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by Sarah Goldfeder and Eric Miller
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POLICY PERSPECTIVE

THE IMPERATIVE OF TRADE DIVERSIFICATION: WHY CANADA SHOULD EMBRACE TAIWAN'S ACCESSION TO CPTPP

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In the darkest days of the North American Free Trade Agreement (NAFTA) re-negotiation, U.S. President Donald Trump threatened to impose tariffs on Canada that would lead to the “ruination” of the Canadian economy. This was only one of many episodes that dogged the white-knuckle process of remaking this trilateral trade agreement. More than once, Canadian policy-makers worried they were looking into the abyss. Although the three partners eventually signed the CUSMA/USMCA/T-MEC without generating significant harm to their economies, many policy-makers feel an enduring sense of vulnerability. That vulnerability has transformed trade diversification from a desirable policy objective to a national imperative.

The explicit focus on trade diversification began in July 2018, with Jim Carr’s appointment as minister of the rebranded Department of International Trade Diversification. Later that year, the fall economic update outlined an invigorating of the trade infrastructure, supported by significant infusion of resources to the Trade Commissioners Service and a mandate to grow exports by 50 per cent by 2025.

Many factors will contribute to the determination of whether Canada “moves the needle” toward driving export growth. These include experimenting with different types of export models, developing technology-based tools and strengthening the supply side of the Canadian export economy. One additional fundamental cornerstone of the Canadian strategy is the expansion of market access into key economies in parts of the world that are emerging economic players. In order to come anywhere close to the goal outlined in fall 2018, Canada will need to embrace trade and be willing to negotiate agreements with any commercially significant partner that would like to “dance.”

Important opportunities in this regard stem from Canada being one of the founding members of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The CPTPP is designed to expand over time, and by embracing the entry of Taiwan and others into the partnership, Canada can increase its influence as well as its access to new markets. Taiwan, in particular, is consistently vocal about its interest in accession, more so than other leading candidates such as Thailand and the Philippines. In addition, Taiwan has a strong base of locally grown, globally oriented firms that would be invaluable trading partners and could also be significant investors in Canada. Taiwan has also invested in the process to ensure that its internal regulatory and legislative requirements meet those outlined in the agreement.

This paper will open with an overview of Canada’s recent trade experiences, including the strong potential of CPTPP. It will then situate Taiwan in the Asian trade eco-system and look at its existing bilateral economic ties with Canada. Next, it will look at Canada’s policies toward and relations with Taiwan and China and how this may/should impact a decision to support Taiwanese accession. Finally, it will look at the prospective impact of Taiwanese accession on Canada-Taiwan bilateral trade, Asian-wide trade and the broader regional commercial architecture within Asia.



Canada's Trade Diversification Imperative

Trade diversification as a policy focus is not new. It moves to the forefront from time to time when Canadians are worried about their reliance on foreign capital, concentration of trading partners and Canada's perceived dependence on the United States for its economic prosperity. The growing uncertainty around Canada's second largest trading partner, China, and the punitive measures China has undertaken in the past year only bolster the current feeling of urgency.

In the 1970s, as the United States reeled from social upheaval, an unpopular war in Vietnam and the economic shock following then-president Richard Nixon's ending of the dollar-gold linkage, Canadians felt increasingly worried that their southern neighbours were becoming unreliable partners. Consequently, in 1972, then-External Affairs minister Mitchell Sharp announced his famous "third option". The Pierre Trudeau government felt that it needed greater control over the Canadian economy. The goal was to reduce Canada's dependence on the U.S. market and reliance on U.S. investment as a cornerstone of Canadian prosperity. For all of the talk of diversification, little new trade actually resulted from the initiative. The main result was an economic framework initiative, namely, the Canada-European Economic Community contractual linkage of 1976.¹

With the brutal economic recession of the early 1980s, policy-makers shifted their preoccupation to making Canadian firms more competitive and globally connected. To achieve this, Canadian firms needed greater exposure to market pressures and greater access to world markets. The Canada-U.S. Free Trade Agreement (CUFTA) and NAFTA liberalized policies around trade and investment. Industries were reshaped along North American lines. Canadians exported more to the U.S. than ever before. The mantra around de-concentrating Canada's trade with the U.S. was largely forgotten. The U.S. was considered a predictable, constructive and inevitable partner once again.

After NAFTA, Canada continued to push ahead with trade liberalization. First, it largely pursued free trade agreements within the Americas. By the 2010s, Canada's ambitions had grown as it pursued commercially significant agreements with Korea and the European Union (CETA). Under pressure from the U.S., and with Mexico as a member, Canada also cautiously pursued the conclusion of the Trans-Pacific Partnership.

"More trade with more partners is good" is the cornerstone philosophy of the pursuit of these agreements. While policy-makers consistently sought market access opportunities, the securing of these trade agreements was hardly accompanied by a sense that Canadian prosperity rested in the balance.

Then came Donald Trump.

¹ Gordon Mace and Gérard Hervouet, "Canada's Third Option: A Complete Failure?" *Canadian Public Policy*, vol. 15, no. 4. December 1989. Available at https://www.jstor.org/stable/3550355?seq=1#page_scan_tab_contents



As John Ikenberry wrote in *Foreign Affairs* in 2017:

(A) fundamental conviction that Trump rejects is the U.S. commitment to open trade. This responsibility dates back to the 1934 Reciprocal Trade Agreements Act, which started the slow process of re-opening the world economy after the Great Depression. Ever since, trade has played a central role in U.S. foreign policy ... Every postwar president has regarded this open system as integral to the prosperity of the United States and to its larger geopolitical goals – until Trump.²

For Canada, Trump is the first U.S. president to explicitly threaten to undermine Canadian prosperity. Between the threats to undo NAFTA, the contentious final days of the CUSMA/USMCA negotiations and the application of the section 232 tariffs on steel and aluminum for national security, Trump has rewritten the rules of engagement. Even now, with the CUSMA agreement signed, and the tariffs negotiated away, Trump might threaten to intentionally disrupt the Canadian economy with one tweet. A responsible policy-maker cannot ignore such threats, even if they remain just threats. Geography is destiny and the U.S. will remain Canada's largest trading partner for the foreseeable future. Yet, as Laura Dawson, former-director of the Canada Institute at the Woodrow Wilson Center, put it:

(E)ven if the United States reverts to its role as ally and friend, Canada may never again accept the relationship with the same faith as it did in the pre-(Trump) era.³

Consequently, trade diversification is an imperative.

