

## Taiwan's accession to the World Trade Organization January 2000

---

### THE SETTING

Trade liberalization is an objective recognized by all members of the World Trade Organization (WTO). This objective is strengthened by the Uruguay Round agreements, deliberated and negotiated over an extensive period of eight years. This set of agreements aims to fulfill free trade goals envisioned a half century ago - with the dawning of the General Agreement on Tariffs and Trade (GATT). The Republic of China on Taiwan has been under political constraints which have prevented it from formally participating in most of the major international communities. Nevertheless, political factors have not deterred economic development in Taiwan. Since the 1970s, the Government has embraced extensive economic policies. The economic successes which ensued have transformed the previously agriculture-based economy into a manufacturing-based economy with a hi-tech emphasis. The economic accomplishment in the past has been largely conducted in a vacuum of formal political setting. However, the greater strides taken by countries around the world toward liberalization and internationalization of trade mean increasing difficulty for Taiwan to conduct trade without the protection of multilateral trade agreements. The reason is manifold, stretching from the peculiar political position of Taiwan, which means the lack of formal channels to discuss new challenges in the global trading community, to simple inter-government liaison. In order to facilitate and to foster trade relations with others, we applied to accede to the GATT in January of 1990, and was granted observer-ship in September of 1992 when formal processing of our application for accession began. This application was transferred to the WTO after its establishment in 1995.

This paper intends to provide an overview of Taiwan's WTO accession process, outlining the objectives, progress, economic impact, and new challenges, particularly adjustment strategies adopted to ease the economy into the WTO framework.

### OBJECTIVES/ Why accession?

The success of the GATT in providing a framework for trade and the increasing integration of national markets have made trade a much broader and complex issue than lowering of tariffs for trade in goods. The revamp and overhaul of the GATT to give way to the WTO in January 1995 is timely as the trading community is in need of an organization to address emerging new challenges. The three objectives identified and followed by the WTO are: to maintain the flow of trade dialogues, to ensure that markets are free and liberal as well as availability of a

dispute settlement mechanism to resolve trade friction. In effect, the past two years have been spent in putting into practice the laws and principles set on the birth of the WTO.

The economy of Taiwan has also followed the global trend towards greater liberalization. In fact, the economy has flourished since the 1970s under the economic policies pursued by the government. Current statistics have placed Taiwan as the world's fifteenth largest trading country, a significant member of the world trade. Figures also show that it enjoys growing prosperous trade relations with over 160 trading partners. However, only less than a fifth of them, thirty countries maintain formal diplomatic ties with Taiwan. This has caused a series of repercussions in our trade with other countries.

First of all, the lack of formal ties with our trading partners have increasingly placed Taiwan at disadvantages and greater exposure to risks of its products being discriminated by a particular importing country with no formal arrangement with us. Moreover, this lack of formal arrangement is magnified by the fact that the bulk of trade, over 96%, is conducted with countries with no formal diplomatic ties. This also means that traded goods of Taiwan can not be protected under either international treaties or other forms of formal international arrangements. Our accession to the WTO would overcome these difficulties in the absence of formal diplomatic ties.

Second, which follows from the first, the lack of access to multilateral arrangements means that trading relationships with others would have to be maintained by means of a series of bilateral arrangements. These arrangements are often deficient in various aspects. For instance, not being able to participate in the multilateral discussions on emerging issues and policies, we may not always be well-informed of the latest trends and development. What is most important is that without being able to negotiate in a multilateral context, we are vulnerable to the excessive use of political leverage in bilateral negotiations.

## **WHY WTO?**

The WTO is a set of comprehensive agreements, encompassing the diversity and complexity of trade issues, from traditional common concerns of traded merchandise to emerging issues such as trade and the environment or competition policy. The WTO framework has also incorporated the General Agreement on Trade in Services (GATS) and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), extending its coverage under a single organization, to include trade in services and intellectual property rights. This means a single set of rules and a single system for resolving issues and possible disputes. The accession of Taiwan to the WTO would provide for the kind of treaty protection on issues that it has been excluded from other relevant treaties, such as the Berne Convention on the protection of copyrights, due to Taiwan's special political status.

In addition, the four fundamental principles of a trading system where trade should be non-discriminatory, freer, predictable and more competitive advocated by the WTO, are also pursued by the government of Taiwan. We are progressively moving in these directions and accession to the WTO will compliment our drive towards an open market system, to make our markets more accessible and to integrate our market into the international trading community. Therefore, in-line with the principles of the WTO, the benefits of accession to the overall economy of Taiwan are manifold.

