

**The Separate Customs Territory of Taiwan, Penghu,
Kinmen and Matsu and the Comprehensive and
Progressive Agreement for Trans-Pacific Partnership:**
*Overview of Taiwan, Penghu, Kinmen and Matsu's Trade
Regime and Current Preparatory Work*

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PREFACE

As a full Member of the World Trade Organization (WTO) under the title of Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu, Taiwan has been actively participating in all WTO-related activities and dutifully fulfilling its obligations in the multilateral trading system.

Taiwan recognizes the significance of the CPTPP as a high-standard and comprehensive regional agreement that builds upon our respective rights and obligations under the Marrakesh Agreement Establishing the WTO. We embrace, without reservation, its objectives to promote economic integration in the Asia-Pacific region, liberalize trade and investment, stimulate economic growth, strengthen worker's protection, raise living standards, reduce poverty, and promote sustainable growth.

This document provides an overview of Taiwan's economic policies, ongoing reforms, and submits why Taiwan is a worthy candidate for this important trade agreement. We believe it will form a good basis for Taiwan to engage informally with CPTPP members.

A. Trade Regime

(a) Economic Policies

Taiwan is a free and open market economy. Key policies, such as the Four-Year National Development Plan, the New Southbound Policy and the “5+2” Industrial Innovation Plan, are also being implemented to accelerate various structural reforms and advance industrial transformation.

These policies include the following objectives:

- *Diversification of markets and trading partners:* in 2016, the Government launched the New Southbound Policy to broaden our access to markets in Southeast Asia, South Asia, and Oceania. Taiwan will continue to pursue free trade among all CPTPP Members on a mutually beneficial basis to achieve higher liberalization and deeper integration.
- *Enhancement of the business environment:* Taiwan is committed to reducing investment barriers and aligning its domestic regime with international standards. According to the World Bank’s Doing Business Report, Taiwan’s ranking for the ease of doing business improved from 19th in 2014 to 15th in 2021. Increasing transparency of the legal framework in order to improve the domestic environment for foreign investment is another key objective.
- *Commitment to greater market access:* Taiwan is committed to increasing domestic demand, developing trade in services, enhancing

international competitiveness, and reducing trade barriers. Taiwan has kept its commitment under the WTO, capping all tariff lines at an overall average tariff rate of 6.8%: specifically, 17.5% for agricultural products and 5.0% for non-agricultural products.

With strong resolve, Taiwan will continue to improve its internal economic structures in alignment with the key policies, objectives, and market access commitments stated above.

(b) Statistics

i GDP, Population, and Trade

- According to the IMF statistics, Taiwan would be the 5th largest economy in the current CPTPP upon its accession.
- Taiwan's GDP remained relatively stable after the global financial crisis, with an average growth rate around 3% per year. In 2020, Taiwan's growth rate was 3.12%, outperforming most countries in the midst of the U.S.-China trade conflict and the COVID-19 pandemic.
- In 2020, Taiwan's GDP Per Capital (PPP) reached \$55,724, which would rank 3rd among current CPTPP Members.

CPTPP Members and Taiwan's 2020 Macroeconomic Statistics

Members	GDP (billion US\$)	Population (million)	GDP per capita PPP (US\$)	GDP Growth Rate
Japan	5,049	125.8	42,248	-4.83
Canada	1,643	38.0	48,720	-5.40
Australia	1,359	25.7	51,680	-2.44
Mexico	1,076	127.8	19,130	-8.24
Taiwan	669	23.6	55,724	3.12
Vietnam	341	97.4	10,869	2.91
Singapore	340	5.8	97,057	-5.39
Malaysia	338	32.9	27,402	-5.59
Chile	253	19.5	23,366	-5.84
New Zealand	209	5.1	42,018	-2.99
Peru	204	33.5	11,871	-11.12
Brunei	12	0.5	62,371	1.20