² G. John Ikenberry, "The Plot Against American Foreign Policy," *Foreign Affairs*, May/June 2017: 5.

³ Laura Dawson, "Notes From a Disillusioned Canadian: Our Friendship with the U.S. May Never Be the Same," *The Globe and Mail*, Sept. 7, 2018. Available at <https://www.theglobeandmail.com/opinion/article-notes-from-a-disillusioned-canadian-our-friendship-with-the-us-may/>



CANADA'S TOP 10 MERCHANDISE TRADING PARTNERS – 2017

Country	Export Rank	Import Rank	Free Trade Agreement?
United States	1	1	Yes (NAFTA)
China	2	2	No
United Kingdom	3	6	Yes (CETA)
Japan	4	5	Yes (CPTPP)
Mexico	5	3	Yes (NAFTA)
South Korea	6	7	Yes (Canada-Korea)
India	7	-	No
Germany	8	4	Yes (CETA)
Belgium	9	-	Yes (CETA)
France	10	9	Yes (CETA)
Italy	-	8	Yes (CETA)
Taiwan	-	10	No

Source: Canada's State of Trade – 2018 Report, Global Affairs Canada

Canada's steady, but unhurried approach to building market access with major economies in Asia, Europe and Latin America over the past 25 years provides a substantial part of the answer to the diversification question. Fortunately, Canada entered the period of Trumpian turbulence in a strong position, having free trade agreements with most of its top 10 trading partners. Notable exceptions are the two Asian mega-states of China and India, which have unique trade and foreign relations dynamics that make any agreement challenging. The other notable exception, for which there is no logical rationale, is Taiwan. As will be discussed below, Taiwan exemplifies the mindset that Canada should embrace: a willingness to trade with anyone on a reciprocal basis within the context of agreed rules.

In order to prosper in this context, Canada needs to sharpen its strategies for building its export base and for better utilizing the trade concessions that these agreements provide. It also needs to vigorously embrace the development of new agreements and the expansion of existing ones. The expansion of the CPTPP through the inclusion of interested new members, including Taiwan, is in Canada's national interest.



What is CPTPP?

In 2004, four small economies came together at the vanguard of the global movement toward freer trade. Singapore, Chile, Brunei and New Zealand dubbed their cohort the Trans-Pacific Partnership (TPP). By 2008, Australia, Peru, Vietnam, and most importantly, the United States had joined the negotiating table.

As the world's largest economy with a high level of sophistication in trade negotiations, the U.S.'s entry in 2008 changed the talks' dynamics. The agreement became more interesting and others, including Japan, Mexico and Canada, looked to become part of the partnership. In 2010, Malaysia joined, followed by Canada and Mexico in 2012, and then in 2013, Japan, the world's third largest economy, joined the negotiations.

The USTR began articulating TPP as a vehicle to balance China's increasing market power. When the agreement was signed in February 2016, the U.S. represented some 65 per cent of GDP in the TPP area.⁴ The agreement substantially incorporated U.S. standards and practices in the architecture and specifics of the agreement,⁵ meaning that for Canada and Mexico, TPP would become the vehicle which they had long sought for modernizing NAFTA.⁶

For Canada, joining TPP was both about trade and helping to shape the economic architecture of the world's fastest growing region. As John Curtis put it: "TPP is a step forward, as Canada plays its part in shaping rules in a rapidly changing global economy while at the same time attempting to ensure a sustainable and prosperous future."⁷ As a middle power, Canada cannot dictate the terms of many agreements, but can accrue substantial influence by taking a constructive and creative approach to key issues. Being at the table is therefore critically important. Moreover, on the commercial side, Carr rightly notes that Canada "cannot afford the status quo and we cannot afford to wait for the world to come to us".⁸

TPP was one of the first casualties of the 2016 presidential election. Despised by major U.S. trade unions, TPP was undone by an impressive public opinion campaign that dovetailed with the 2016 election. All the major candidates for president rejected the deal. So in the waning days of the Obama administration, getting the votes to pass TPP in Congress proved impossible. On Trump's first Monday in office, he announced that the U.S. was withdrawing from TPP.

Many assumed that the U.S.'s exit would end the agreement. But the remaining 11 partners, and Japan in particular, had invested a lot politically. Japan saw TPP as a key part of its economic modernization agenda and went about reconstituting a consensus for going forward among the

⁴ Jeffrey J. Scott, "The TPP: Origins and Outcomes," *Handbook of International Trade Agreements: Country, Regional and Global Approaches*, Peterson Institute for International Economics: 406. Available at <https://piie.com/system/files/documents/20181011schott-tpp.pdf>

⁵ *Ibid.*, 403.

⁶ *Ibid.*, 402.

⁷ John M. Curtis, "The Trans-Pacific Partnership (TPP): An Overview," *The School of Public Policy: Communiqué*, vol. 7, issue 6. University of Calgary, December 2015: 4. Available at <https://www.policyschool.ca/wp-content/uploads/2016/03/tpp-curtis.pdf>

⁸ Kevin Carmichael, "TPP is a Call to Action for Canada to Diversify into Rich Markets We Now Have Access To," *Financial Post*, Sept. 17, 2018. Available at <https://business.financialpost.com/news/economy/rethinking-our-global-ambitions-starting-with-the-call-to-action-that-is-the-tpp>



remaining 11 members. In March 2018, these countries signed the rebranded Comprehensive and Progressive Trans-Pacific Partnership.

