

# The Impact of Global Regional Economic Integration on Taiwan Fastener Industry

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The second decade of the 21st century is the era of re-integrating the global economic regions. For example, the United States starts the TPP, the ASEAN promotes the RCEP, the EU launches the FTA between Europe and Japan, and the United States and Europe open up the TTIP. These regional economic integrations employ no-tariff policy between countries within the regions, while for countries outside the regions, high tariff policy is adopted. Trade barriers caused by the tariff will become more apparent.

In the end, how should we evaluate the impact of global regional economic integration on Taiwan Fastener Industry? From the perspective of economics, when international trade is opened up, and if the price is higher in the international market than the domestic one, domestic products will be exported. Manufacturers will obtain higher profits by export trades. Conversely, if the price is lower in the international market than the domestic one, foreign products will be imported. Through import trades, consumers can get products at lower prices. However, this will reduce the profits for domestic manufacturers. So when it comes to whether an industry should embrace international trade, the first thing to consider is the difference between international and domestic prices. If the international prices are higher than the domestic ones, meaning the industry is more export-oriented, one should of course actively support the open-up policy of the industry. On the contrary, if international prices are lower than the domestic ones, where the industry is more import-oriented, one should lean more towards opposing opening up the industry.

For many years, Taiwan fastener industry has been able to produce high quality fastener products via one-stop segmental production model, hence manufacturing costs are lower than international prices. **Therefore, the export ratio of Taiwan's fastener products is high, and that ratio often leads all industries in Taiwan. If Taiwan fastener industry is not able to be treated on a fair ground as its rivals that obtain zero tariff, the industry will gradually lose its competitive advantages, and will be against all odds in the future.**

The most important global trade organization of the 20th century is the World Trade Organization (WTO). At the time it acted as the manager of a number of trade agreements, and also as the overseer of trade legislation for member countries. By the end of 20th century, numerous countries joined the WTO in order not to be marginalized by international trade. As of 2013, the WTO has a total of 159 members. However, with the joining of more and more emerging economies, WTO's internal discussions on issues often take too long and turns inefficient, gradually weakening its function in the 21st century.

At the same time, countries in each region start to set up their own regional free trade area. For example, **the North American Free Trade Agreement (NAFTA)** was established in 1992 between the United States, Canada and Mexico, of which a comprehensive trade agreement was signed; in Europe, **the European Union (EU) was established, and as of 2013, it has 28 members**; in the Southeast Asia, the ASEAN Free Trade Agreement (AFTA) was established, and now its members include Myanmar, Laos, Cambodia, Thailand, Indonesia, Philippines, Singapore, Brunei, Vietnam, and Malaysia (10 countries). Additionally, ASEAN has signed Free Trade Agreement (FTA) with China, Japan, South Korea, India, Australia, New Zealand (6 countries), and on the 2010 Asia-Pacific Economic Cooperation Conference (APEC) leaders' meeting, **through Trans-Pacific Strategic Economic Partnership Agreement (TPP), the ASEAN FTA countries and other FTA countries have reached Regional Comprehensive Economic Partnership (RCEP), marking the two major ways towards integrating the "Asia-Pacific Free Trade Zone."**



## Trans-Pacific Strategic Economic Partnership Agreement (TPP)

The Trans-Pacific Strategic Economic Partnership Agreement (TPP) was in its early days signed and issued jointly by Singapore, New Zealand, Brunei, and Chile (4 countries) in 2005, and was named "Trans-Pacific Strategic Economic Partnership" (TPSEP) then. In 2008, the United States formally joined the negotiations, and TPSEP was re-named as "Trans-Pacific Partnership Agreement" (TPP). The momentum of negotiation was elevated after the joining of the United States, and as of now there are a total of 12 members including Singapore, New Zealand, Brunei, Chile, United States, Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan. 18 rounds of negotiations have been conducted. From 2013 onwards, TPP members start to push consulting process. TPP's feature is "full liberalization between countries", and there should be no exclusions, meaning all sectors are to be included in negotiations. In addition to traditional tariff issues, small and medium enterprises, supply chain management, competition policy, state-owned enterprises, regulation reconciliation, labor and environmental issues are also included.