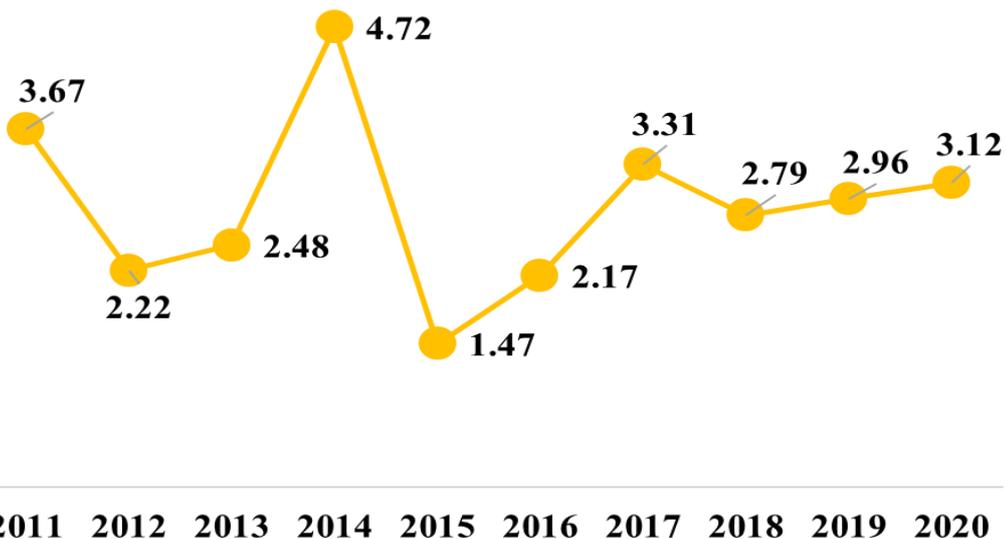
Source: IMF (April, 2021).

ii International Ratings

- 12th in WEF Global Competitiveness Index, 2019
- 4th best investment environment (Business Environment Risk Intelligence, 2021/9)
- 6th largest foreign exchange reserves (IMF, 2020)
- 7th largest investor in the Asia-Pacific region (UNCTAD, 2021)
- 15th economy for ease of doing business (World Bank, 2020)
- 8th most competitive economy (IMD World Competitiveness Yearbook, 2020)

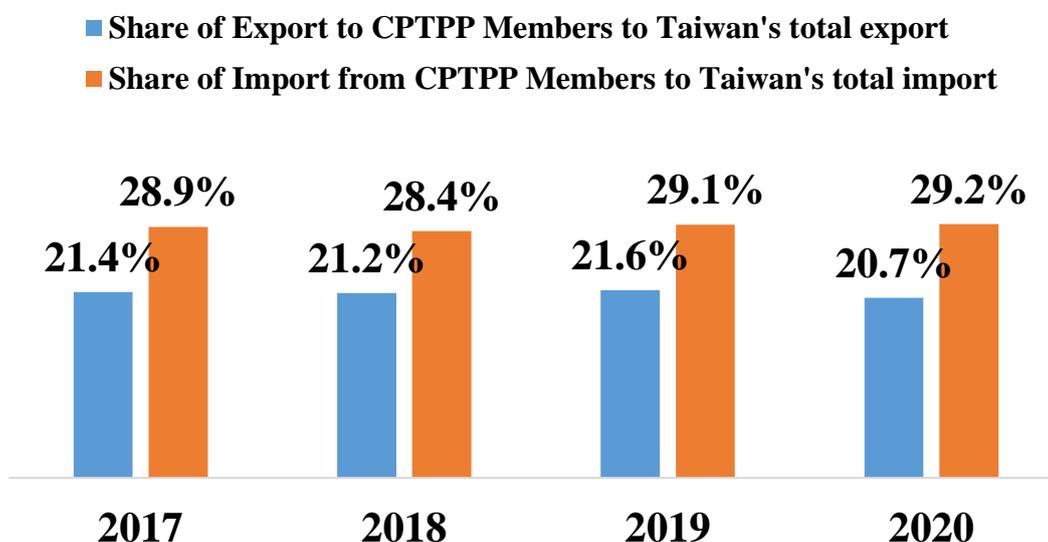
- 17th largest trading member of the WTO (2020)
 - 240 Taiwanese products ranked in the Top 3 in terms of worldwide exports (2019)
- iii Bilateral Trade and Investment with the current CPTPP Members
- Taiwan maintains close and friendly trade ties with all of the current CPTPP Members. In the recent three years, approximately 21% of Taiwan's total exports are to the current CPTPP Members, and approximately 30% of total imports into Taiwan come from the current CPTPP Members.
 - Even while global trade has been hard hit by the U.S.-China trade conflict and the COVID-19 pandemic, Taiwan's bilateral trade with the current CPTPP Members increased despite these recent difficult times.