The Council on Foreign Relations notes that the differences between TPP and CPTPP are “largely changes to or the removal of measures pushed by Washington that were unpopular among the other participants”.⁹ On the technical side, ongoing work among some members is examining how to de-Americanize the agreement, particularly in areas such as rules of origin.

According to CPTPP rules, the agreement would come into force when half of all members ratified the deal and completed administrative formalities. This milestone was reached on Dec. 30, 2018. At the time of writing, seven of the 11 signatories have ratified: Australia, Canada, Japan, Mexico, New Zealand, Singapore and Vietnam.

As with other free trade agreements, CPTPP establishes a commission comprised of ministers from all member countries to administer the agreement and decide on key issues. One of the key issues is accession of new members. In January 2019, at the first meeting since CPTPP's entry into force, the commission established a specific accession process.¹⁰ It functions as follows:

- Aspirant economies are encouraged to informally consult with all CPTPP economies before submitting a formal accession request.
- Once the formal request is received, the commission will meet to decide whether to commence accession negotiations through the establishment of an accession working group.
- Decisions to advance to the working group stage are made by consensus.
- Throughout 2019, all CPTPP signatories, whether or not they themselves have yet ratified the agreement, may participate in decision-making around accessions. Afterwards, only those that are CPTPP members in good standing may participate.
- If they agree to proceed, the commission may either establish a separate working group or combine a number of aspirant economies in a single working group.
- Within 30 days of the first working group meeting, the aspirant economy will submit its offers on market access and non-confirming measures, thereby commencing negotiations.

⁹ James McBride and Andrew Chatzky, “What is the Trans-Pacific Partnership (TPP)?” Council on Foreign Relations, Jan. 4, 2019. Available at <https://www.cfr.org/background/what-trans-pacific-partnership-tpp>

¹⁰ Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) Accession Process (Annex to CPTPP/COM/2019/D002). Available at https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/accession_process-processus_adhesion.aspx?lang=eng



- If the negotiations conclude successfully, the working group shall submit a written consensus report to the commission, setting forth the terms and conditions for the aspirant economy's accession.
- The commission will determine within six months whether to approve the terms and conditions of accession by the aspirant economy.
- If the commission approves the terms and conditions, the accession process may occur 60 days after: (1) the aspirant economy deposits the instrument of accession, thereby indicating its agreement with the terms and conditions; and (2) when all existing members have notified in writing that they have completed all necessary legal procedures to accept the aspirant economy.

Thailand is widely regarded in trade circles as the likely first aspirant economy to begin the accession process. The Philippines is also seen as a likely candidate country. Korea still seems to be debating about whether to pursue accession. The U.K. has expressed interest as well, despite the Pitcairn Islands being its only remaining territory in the Pacific.

Taiwan, it can be easily argued, is the keenest prospective member to join. Since the signing of CPTPP, Taiwan has been undertaking domestic reforms to bring its economic and trade regime in line with the obligations under the agreement. They are, without a doubt, preparing for the accession process and look to be ready on day one of eligibility.

CPTPP Opportunity

With a population of almost 500 million, CPTPP members account for 13.5 per cent of the global GDP.¹¹ Trade between Canada and the other CPTPP countries amounted to C\$105 billion in 2016 or roughly eight per cent of Canada's entire foreign trade. Of this, \$71.3 billion (roughly 68 per cent) was with countries with whom Canada did not have an active FTA at the time.¹² Bilateral foreign investment with CPTPP countries amounted to \$122 billion for Canada the same year. Early data suggest that CPTPP is already delivering significant results for Canadian business.

The government of Canada's economic impact assessment of CPTPP finds that the agreement will add \$4.2 billion to Canada's GDP by 2040. This is greater than the \$3.4 billion that was expected from TPP. This is largely due to the U.S., which is a key competitor in a variety of segments, no longer being part of the agreement. The main driver of these GDP increases was the access to new markets with whom Canada does not presently have free trade; namely, Japan, Vietnam, Malaysia and Australia.¹³ Adding new members such as Taiwan, which are already important players in

¹¹ "Overview and Benefits of the CPTPP," Global Affairs Canada, Feb. 11, 2019. Available at <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/overview-apercu.aspx?lang=eng>.

¹² The statistics in this paragraph, unless otherwise noted, come from the Office of the Chief Economist, "Economic Impact of Canada's Participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," Global Affairs Canada, Feb. 16, 2018. Available at <https://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/impact-repercussions.aspx?lang=eng>

¹³ Ibid.



trade within Asia, are committed to a rules-based regime and are engaged in pre-existing bilateral trade with Canada, is sure to drive these benefits much higher. Since withdrawing from the TPP and with the declared unwillingness to engage in multilateral trade agreements, the U.S. has effectively provided opportunity to Canada – not just within the CPTPP, but also other countries looking to join, and in particular, Taiwan.

It is not just the government of Canada that has reached these conclusions. Carlo Dade and Dan Ciuriak modelled the impact of CPTPP for the Canada West Foundation. They found that Canada's long-run GDP would increase \$3.4 billion with CPTPP as compared to \$2.8 billion under TPP.¹⁴ Again, the big differentiator was open access to new FTA partners. Expanding an existing FTA is presumably simpler and less costly than negotiating a whole new FTA. It is therefore in Canada's interest to champion the accession of new CPTPP partners that are willing to comply with the rules of the agreement and offer the market access that existing members offer each other.

Why Taiwan Matters: A Commercial Assessment

Taiwan's place in the Asia trade ecosystem

Taiwan is one of the world's great economic success stories. From its poverty in the aftermath of the Chinese civil war to the beginning of its status as an Asian tiger starting in the 1960s, Taiwan has evolved into a mature, prosperous economy. Today, Taiwan is arguably the most vibrant democracy in Asia.