First of all, the principle of trade without discrimination means WTO members are granted "most-favored-nation" or MFN status where trading partners should not discriminate between its trading partners. This would bridge the gap between Taiwan and its trading partners due to the lack of formal diplomatic ties and ensure our products to a particular importing country are competing on a level playing field.

Second, the WTO follows the principle of freer trade, seeking for ways to remove barriers through the lowering of tariffs and removal of measures inconsistent with the WTO framework. This follows that the accession to the WTO would accelerate domestic liberalization process, in a bid to meet accession standards. The process would stimulate domestic industrial adjustment, to ensure compatibility with international standards and competition. At the same time, accession would eliminate domestic measures inconsistent with the principle of national treatment so that foreigners would be able to compete more effectively in our market.

In a bid to comply with the WTO framework, the government has carried out comprehensive reform of our trade system since our application to join the organization. It has lowered or eliminated trade barriers to provide much greater market access to our trading partners. Our accession package negotiated so far represents a very substantial market access commitment. For example, the average nominal tariff on agricultural products will be reduced by 32.72% upon full implementation of commitments. As for industrial products, the average nominal tariff will be cut by as much as 28.85% after the full implementation of commitments. The most significant progress is the regulatory reform to reduce the use of trade measures to achieve regulatory objectives; particularly, the licensing requirement will be reduced to the minimum. All our trade practices will be brought in-line with the WTO agreements upon our accession, with one or two possible exceptions, for which transition periods will be needed. In addition, we are also negotiating accession to the Agreement on Government Procurement, and contemplating the accession to the Civil Aircraft Agreement after accession to the WTO. In terms of our commitment under the TRIPS and the GATS, our protection of intellectual property rights has much exceeded the requirements of the TRIPS, especially in the area of border control. The commitments made under the GATS are comprehensive, and cover most, if not all, of the interests of our trading partners.

Third, Taiwan would have access to a trade platform for direct participation and contribution in a multilateral framework. This would also mean the direct involvement in sharing global concerns with trade, in the discussions of industrial standards, policies and participate in the informal decisions on future economic policies and emerging trade-related issues.

The other benefits include transparency of trade policies and access to trade-related information which contribute to a fairer competitive environment. In addition, the availability of a dispute settlement mechanism minimizes the risks of discriminatory trade treatment and trade friction, such as unilaterally imposed trade sanction and unfair trade practices. Most importantly, the WTO ensures a predictable and stable trading environment for its members with its set of binding rules and regulations recognized and enforced by all members.

### **PROGRESS - Internationally**

We have achieved much progress with WTO members on our accession process, since the GATT began to process our application. We have worked extremely hard, conducting well over 200 rounds of bilateral consultations. Up until now, we have concluded negotiations with all the twenty-six WTO members that have requested for consultations, namely South Africa, Czech Republic, Slovak Republic, El Salvador, Turkey, Colombia, Uruguay, Chile, Republic of Korea, Australia, Japan, Iceland, Norway, Malaysia, Philippines, Thailand, Hungary, Mexico, New Zealand, Argentina, Singapore, US, Switzerland, the EU, Canada and Hong Kong.

As for multilateral progress, we have already held ten Working Party Meetings in Geneva. As a result of the series of meetings, we have reached conclusion on all substantive issues and hope for the adoption of the Working Party Report and the Accession Protocol in the next Working Party Meeting, in order to move the accession process forward to the General Council.

### **IMPACT ON TRADE**

The outcome of the Uruguay Round has evolved to be widely recognized as "an anchor" for development and an instrument of economic and trade reform. It is widely recognized by economists and trade experts that the GATT/WTO system contributes to development. This view is reinforced by separate domestic studies conducted by government agencies and academic institutions that we have much to benefit from the accession to the WTO. According to a study conducted by the Council of Economic Planning and Development (CEPD), the Executive Yuan in 1995, using the computable general equilibrium (CGE) model, showed that if Taiwan successfully acceded to the WTO between 1992 and 2020, export volume would increase by 16.7% during this ten-year period and import volume increase by 12.1%. This

study demonstrated that the accession of Taiwan would at the same time make our market more accessible to foreigners.