The ministerial meeting on October 6, 2013 held in Bali, Indonesia between 12 countries ended with a plan to eliminate tariffs; the goal of zero tariff among 12 countries is expected to be achieved by the end of this year. The data from Taiwan's Ministry of Economic Affairs shows that TPP members accounted for 44.27% of Taiwan's total trade value. The author calculated that the export value of Taiwan's fastener products (CCC Code: 7317,7318,7415,7616) in 2012 totaled approximately USD 4.3 billion; the trading value with TPP members accounted for 53.35% of Taiwan's fastener products exported, which was higher than the

national average of 9.08% among different industries. This means that the value of Taiwan's fastener products exported to TPP members was higher than other industries, and the impact of which it receives will be greater than other industries. The production data of the impact of the 12 countries on Taiwan's Fastener Industry is shown in **Table 1**.

**Table 1: The Output (Value and Weight) and Ratio of Taiwan's Fastener Products Exported to TPP Members**

Country	Item	Value (USD)	Percentage to Total Export	Weight (kg)	Percentage to Total Export
USA		1,601,389,721	37.08%	580,126,212	40.56%
Japan		280,350,110	6.49%	71,753,549	5.02%
Canada		123,057,000	2.85%	45,541,849	3.18%
Australia		74,786,342	1.73%	20,607,819	1.44%
Mexico		64,903,696	1.50%	9,842,822	1.39%
Vietnam		53,740,953	1.24%	13,076,205	0.91%
Singapore		50,570,191	1.17%	9,270,568	0.65%
Peru		3,794,756	0.09%	1,342,553	0.09%
Malaysia		28,036,677	0.65%	6,853,933	0.48%
New Zealand		14,266,263	0.33%	3,346,494	0.23%
Brunei		159,862	0.00%	34,083	0.00%
Chile		8,603,892	0.20%	3,145,864	0.22%
Percentage to Annual Export Value			<b>53.35%</b>	Percentage to Annual Export Weight	<b>54.18%</b>

\*CCC Code: 7317, 7318, 7415, 7616



## Regional Comprehensive Economic Partnership (RCEP)

Members of the Regional Comprehensive Economic Partnership (RCEP) include 10 ASEAN countries and 6 partnering countries (China, Japan, South Korea, Australia, New Zealand and India) that have signed FTA with ASEAN. RCEP covers broad issues such as trading of goods, investment, economic and technical cooperation, intellectual property, competition strategy, and dispute settlement. Taiwan's currently-signed Service Trades Agreement with China is of course covered. The issues covered and its content is shown in **Table 2**.

**Table 2: RCEP Issues and Content**

Issue	Content
Trade of Services	The commitment of the liberalization of service industry made by RCEP members in WTO and ASEAN Plus One will be used as a foundation to move towards liberalization.
Trade of Goods	A coverage of 90~95% of goods will be the goal to the removal of non-tariff barriers.
Investment	Including investment promotion, investment protection, facilitation and liberalization.
Intellectual Property	Reducing intellectual property rights related to trade and investment barriers.
Competition Strategy	Establishing a foundation for members to promote competition, economic efficiency.
Dispute Settlement	Providing members with effective procedures to settle disputes.

RCEP members accounted for as high as 64.04% of Taiwan's trade value, of which the most important issue is that the import and export to China gradually compose of a high proportion for Taiwan's trade in recent years. Chinese government's position will be the most critical factor on whether Taiwan can successfully join the RCEP.

## The Impact of Regional Economic Integration on Taiwan Fastener Industry

Regional integration has moved from bilateral to multilateral integration after 2010, for example, the FTA negotiations between China, Japan and South Korea have gone through Round 1 and 2 in March and the end of July 2013, respectively. Round 3 is expected to be held in Japan by the end of this year. Taiwan's main competitor, South Korea, has signed FTA with the United States, and is currently in FTA negotiations with China. As soon as the US-South Korea FTA came into effect on March 15, 2012, 89.79% tariff of the industrial products were immediately reduced to zero, and the percentage was 28.55% for agricultural products. This is estimated to affect Taiwan's export trade with an

amount of USD 3.3 billion, accounting for 9.78% of the annual export value to the U.S. As the Shanghai Pilot Free Trade Zone was officially opened in the end of September 2013 in the world's largest exporting country of fastener products, China also announces its determination to connect to the international economic systems. Up to now, the breadth and depth of FTA between countries have increasingly expanded, and the impact on Taiwan will be far greater in the future than in the past. Taiwan government uses the principle of "simultaneous promotion, multiple contacts, and individual negotiation" as an FTA negotiation strategy, hoping to quickly break through the current predicament.