Technology manufacturing and the financial sector are vital for the Taiwanese economy. Taiwan prizes its highly organized and experienced production workforce, which allows it to mass-produce some of the world's most sought-after technological items. Taiwan is also in a unique position as it both manufactures goods to sell into the Chinese market and is part of an integrated supply chain which manufactures goods originating in China for the global market.

After decades of technology-based innovation support, it should come as no surprise that Taiwan is the world's second largest IT hardware manufacturer. Taiwan manufactures technology and communications equipment at higher rates and better standards than virtually anywhere else in the world.¹⁵ Additionally, Taiwan boasts one of the most secure economies in Asia. According to KPMG, Taiwan "has become the Asia-Pacific Capital Funding Center".¹⁶ As of 2017, Taiwan has varying tax treaties with 33 countries including Canada, France, Germany, Italy and the United Kingdom. In Asia, this list includes India, Indonesia, Japan, Malaysia, Singapore, Thailand and Vietnam.¹⁷

¹⁴ Carlo Dade and Dan Ciuriak, "The Art of the Trade Deal: Quantifying the Benefits of a TPP without the United States," Canada West Foundation, June 2017. Available at http://cwf.ca/wp-content/uploads/2017/06/TIC_ArtTradeDeal_TPP11_Report_JUNE2017.pdf

¹⁵ "Investment in Taiwan," KPMG Taiwan, KPMG International, July 2018: 4. Available at <https://assets.kpmg/content/dam/kpmg/tw/pdf/2018/08/tw-kpmg-invetment-in-tw-2018.pdf>

¹⁶ *Ibid.*, 7.

¹⁷ *Ibid.*, 22.



Taiwan's trade relations have long been primarily influenced by its two large neighbours, China and Japan, the world's second and third largest economies. As an early beneficiary of Japan's application of "Akamatsu's Flying Geese Paradigm",¹⁸ Taiwan has long since shifted from more labour-intensive to more capital-intensive production. Moreover, it has become a "goose" in its own right, producing multinationals that are investing through Asia and beyond. As of January 2018, Taiwan had invested some US\$96 billion in Southeast Asia with roughly US\$30 billion going to CPTPP member Vietnam.¹⁹ According to anecdotal evidence gleaned from visits to Vietnam, some 3,000 Taiwanese companies have now invested in the Vietnamese market.

Building on Taiwan's historic ties, the Tsai administration has made it a point of fostering connections with Japan. Notably, Vice-Minister of Internal Affairs and Communications Jiro Akama of Japan recently visited Taiwan in an official capacity, the first such visit since 1972, before formal diplomatic ties were broken. Additionally, in a show of continued support, Japan renamed the Interchange Association, its office in Taipei, the Japan-Taiwan Exchange Association. Taiwan's attempts to foster alliances internationally are not limited to Japan. With China's increasingly coercive measures in mind, President Tsai Ing-wen noted recently that Taiwan was determined to go on offence in global affairs with a view to pushing back in efforts to isolate it:

We [Taiwan] will simply redouble our resolve and continue to engage with the world, and continue establishing more and more substantive, economic and security partnerships with like-minded countries to garner the international community's acknowledgement and support.²⁰

Despite its famously complex relationship with the mainland, China has been a key destination for Taiwanese companies for the past couple of decades. One notable example, the iPhone, is famously assembled in China by Foxconn (a.k.a. Hon Hai Precision Industry), a Taiwanese-owned and headquartered company. Overall, China accounts for more than 30 per cent of Taiwan's trade. Two-way trade hit US\$150.5 billion in 2018, up from US\$35 billion in 1999.²¹ Yet, the pace of investment from Taiwan into China in recent years has begun to slow noticeably. From the 1980s through 2014, Taiwanese investors put US\$140 billion into China.²² More recently, many Taiwanese firms have soured on China and are shifting their dollars back home or into Southeast Asia. In August 2018, Taiwan's Investment Commission reported that fewer than 40 per cent of those surveyed were considering locating in China, down from more than 50 per cent at the

¹⁸ Much has been written about the Flying Geese Paradigm. But one example is Shigehisa Kasahara, "The Asian Developmental State and the Flying Geese Paradigm," UNCTAD, Discussion Paper No. 213, November 2013. Available at https://unctad.org/en/PublicationsLibrary/osgdp20133_en.pdf

¹⁹ Kelly Her, "Key Investment Market," *Taiwan Today*, Jan. 1, 2018. Available at <https://taiwantoday.tw/news.php?unit=4,31&post=127497>

²⁰ U.S.-China Economic and Security Review Commission, United States Congress, Nov. 2, 2018: Chapter 3, Section 3: 349-350. Available at https://www.uscc.gov/sites/default/files/Annual_Report/Chapters/Chapter%203%20Section%203-%20China%20and%20Taiwan_0.pdf

²¹ Eleanor Albert, "China-Taiwan Relations," Council on Foreign Relations, June 27, 2019. Available at <https://www.cfr.org/background/china-taiwan-relations>

²² Ralph Jennings, "Taiwan is Finally Luring Companies Back From China After More Than 15 Years of Trying," *South China Morning Post*, March 21, 2019. Available at <https://www.scmp.com/economy/china-economy/article/3002699/taiwan-finally-luring-companies-back-china-after-more-15>



beginning of 2017.²³ Despite the waning interest in new investments in China, the massive stock of existing investments continues to drive trade growth. Trade between Taiwan and China grew by 17.8 per cent in 2017 and is on track for another year of double-digit growth in 2018.²⁴

A key factor driving the declining attractiveness of China in Taiwan's export portfolio is the fear of creating vulnerabilities that the government in Beijing can take advantage of in its relationship with Taipei. With Xi Jinping's accession to the presidency in 2013, China has grown increasingly assertive in advancing its interests. Many on the receiving end, from South Korea (tourism) in 2017-2018 to Canada (canola and meat) today, feel that China is seeking to bully them economically to advance its political goals. Given the particularly complicated relationship between Taiwan and China, Taipei fears that Beijing will seek to weaponize the substantial stock of Taiwanese investments to further its political goals.