GDP Growth Rates of Taiwan in Recent Ten Years

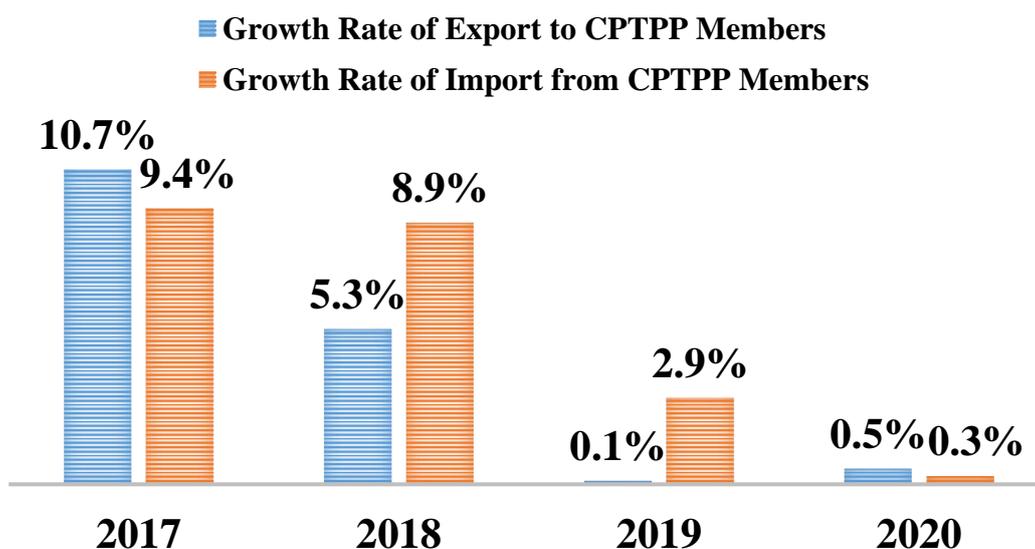


Source : The Directorate General of Budget, Accounting and Statistics of Executive Yuan, Taiwan

Bilateral Trade between Taiwan and the Current CPTPP Members



Source: The Customs Administration, Ministry of Finance, Taiwan



Source: The Customs Administration, Ministry of Finance, Taiwan

- In 2019, 31% of our accumulated outbound investment destination were to the current CPTPP Members, while inbound FDI from the current CPTPP Members consisted of 20.6% of our total FDI. In 2020, Vietnam, Singapore, and Japan were the top three CPTPP destinations for Taiwanese

investment, while Japan and Singapore were the top two sources of FDI for Taiwan.

- iv Taiwan's Existing Bilateral Agreements and Platforms with the current CPTPP Members
 - Economic dialogues at the ministerial, deputy ministerial, or director-general level with Japan, Malaysia, Singapore, Australia, New Zealand, Canada and Vietnam.
 - Free Trade Agreements: Singapore, New Zealand
 - Bilateral Investment Agreements: Japan, Vietnam, and Malaysia
- v Taiwanese business associations also meet with their Japanese, Singaporean, Mexican, Peruvian, New Zealand, Australian, Chilean, Malaysian and Vietnamese counterparts on a regular basis.

B. Current Preparatory Work

(a) Increased Coordination among Government Agencies

In September 2016, the Executive Yuan assigned a designated Minister without Portfolio to oversee cross-agency preparatory work for joining the TPP. The Government also elevated the Office of Trade Negotiations from the Ministry of Economic Affairs to the Executive Yuan. This means the Trade Office is a ministerial level agency. The Office of Trade Negotiations coordinates with other agencies regarding Taiwan's negotiating positions in order to advance the goal of regional economic integration.

(b) Legislative Amendments and Other Efforts

i The Legal “Gap Analysis”

Since the release of the official CPTPP text, all relevant government agencies in Taiwan have completed the first stage of the regulatory “gap analysis” to identify discrepancies between Taiwan’s current domestic laws and regulations and CPTPP obligations. Twelve laws were identified to have “gaps”. Since 2016, eight of those laws have already completed the amendment process. The remaining four proposed amendments are pending in the Legislative Yuan as priority bills fully supported by all major political parties.