In a hypothetical study by China Institute of Economic Research, using the output/input model showed that, provided Taiwan accepted the tariff rates set by the Uruguay Round negotiations and that all WTO Members completed scheduled tariff reductions by 1999, the overall export value would increase by US\$1,698 million; the agricultural sector would gain by US\$5.78 million, the mining sector by US\$0.46 million, the manufacturing sector by US\$1,692 million and other sectors by US\$0.24 million.

In terms of imports, overall import value would increase by US\$714 million, the agricultural sector by US\$168 million, the mining sector by US\$28 million, the manufacturing sector by US\$507 million and other sectors by US\$11 million.

The results show that, regardless of the different models used in the analyses, the same conclusion can be drawn from the studies - that the accession of Taiwan will generate benefits to the economy as a whole and our international trading partners.

## **NEW CHALLENGES**

In spite of the fact that studies point to benefits with WTO accession, this does not follow that Taiwan's accession is exempted from new challenges and difficulties facing our industries. The new issues may be viewed in two broad categories, domestic and international.

The economy of Taiwan has been dominated by government interventions. One of the criteria of accession to the WTO is the reduction of government intervention through the use of subsidies and other discriminatory measures. Our government is taking a progressive approach to liberalize the market and to make it compatible with the WTO framework. Much progress has been achieved since our pursuit of free trade policies and the bid to establish the country as an Asia Pacific Regional Operations Center. However, the extended period of traditional reliance on government subsidies and protection of markets means that major structural adjustment to these industries are required, to prepare for challenges posed by international competition. In addition, the government is pushing for legislative reform of our laws and regulations to facilitate the restructuring of the industries.

Internationally, with trade borders becoming less distinct, international trade issues have also become more complicated and diverse. The range of trade issues under the WTO framework are no longer limited to traded goods but have expanded substantially to encompass sectoral talks such as maritime transport, basic telecommunications as well as the ITA launched in March 1997. Negotiations on these sectoral issues were not reached until two years after the

conclusion of the Uruguay Round. Moreover, trade negotiations conducted within the WTO multilateral framework is often further complicated as each member represents its own interest. Taiwan, though not yet a participating member of the WTO, has come under increasing pressure to implement WTO liberalization measures. The government is required to grasp both traditional and emerging WTO issues and to ease them into our economy.

## **STRATEGIES/POLICIES**

The government has implemented a range of schemes to prepare the sectors for new challenges created by the transition into the WTO.

First of all, the agricultural sector will be bearing the greatest impact with our accession to the WTO. The government will be implementing plans to alleviate negative impact on the agricultural sector due to the increase of imports. This includes the enactment of a set of "Rules for Redressing Damages to Farmers Caused by Agricultural Imports", according to the framework of Article 5 of the WTO Agreement on Agriculture on special safeguard provisions. In addition, the government is providing guidance to farmers to substitute less profitable crops with economically viable ones. In the long term, government policies will be geared towards incorporating special domestic features with international trends and competitiveness, taking into account resource allocation and sustainable development.

Second, as mentioned earlier, the government is progressively implementing industrial adjustment plans. The multi-dimensional approach includes the provision of guidance, up-grade of production technology, human resource development (HRD), strengthening R&D operations, promote investments and to accelerate structural adjustment of the industrial sector. In the long term at the macro-level, with global trend towards greater liberalization, internationalization and a more competitive market, government agencies will focus on promoting overall improvement strategies such as R&D in technology, product quality and control, product image, greater investments in the manufacturing sector and HRD. The objective would be raising overall national competitiveness.

The third aspect is legislative support. By January 2000, the amendments to 37 laws related to our accession to the WTO have been completed and passed. Discussion on the remaining 7 amendments and new laws related to our accession continues to make progress. The legislation passed aims to conform and prepare our domestic legislation for WTO membership. All the relevant agencies responsible are actively consulting with the Legislative Yuan to push for the early approval of the laws. In a related development, the Ministry of Economic Affairs has organized a series of public hearings and seminars to enhance public understanding on the accession to the WTO.

## **CONCLUSION**

Taiwan is undoubtedly a significant member of the world trading community. The dedicated productive force of 22 million people and government policies have contributed to transforming the former agriculture-based economy to the world's fifteenth largest trading country and the seventh largest investor. Nevertheless, our success has not yet made us a member of the WTO. In recent years, especially the last two, we have implemented rules and regulations established in the international organization, albeit without the reciprocating benefits enjoyed by WTO members. We urge for international support for the early accession to the WTO, to justify our efforts made in the world trade regime.