When Tsai was elected in 2016, she sought to actively correct what her government saw as Taiwan's economic over-reliance on China. A central part of her strategy to address this state of affairs was her very own trade diversification strategy, which was called the New Southbound Policy. The policy's goal is to "reduce Taiwan's reliance on China by expanding economic, educational, and cultural ties with ASEAN countries, Australia, New Zealand, and seven South Asian countries".

While reducing China's relative weight in Taiwan's trade and investment mix is a long-term proposition, the policy has delivered some results. According to Taiwan's government statistics, tourism, education, trade and investment have all surpassed previous targets with the policy countries. There also have been other successes in discrete areas such as public health.²⁵ Regardless of the outcome of Taiwan's 2020 presidential election, structural factors suggest that the emphasis on trade, investment, foreign policy, social policy and people-to-people ties is likely to continue.

Taiwan-Canada Trade: Opportunities for Growth

Even without a free trade agreement, Canada and Taiwan have a robust bilateral trade relationship. According to Innovation, Science and Economic Development Canada (ISED), Canada's two-way trade with Taiwan reached C\$7.9 billion in 2018.²⁶ According to Global Affairs Canada, Taiwan is Canada's fifth largest trading partner in Asia and 11th globally.²⁷ Among the areas of strength, Taiwan was Canada's 10th largest export market for educational services.²⁸ In

²³ Ralph Jennings, "Why Taiwanese Firms are Scaling Back Their China Operations," *Forbes*, Nov. 20, 2018. Available at <https://www.forbes.com/sites/ralphjennings/2018/11/20/why-taiwanese-firms-are-scaling-back-their-china-operations/#4b0da6d32ef5>

²⁴ U.S.-China Economic and Security Review Commission ... Chapter 3, Section 3: 352-355 ...

²⁵ Prashanth Parameswaran, "Assessing Taiwan's New Southbound Policy," *The Diplomat*, April 23, 2019. Available at <https://thediplomat.com/2019/04/assessing-taiwans-new-southbound-policy/>

²⁶ See Trade Data Online. Available at <https://www.ic.gc.ca/eic/site/site-tdo-dcd.nsf/eng/home>.

²⁷ "Canada and Taiwan Relations," Global Affairs Canada. Available at <https://www.international.gc.ca/world-monde/taiwan/relations.aspx?lang=eng>.

²⁸ *Ibid.*



early 2017, the Avoidance of Double Taxation agreement between Canada and Taiwan came into force. This was an important step toward increasing the efficiency and predictability of trade between the two countries.²⁹

The product mix in each country's trade basket reflects their comparative advantage. Canada exports substantial quantities of raw materials to Taiwan, including fuels, ores and nickel products. In return, Taiwan's exports to Canada are concentrated in its world-leading electronics and equipment manufacturing sectors.

Drilling down, according to government statistics, key minerals, including bituminous coal (for power generation), iron ore, zinc and nickel accounted for over 1/3 of Canada's exports to Taiwan. Lumber is also important as is a variety of food products and medications. On the import side, Taiwan sends Canada a variety of machinery, equipment and electronics as well as bicycles and aircraft parts.

A key initiative currently underway in Taiwan to which Canada could better connect is the projects from the Industrial Innovation and Transformation Fund. With the same overarching goal of encouraging Taiwanese businesses and workers to stay in Taiwan, this initiative focuses on the development of several key industries: green energy, defence, the Internet of Things, biotechnology, smart precision machinery, high-value agriculture and the circular economy. The circular economy ties in many of the industries and refers to "a closed supply chain allowing for natural resource use while reducing pollution, avoiding resource constraints, and sustaining economic growth".³⁰ Working jointly to embed Canada within this circle affords both economies an excellent opportunity to build on their innovation strengths.

There are nevertheless already interesting Canadian innovation stories in the Taiwan relationship. Northland Power, a Toronto-based Canadian power-generating company, is investing billions of dollars in a series of offshore wind farms in concert with a Singaporean company. In a competitive bid, Northland and its partner, Yushan Energy Co. Ltd, received approvals to construct wind farms capable of generating 1044 MW of power for the Taiwanese electrical grid.³¹

Canada has identified a variety of innovative priority sectors in Taiwan, including aerospace, ICT, clean tech, biotech and agri-food.³² In light of recent policy development, other strategic areas of co-operation could include assistance in maintaining and strengthening Taiwan's global supply

²⁹ "Taiwan's Participation in the CPTPP Strengthens Canada-Taiwan Economic Ties," International Trade Bureau, Ministry of Economic Affairs, 2017. Available at

https://webcache.googleusercontent.com/search?q=cache:GT5bZSQC04J:https://www.trade.gov.tw/App_Ashx/File.ashx%3FFilePath%3D../Files/PageFile/651806/CPTPP%2Band%2BCanada-Taiwan%2Bbilateral%2Beconomic%2Brelationship.pdf+%cd=10&hl=en&ct=clnk&gl=us

³⁰ U.S.-China Economic and Security Review Commission ... Chapter 3, Section 3: 357 ...

³¹ "Northland Power Signs Power Purchase Agreement for Hai Long 2A Offshore Wind Project," Globe News Wire. Available at <https://www.globenewswire.com/news-release/2019/02/26/1742557/0/en/Northland-Power-Signs-Power-Purchase-Agreement-for-Hai-Long-2A-Offshore-Wind-Project.html>.