Current Status of the “Gap Analysis”

Amended Laws	Amendment Highlights	Related CPTPP Chapter
Act for Distant Water Fisheries	In response to the standards of international fishery management, we have strengthened the management of distant water fisheries, and increased the punishment in violation of relevant regulations.	Environment
Act to Govern Investment in the Operation of Foreign Flag Fishing Vessels		
Fisheries Act		
Pharmaceutical Affairs Act	Extend data exclusivity to new indications of an existing medicine.	Intellectual Property
	Strengthen/Establish a patent-linkage system	

Cosmetic Hygiene and Safety Act	Remove the labeling permit number and registration number requirements for cosmetics applying for marketing permits	TBT Annex C Pharmaceuticals
The Plant Variety and Plant Seed Act	Extend protection of rights in plant varieties to cover plants protected by international conventions like the UPOV	Intellectual Property
Agro-pesticides Management Act	Extend the length of protection for data exclusivity of an agro-pesticide product with a new active ingredient from 8 to 10 years	Intellectual Property
Postal Act	Redefine postal mail (post monopoly) items by value or weight	Cross-Border Trade in Services Annex B Express Delivery Services

Source: Compiled by the Office of Trade Negotiations, EY, Taiwan

Laws	Amendments Pending Legislative Review	Related CPTPP Chapter
Patent Act	Stipulate a basis for patent litigation in response to the introduction of patent linkage (Extended grace period from 6 to 12 months: Completed in 2017)	Intellectual Property
Copyright Act	Empowering prosecutors to actively bring charges against	Intellectual Property

	severe copyright infringement	
Trademark Act	Stipulate criminal penalties for counterfeiting trademarks or collective trademarks labels	Intellectual Property
Draft Digital Communications Act	Prevent junk mail	E-Commerce

Source: Compiled by the Office of Trade Negotiations, EY, Taiwan

ii Business Environment-Related Reforms

The following items highlight Taiwan’s recent efforts to foster a more business-friendly environment:

(i) Administrative Transparency

1. Effective October 1, 2016, all proposals for new regulations or regulation amendments are subject to a mandatory 60-day public notice and comment period. The only exception is in the case of emergencies or when a regulation must be promulgated within a shorter period of time.
2. A user-friendly Internet platform (<http://join.gov.tw>) was created in 2016 for the public to track proposed regulatory amendments, and to submit comments as part of the effort to elevate transparency and encourage public participation. In the 2017 Global Open Data Index published by Open Knowledge International, Taiwan ranked number one out of the 93 countries assessed.

- (ii) The Financial Sector: In 2015, Taiwan liberalized procedures for establishing offshore insurance units (OIU), allowing Taiwanese insurance service providers to offer international insurance services and expand the scale of its domestic operations on a global level.
- (iii) Foreign Professionals: To attract more skilled overseas professionals, the Government relaxed requirements for foreign professionals to enter Taiwan through 27 reform initiatives with respect to visas, employment, residence, finance, taxes, insurance, and living environment. In 2017, Taiwan also passed the “Act for the Recruitment and Employment of Foreign Professionals” to attract more foreign students and young entrepreneurs to Taiwan.
- (iv) Taxation: The highest marginal tax rate for the individual income tax was reduced from 45% to 40% to encourage professionals to keep their residence in Taiwan. The surtax rate on undistributed earnings of companies shall be reduced from 10% to 5%. A sole proprietorship or a partnership is not required to calculate or pay income tax included in the partners’ or the sole proprietor’s individual consolidated income.

iii Impact Assessment

- (i) To assess the impact of Taiwan’s accession to the CPTPP, the Government performed two impact assessments: one in 2016 before the

U.S.'s withdrawal from the TPP, and one after the release of the new CPTPP text in April 2018.

- (ii) The final analysis consisting of goods, services, regulatory coherence and econometric evaluations show a net positive impact on Taiwan by joining the CPTPP.

iv Domestic Outreach

- (i) The Government created a designated CPTPP webpage (<https://cptpp.trade.gov.tw>), along with accounts on various social medias, and pamphlets containing agreement-related FAQs, all to encourage and facilitate greater public involvement, outreach and education about the CPTPP and its benefit to Taiwan.
- (ii) So far, the Government has completed over 350 outreach events at various business associations, universities, and legislative bodies to promote efforts to join the CPTPP.

C. Benefits of Taiwan's CPTPP membership for Global Trade and Member Signatories

(a) For Global Trade

- i In 2020, trade with the current CPTPP Members consists of one-fourth of Taiwan's total trade. 29% of Taiwan's imports came from the current CPTPP Members, and 21% of Taiwan's export went to the current CPTPP Members. Japan, Singapore,

Malaysia and Vietnam ranked as Taiwan’s top 10 trading partners. In the same year, 15% of Taiwan’s total FDI came from the current CPTPP Members, while 16% of our outbound investment went to the current CPTPP Members.

