisis in European car industry. ECIPE Policy Brief No. 02/2012.
6. Copenhagen Economics (2012), EU-Taiwan: Trade Enhancement Measures. 2008 update.
7. Copenhagen Economics (2012), EU-Taiwan: Trade Enhancement Measures. 2008 update.
8. ECCT (2008), Trade Enhancement between Taiwan and EU
9. Nominal GDP value of 140-260 BN US\$, at: Messerlin, Patrick (2012), The EU Preferential Trade Agreements: Defining Priorities for a Debt-Ridden, Growth-Starving EU. Working Paper, January, GEM, Sciences Po.
10. CIER, (2009) 服務貿易與投資自由化之影響評估 and Chen, K-M (2011), The Impact of Cross-Strait Trade Liberalization: A Computable General Equilibrium Analysis.
11. OECDSTAT, STAN database.
12. EU share of Taiwanese services imports ( $\pm 20\%$ ), share of total goods ( $\pm 10\%$ ), OECDSTAT
13. Chang, K-I, Hayakawa, K. (2012), Determinants of Utilization of FTA between China and Taiwan, selection of Early Harvest Products.
14. OECD, 'Input-Output Table for Chinese Taipei'
15. CIER, (2009), and Taiwan Investment Commission, Ministry of Economic Affairs (MOEA), 2010
16. Taiwan Statistical Data Book, 2011, ROC
17. WTO country tariff profiles, 2010
18. ECCT, 2007-2008, Roadmap to renewed prosperity in 'Enhancing EU-Taiwan Business Opportunities'

## Bibliography

Chang, K. and Hayakawa, K., (2012), Determinants on Utilization of Free Trade Agreement between China and Taiwan: Selection of Early Harvest Products. In *Cause and Consequence of Firms' FTA Utilization in Asia*, (eds) Kazunobu Hayakawa, BRC Research Report No.9, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand.

Chen, KM., Tsai, MC., and Lin, CC., (2009), Impact of Cross-Strait Trade Liberalization, A Computable General Equilibrium Analysis. *China and World Economy* 17(6), pp. 106-122.

CIER, (2009), 服務貿易與投資自由化之影響評估 'Impact assessment of trade in services and investment liberalization'.

ECCT, (2008), Taiwan: Enhancing Opportunities for European Business; Trade and Investment between the European Union and Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei). Final Report, August 2008 conducted by Copenhagen Economics. Accessed at [http://www.copenhageneconomics.com/Files/Filer/Publikationer/53201\\_EU-Taiwan\\_Study.pdf](http://www.copenhageneconomics.com/Files/Filer/Publikationer/53201_EU-Taiwan_Study.pdf)

ECCT, (2012), EU-Taiwan: Trade Enhancement Measures: update of the 2008 report, conducted by Copenhagen Economics, 2012. Accessed at <http://www.copenhageneconomics.com/Files/Filer/TEM%20Study.pdf>

Erixon, Fredrik and Lee-Makiyama, Hosuk, (2010), Stepping into Asia's Growth Market: Dispelling Myths about EU-Korea Free Trade Agreement, ECIPE Policy Brief No.3/2010.

Fraçois, J.F., (2007), Economic Impact of a Potential Free Trade Agreement (FTA) between European Union and South Korea, Copenhagen Economics, March 2007.

Lee-Makiyama, Hosuk, (2012), FTAs and crisis in European car industry. ECIPE Policy Brief No. 02/2012.

Messerlin, Patrick, (2012), The EU Preferential Trade Agreements: Defining Priorities for a Debt-Ridden, Growth-Starving EU. Working Paper, January, GEM, Sciences Po.

## LATEST PUBLICATIONS:

The WTO Must Bounce Back

[ECIPE Policy Brief No. 09/2012](#)

By Stuart Harbinson

ACTA – The Ethical Analysis of a Failure, and its Lessons

[ECIPE Occasional Paper No. 04/2012](#)

By Luciano Floridi

Mercantilist Misconceptions: A Détente Strategy for EU-China Relations

[ECIPE Policy Brief No. 08/2012](#)

By Fredrik Erixon

After Cross-Strait Rapprochement: A conceptual analysis of potential gains to Europe from China-Taiwan economic cooperation

[ECIPE Occasional Paper No. 03/2012](#)

By Fredrik Erixon, Natalia Macyra, Michal Krol

Did euro leaders say goodbye to the IMF?

[ECIPE Policy Brief No. 07/2012](#)

By Fredrik Erixon

The Eurozone's Arrested Adolescence: Sketching a Way Out of the Crisis

[ECIPE Policy Brief No. 06/2012](#)

By Fredrik Erixon

Will Asia Shape or Shake the World Economy?

[ECIPE Policy Brief No. 05/2012](#)

By George Magnus

What power shift to China?

[ECIPE Policy Brief No. 04/2012](#)

By Guy de Jonquières

The International Services Agreement (ISA) – from the European vantage point

[ECIPE Policy Brief No. 3/2012](#)

By Hosuk Lee-Makiyama, Natalia Macyra, Michal Krol

The Rising Trend of Green Protectionism: Biofuels and the European Union

[ECIPE Occasional Paper No. 2/2012](#)

By Fredrik Erixon

FTAs and the crisis in the European car industry

[ECIPE Policy Brief No. 02/2012](#)

By Hosuk Lee-Makiyama, Michal Krol

A New Era for Transatlantic Trade Leadership

[A Report from the Transatlantic Task Force on Trade and Investment](#)

By Transatlantic Task Force on Trade and Investment

Industrial Policy in Europe Since the Second World War: What Has Been Learnt?

[ECIPE Occasional Paper No. 1/2012](#)

By Geoffrey Owen

China's Challenge

[ECIPE Policy Brief No. 01/2012](#)

By Guy de Jonquières

What is Driving the Rise in Health Care Expenditures? An Inquiry into the Nature and Causes of the Cost Disease

[ECIPE Working Paper No. 05/2011](#)

By Erik van der Marel, Fredrik Erixon

Future-Proofing World Trade in Technology: Turning the WTO IT Agreement (ITA) into the International Digital Economy Agreement (IDEA)

[ECIPE Working Paper No. 04/2011](#)

By Hosuk Lee-Makiyama

**The European Centre for International Political Economy (ECIPE)** is an independent and non-profit policy research think tank dedicated to trade policy and other international economic policy issues of importance to Europe. ECIPE is rooted in the classical tradition of free trade and an open world economic order. ECIPE's intention is to subject international economic policy, particularly in Europe, to rigorous scrutiny of costs

and benefits, and to present conclusions in a concise, readily accessible form to the European public. We aim to foster a "culture of evaluation" – largely lacking in Europe – so that better public awareness and understanding of complex issues in concrete situations can lead to intelligent discussion and improved policies. That will be ECIPE's contribution to a thriving Europe in a world open to trade and cross-border exchange.

[www.ecipe.org](http://www.ecipe.org)

Phone +32 (0)2 289 1350 Fax +32 (0)2 289 1359 [info@ecipe.org](mailto:info@ecipe.org) Rue Belliard 4-6, 1040 Brussels, Belgium