³² "Canada and Taiwan Relations," ...



chains, the training of medical professionals, and assistance in raising the international profile of the stock market in Taiwan.³³

From a political perspective, a key consideration for any trade agreement is which domestic industries are supportive and which are in opposition. Given the relative complementarities, most sectors that are generally supportive of trade expansion would support Taiwan's inclusion in CPTPP. This includes agriculture outside of the supply-managed sectors, forestry, mining, and oil and gas. Other supporters are those in the services sector, including insurance, banking and education. There is no obvious opponent of Taiwan's accession similar to Ford's vigorous campaign against the Canada-Korea agreement.

The one caveat that many cross-sectoral and sector-specific trade associations have given to supporting Taiwan in CPTPP is that they do not want to be public about the issue. Many of their members do business in both China and Taiwan and do not want to be put in a position of vocally supporting one relationship while putting the other relationship at risk.

Overview of Leading Sectors in Taiwan

Taiwan's entry into CPTPP is likely to turbocharge bilateral trade across an array of goods and services. To anticipate where some of the new growth might come from, it is useful to look more closely at Taiwan's economic structure and some of its leading sectors and firms.

In 2017, Taiwan's GDP source was primarily the services sector (62.82 per cent), followed by the manufacturing sector (35.37 per cent), and the agriculture sector (1.7 per cent). These three sectors have varied little from 2007-2017, with the manufacturing sector slowly gaining on the services sector. However, the changes have been by less than three per cent over the previous 10 years.³⁴

Taiwan's leading industries are electronics, communications and information technology products, petroleum refining, chemicals, textiles, iron and steel, machinery, cement, food processing, vehicles, consumer products and pharmaceuticals.³⁵

The economy's health is heavily reliant on the nation's exports. The exports are centred on electronics, machinery and petrochemicals. According to the World Trade Organization (WTO), Taiwan was the world's 18th largest exporter in 2018, accounting for 1.7 per cent of all exports

³³ Executive Yuan, "Executive Yuan Responds to Mainland China's 'Incentives' Policy," Department of Information Services, Republic of China (Taiwan), March 16, 2018. Available at https://english.ey.gov.tw/News_Content2.aspx?n=8262ED7A25916ABF&s=7C352D2DD4E6E544

³⁴ "Distribution of Gross Domestic Product (GDP) across Economic Sectors Taiwan 2017," Statista, 2017. Available at <https://www.statista.com/statistics/706367/taiwan-distribution-gdp-across-economic-sectors/>

³⁵ "Taiwan Economy Profile 2018," Economy Overview, IndexMundi, Jan. 20, 2018. Available at https://www.indexmundi.com/taiwan/economy_profile.html



globally. Taiwan's ministry of finance reported that its exports in 2018 were US\$335.9 billion in 2018, up from US\$317.2 billion in 2017.³⁶

The following is a list of Taiwan's top exporters in 2018:³⁷

- Hon Hai Precision (electronics): US\$114.5 billion
- Taiwan Semiconductor (semiconductors): \$70.3 billion
- China Steel (iron and steel): \$22.8 billion
- Formosa Chemicals (specialized chemicals): \$21.1 billion
- Quanta Computer (computer hardware): \$20.6 billion
- Nan Ya Plastics (diversified chemicals): \$19.7 billion
- Far Eastern New Century (diversified chemicals): \$17.4 billion
- Pegatron (electronics): \$16.4 billion
- Chunghwa Telecom (telecommunications services): \$16.1 billion
- AU Optronics (electronics): \$14.8 billion

Taiwan also has several major financial services firms. Cathay Financial, CTBC Financial and Fubon Financial are all healthy and growing.³⁸ In recent years, these companies, among others, have been expanding and investing beyond Taiwan, including into China. With the New Southbound Policy and regulatory requirements that Taiwanese financial firms need special government approval before expanding to China (due to prudential and political risks), new markets in the region have gained increased attention lately.³⁹

The China Question

No veto over Canada's trade policy

One of the key questions in any discussion of increasing relations with Taiwan, including its accession to CPTPP, is how China would react. Despite the fact that Taiwan is a vibrant democracy of 23.5 million people and that support for unification or "one-country/two-systems" is tiny,

³⁶ Central News Agency, "Taiwan Ranked 18th-Largest Exporter of Goods in 2018," *Taiwan News*, April 5, 2019. Available at <https://www.taiwannews.com.tw/en/news/3673140>

³⁷ Daniel Workman, "Taiwan's Top 10 Major Export Companies," *World's Top Exports*, Dec. 19, 2018. Available at <http://www.worldstopexports.com/taiwans-top-10-major-export-companies/>

³⁸ Alfred Liu and Cindy Wang, "Top Taiwan Finance Firms Plan to Add 16,000 People This Year," *Bloomberg*, March 7, 2019. Available at <https://www.bloomberg.com/news/articles/2019-03-08/taiwan-s-top-finance-firms-plan-to-add-16-000-people-this-year>

³⁹ Ralph Jennings, "Facing Down Tough Rules, Taiwan's Finance Firms Are Expanding In China," *Forbes*, March 28, 2019. Available at <https://www.forbes.com/sites/ralphjennings/2019/03/28/facing-down-tough-rules-taiwans-liquid-finance-firms-are-expanding-in-china/#22b58377f7a4>



Beijing insists that the world should regard Taiwan as a wayward province of China. Recent developments in Hong Kong demonstrate the risks and highlight for the world the perilous nature of the world Taiwan inhabits.