- ii According to the WTO-OECD Trade in Value-Added (TiVA) database, Taiwan ranked second in participation rate in global value chains among current CPTPP Members. This demonstrates Taiwan’s existing strong integration to the CPTPP value chain.

The Participation Rate in the Global Value Chain

Rank	Country	Participation Rate (% of total export)
1	Singapore	61.9
2	Taiwan	56.8
3	Malaysia	55.6
4	Viet Nam	55.6
5	Brunei	46.5
6	Mexico	44.9
7	Chile	44.0
8	Peru	39.7
9	Australia	38.4
10	Japan	37.6
11	Canada	36.5
12	New Zealand	25.5

Source: OECD TiVA Dataset.

- iii The “Trade Specialization Index (TSI)” shows that Taiwan’s economic structures are similar to Japan, Malaysia, and Singapore; and complementary to

Australia, Peru, Canada, Chile, New Zealand, and Mexico.

- iv A comparison of the complementarity index of trade in goods shows that 50% of Taiwan's import demand are met by Singapore, Malaysia, Mexico, Japan, Canada, and Vietnam; and vice versa.
- v Ranking 17th in global trade, Taiwan has long been an indispensable link in the global value chain. Taiwan's trading regime, including its investment, e-commerce, finance, telecommunications, labor, environment, and state-owned enterprises governance, will be further upgraded through membership in the CPTPP.

(b) For Current CPTPP Member Signatories

i Non-agricultural products

Between 2018 and 2020, Taiwan's average annual import from the current CPTPP Members reached \$78.9 billion, of which only \$11.2 billion faced tariffs more than 5%.

Among current CPTPP Members, Japan is the number one exporter to Taiwan, accounting for 55.5% of total exports from the current CPTPP Members, which amounts to \$43.8 billion. Exports from Malaysia and Australia rank second and third, respectively, consisting of 12.1% and 11.0% of total exports from the current CPTPP Members.

- (i) Currently Taiwan imposes relatively high tariffs on some of the machinery and intermediary

imports, many of them originating from Japan. These tariffs are expected to be eliminated with Taiwan’s membership in the CPTPP.

(ii) Taiwan also expects to expand market access for construction and building materials, textile and apparel, and appliances from Malaysia and Vietnam, with Taiwan’s CPTPP membership.

ii Agricultural Products

In 2020, current CPTPP Members exported \$3.59 billion worth of agricultural and food products to Taiwan, accounting for 26.4% of Taiwan’s total agro-import. Important products include beef, milk powder, apples, palm oil, and wines, etc. We expect the CPTPP will help enhance the agricultural trade relationship between CPTPP Members and Taiwan.

Major Agro-Imports to Taiwan from CPTPP Members

Country	Import (Unit: Thousand US \$)	Major Items
Japan	810,093	Prepared food products, alcoholic beverages, apples, pastries, fishery products
New Zealand	767,841	Milk and cream, fresh fruit, frozen beef, butter, fresh, chilled or frozen sheep or goats
Australia	607,087	Fresh, chilled or frozen beef, fresh, chilled or frozen sheep or goats, milk and cream, malt extract

Country	Import (Unit: Thousand US \$)	Major Items
Malaysia	359,702	Palm oil, prepared food products, crustaceans, live fresh chilled frozen or dried etc. Bread, pastry, cakes, biscuits and other bakers' wares, coffee, tea
Vietnam	359,392	Crustaceans, live fresh chilled frozen dried, etc. Tea, fish fillets and other fish meat, prepared animal feeding food, coconuts
Canada	244,031	Fresh, chilled or frozen pork, soybeans, prepared animal feeding food, crustaceans, live fresh chilled frozen dried, etc. Prepared food products
Chile	236,627	Frozen fish, apples, pears cherries, grapes, alcoholic drinks
Singapore	107,030	Prepared food products, malt extract, cigarettes, margarine, prepared animal feeding food
Peru	66,037	Flours/meals and pellets of fish or of crustaceans, grapes, prepared fishery products, fresh or chilled vegetables
Mexico	30,309	Flours/meals and pellets of fish or of crustaceans, fixed vegetable fats and oils, alcoholic beverages
Brunei	3,465	Prepared food products, crustaceans, live fresh chilled frozen dried etc. Margarine, sugar confectionary, pasta
Total		3,591,614

Source: GTA. Compiled by the Office of Trade Negotiations, EY, Taiwan.