It is certain that once Taiwan joins the TPP and RCEP, the increase of the overall production value of Taiwan fastener industry is guaranteed. In addition, the export efficiency will be created, and the elimination of trade barriers will enable Taiwan fastener industry to compete with countries such as China and South Korea on a fair ground. Export trade value will be expected to increase substantially, pushing the improvement of GDP. Joining the TPP and RCEP will not only expand the existing trade scale of Taiwan fastener industry, the country will also act as a critical hub in the dynamic Trans-Pacific regional trade, and a mediating platform among the United States, Japan and other TPP and RCEP members. By doing so, Taiwan can strategize its supply chain in the Asia Pacific region. **Diagram 1** shows the relationship between TPP and RCEP countries and the importance of regional economic integration.

Countries among TPP and RCEP members have already signed a considerable number of FTA. Hence, during the negotiations, most of the cases only involve the further relaxation or acceleration on the original scope and schedule of liberalization. However, Taiwan has only signed the economic and trade agreements (ANZTEC) with New Zealand in July 2013. As this is Taiwan's first FTA signed with a TPP and RCEP country, and as encouraging as it may be seen, the fact is that Taiwan currently has no bilateral FTA signed with most of the

TPP and RCEP countries. Future negotiations will have to be based on new grounds, which will greatly add to the difficulty for Taiwan's joining of economic integration, especially when considering the special political and economic relations between Taiwan and Mainland China. Current Cross-Strait Service Trade Agreement has already affected Taiwan greatly, if internal communication cannot be made effectively, the joining of the TPP and RCEP in the future will be even more difficult.

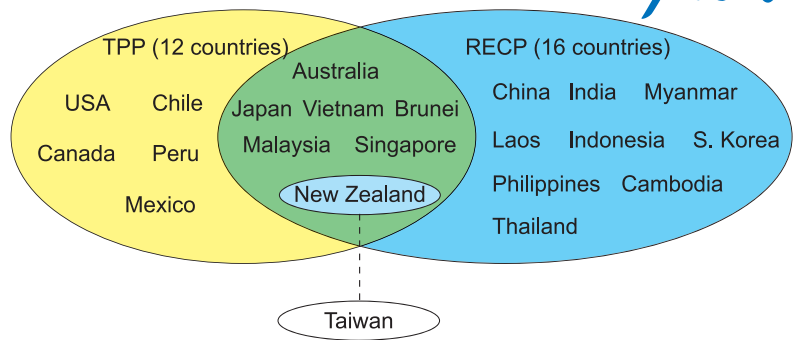


Diagram 1: Relation Between TPP and RCEP Nations

standards, and the enhancement of other countries' willingness to integrate with Taiwan's economy. These will jointly create another heyday for Taiwan fastener industry. ■

**With Taiwan's shallowish economy, to maintain long-term competitive advantages for products to export is a more effective way to improve the country's economic momentum. Hence the fairness of tariff with competing countries will be the key factor for the future development of Taiwan's overall economy. Although Taiwan fastener industry has technical and quality advantages, if Taiwan is unable to join the TPP and RCEP to secure preferential tariff agreements, Taiwan will be eliminated in this round of regional economic integration. Taiwan's international competitiveness will be significantly reduced.**

To join the TPP and RCEP, Taiwan will be also required by members to open the market. Both the TPP and RCEP even pursue a higher degree of liberalizing goods without exclusions. With the involvement of many regulatory compliance issues, the impact on Taiwan's relatively weaker domestic industries such as agriculture and service industries will be huge. The government should try to make necessary adjustments for those affected industries, and communicate on its policy with its people to reduce the impact of joining the TPP and RCEP. The government should also take this chance to accelerate the upgrade of domestic industries, the promotion of legislation to link with international