The origins of the Taiwan-China relationship stem from the messy end of the Chinese civil war. From 1949 until the 1970s, Canada, like many countries, recognized Taiwan, not the People's Republic government, as the legitimate representative of China. In 1970, Canada negotiated a joint communiqué with the People's Republic of China that established the basis of diplomatic recognition.⁴⁰ Contrary to what many observers believe, Canada did not accept Beijing's assertion of a "One China" policy. Rather, it stated the following:

The Chinese Government reaffirms that Taiwan is an inalienable part of the territory of the People's Republic of China. The Canadian Government takes note of this position of the Chinese Government.⁴¹ (emphasis added)

"Taking note" is not acceptance and was done very deliberately. Stopping well short of recognizing the policy, Canada maintained the space to pursue a flexible policy with Taiwan in the future.

Following the 1970 communiqué, Canada significantly curtailed its relations with Taiwan and expanded its engagement with China. At the time, Beijing was beginning to emerge from isolation while Taiwan was under a military government. In the decades that followed, China and Taiwan followed radically different paths. China built a sophisticated surveillance state while becoming a world-leading economy, albeit one that frequently challenges the parameters of the rules-based order. Taiwan also prospered but, by contrast, embraced the international rules-based order and strove to become the most vibrant democracy in Asia.

A number of scholars, including Eric Lehre, have argued that Canada needs a flexible approach in its policies toward China and Taiwan that reflects the realities of each and the broader world situation in 2019. He asserts that Canada is applying a policy

designed in 1970 to bring China out of isolation and sideline a Taiwanese dictatorship. Conditions have changed dramatically. In particular, the evidence is overpowering that neither Canada's nor anyone else's engagement effort is having any positive effect on China's human rights record of progress towards democracy.⁴²

Times have changed, he asserts, and so have the threats to Canadian interests. The like-minded democratic state of Taiwan deserves Canada's support, he argues, while the strategy of trying to mould China into a state of similar ideals has failed. Lehre argues that Canada, by doing nothing

⁴⁰ Embassy of the People's Republic of China in Canada, "Joint Communiqué of the Government of the People's Republic of China and the Government of Canada Concerning the Establishment of Diplomatic Relations Between China and Canada," Oct. 13, 1970. Available at http://ca.china-embassy.org/eng/zjgx_1/jjls/t890224.htm

⁴¹ Ibid.

⁴² Eric Lehre, "Rethinking the Taiwan Question: How Canada Can Update its Rigid 'One China' Policy for the 21st Century," Macdonald-Laurier Institute, September 2018: 26. Available at https://macdonaldlaurier.ca/files/pdf/20180828_MLI_Taiwan_PAPER_FINAL_Webready.pdf



and standing by while Beijing tries politically and economically to sever Taiwan from the rest of the world, is hurting Canadian interests:

Doing nothing to defend a threatened democracy signals that Canada, a fellow middle power, is also ready to, however briefly, cease defending the rules-based international order that has protected it and allowed it to prosper these last seventy years.⁴³

Other countries, including the U.S. and Japan (as noted above), are similarly reassessing the flexibility of their engagements with Taiwan and China. Canada needs to consider what makes sense in the context of its own interests. For context, Japan has indicated that it supports Taiwan's interest in joining the CPTPP. The U.S. has gone so far as to approve the selling of military equipment to the Taiwanese military and welcoming Tsai to New York and Denver, where she participated in speaking engagements and met with government officials and industry representatives.

Given the Canadian imperative to diversify its trade, including Taiwan in regional trade arrangements such as CPTPP makes significant sense. Taiwan is a member of the Asia-Pacific Economic Cooperation (APEC) grouping as well as the Asian Development Bank and the Pacific Economic Cooperation Council. It is a WTO member. It has free trade agreements with five countries, including New Zealand. It is therefore entirely consistent with existing practice to include Taiwan in CPTPP – the next great regional economic initiative.

Moreover, a key principle is at stake. Canada should not allow China to dictate its trade policy. Giving China a veto on any Canadian trade policy, such as reciprocal free trade with Taiwan, is surely a path of folly that would lead to repeatedly bad outcomes. Canada has already seen how China has used trade in Canadian canola, pork and beef as a policy lever. This should be understood as a preview if Canada fails to assert its right to trade anytime, anywhere and with anyone it chooses.

Some would contrast the prospective Chinese veto over a Canadian agreement with Taiwan with Article 32.10 of CUSMA/USMCA, which is designed to discourage Canada and Mexico from seeking trade agreements with China. While neither measure looks pretty from a foreign policy perspective, there is at least one key difference. Article 32.10 does not prevent Canada from negotiating a free trade agreement with China. It simply reserves the right of the other two parties to make CUSMA/USMCA a bilateral agreement in the event that the third member negotiates a trade agreement with China. Given the size of China's economy, well-established concerns around its dumping and circumvention practices, and its pattern of using trade preferences as a political weapon, one can reasonably argue that a trade agreement between China and a CUSMA/USMCA member would have spillover effects on the other two countries. Since the others did not sign up for a trade agreement with China, they are, arguably, within their rights to protect the integrity of the CUSMA/USMCA market. It seems far-fetched to argue that a Canada-Taiwan CPTPP agreement would have a negative economic effect on China.

⁴³ Ibid., 31.



Why Canada Should Support Taiwan's Entry into CPTPP

Time and again, countries that negotiate free trade agreements end up with more trade between them than before the agreement went into effect – often substantially more trade. Canada already has a goodly amount of trade with Taiwan. Introducing greater market access and an enhanced commonality of rules establishes the foundation for these volumes to grow significantly. Such an increase in trade would be economically beneficial for Canada. Taiwan can also serve as a market multiplier, providing an entry point for Canadian goods into other Asian markets and supply chains.

1) Taiwan's entry is worth \$1.54 billion to Canada

As previously noted, Taiwan is Canada's fifth largest trading partner in Asia. When quantifying how this might change with CPTPP entry, one can make reasonable projections based on several studies. A 2014 study by Dawson Strategic and Ciuriak Consulting modelled the economic effects for Canada of Taiwan's entry into TPP.⁴⁴ The study found that Canada stood to lose \$1.3 billion in income from 2016-2035 if Taiwan were excluded from the agreement. To date, no update to the study looking at Taiwan, Canada and CPTPP has been completed. Yet, as noted above, Global Affairs Canada and the Canada West Foundation have looked at the CPTPP vs. TPP comparison. Their results have been very similar. These studies found that the benefit of CPTPP is an average of 18.5 per cent higher than with TPP. Applying the same multiplier to the Dawson-Ciuriak TPP study, the cost to Canada of keeping Taiwan out of CPTPP is \$1.54 billion. This is a significant amount of trade to cast aside at a time when Canada is seeking trade diversification and economic growth.

Taiwan is already thoroughly integrated into supply chains throughout the Pacific, particularly with countries already part of the CPTPP. According to Taiwan's government, its trade with the 11 CPTPP members reached US\$128.99 billion in 2016, or 25.25 per cent of the country's total. As the Taiwanese government asserts, "Taiwan's inclusion in the agreement would offer significant benefits for all parties and provide a major boost to regional economic integration."⁴⁵

2) Supporting Taiwan's entry helps to embed a trade diversification ethos

To achieve the objective of trade diversification, Canada needs both a shift in strategy and a shift in mindset. Trade agreements are an important part of the diversification pathway. So too should be a willingness by Canada to explore different ways for encouraging/driving Canadian firms to export more. Yet it is not just policies that matter in re-orienting trade. It also is principles. Canada should declare its adherence to a new principle: that it is open to trading with anyone anywhere who will give it reciprocal market access and will respect the rules of the broader trade framework. It should then assess potential new partners who meet that criterion. Given that Taiwan is known to be interested in joining CPTPP, is already embedded in Asian and global trade institutions and

⁴⁴ "Finding the Hidden Dragon: Why Taiwan Matters to Canada's Economic Future," Dawson Strategic and Ciuriak Consulting, 2014. Available at <http://dawsonstrat.com/wp-content/uploads/2014/10/Canada-Report-Final-Copy-Web-Ready.pdf>

⁴⁵ "Taiwan Reiterates Commitment to Joining CPTPP," *Taiwan Today*, Jan. 25, 2018. Available at <https://taiwantoday.tw/news.php?unit=2,6,10,15,18&post=128431>



is moving to align its domestic law with the agreement's requirements, it is a natural partner for Canada. China may have concerns about Canada supporting Taiwan's admission into CPTPP. Yet if Canada is applying a broader principle rather than a one-off policy, the decision to embrace Taiwan's accession is wholly defensible and may provide the basis to minimize the political difficulties with China. In many ways, supporting Taiwan's entrance into CPTPP is the most powerful possible signal of Canada's embrace of the practice of trade diversification.

One important question for Canada is how best to support Taiwan's entrance into CPTPP. The rules of accession for CPTPP allow for countries to enter as a group or individually. While either path would be fine from a trade diversification perspective, operationally and in terms of regional politics it may be easier for Taiwan to enter as part of a broader group. Thailand, the Philippines and others are known to be interested in CPTPP accession. Canada should both support and actively work with fellow members to get the first tranche of accession countries either in or well on the path by June 2020. In addition to the practical efficiencies of the accession process, bringing in a group of countries may provide a mini-stimulus to trade in the CPTPP area.

Trading more with Taiwan does not mean trading less with other countries, including China. Trade is not zero sum in that way. Asserting Canada's willingness to trade with everyone would bring positive benefits to Canada's economy, its partners in Taiwan and to the dynamism of Asia-Pacific commerce and democracy. This would appear to be a win-win-win for all.

► About the Author

Sarah Goldfeder is a Principal at the Earncliffe Strategy Group in Ottawa, where she provides high-level insight on the inner workings of the U.S. and Canadian governments, including how they work together on important issues. With 15 years of experience in the U.S. federal government, Sarah most recently served as Special Assistant to two U.S. Ambassadors to Canada, fostering bilateral relationships at the most senior levels. She has expertise in a wide range of policy issues, which has enabled her to provide practical short and long-term advice on managing the economic, cultural and political dynamics in North America.

Prior to her arrival in Ottawa, Sarah spent three years in Mexico as a Foreign Service Officer, cultivating a deep understanding of U.S./Mexico border issues and appreciation for a region revitalizing itself after years of violence and fear. Her experiences have convinced her of the potential for a stronger, more cohesive partnership across the North American continent. In her work, she seeks to maximize the region's ability to advance the movement of people, goods, and services; the supply, production, and use of energy; and balancing the energy and environment equation. Sarah has also served in Southeast Asia, giving her a global perspective on North American policy development and an appreciation of the opportunities available both within and beyond the Western hemisphere.

Eric Miller is a Fellow at the Canadian Global Affairs Institute and President of Rideau Potomac Strategy Group, a cross-border consultancy that advises clients on government affairs, economics, cybersecurity and geopolitical developments. He focuses on issues related to North America, trade, technology and security.

He previously served as Vice President of Policy, North America and Cybersecurity at the Business Council of Canada, which represents the CEOs of the 150 largest companies in Canada. He also was responsible for leading its work in the United States and Latin America and on border/supply chain issues, transportation policy, and anti-corruption rules. He led the Council's policy work on cybersecurity, technology and telecom issues.

Before joining the Council in 2013, Mr. Miller represented Industry Canada at the Canadian Embassy in Washington, DC. He was responsible for advising senior Canadian officials on U.S. economic, political, and technology issues. He served as a member of the Canadian negotiating teams that designed Canada's 2009 investments in the restructuring of the Chrysler and General Motors and the 2011 Canada-U.S. Beyond the Border Action Plan.

He is presently Chair of the Cybersecurity Advisory Board of Ridge Canada Cyber Solutions Inc., a leading provider of cyber insurance solutions and cyber advisory services. He also serves on a number of advisory boards, including the Canadian Cyber Threat Exchange.

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