

TAIWAN'S WTO ACCESSION PACKAGE

In many respects the WTO can be thought of as a package deal

I. Except for some extended phase-ins for intellectual property, subsidies, and a few other measures for developing countries, all WTO members must meet essentially the same set of disciplines. Since Taiwan has sought membership in the WTO as a developed country, even these limited exceptions do not apply.

There are, however, some complications when it comes to new members. On some issues, such as tariffs, there is not a single WTO permissible level. Existing members have negotiated progressive tariff reductions through numerous rounds of tariff negotiations and now partly on an ongoing basis. Thus, a country joining the WTO today without having gone through these successive negotiations on tariffs and other issues is likely to have higher tariffs than a WTO member. For this reason, the WTO accession provides for initial negotiations with interested WTO members to lower tariffs and address other trade concerns. In a sense, the accession negotiations provide for new members to “catch up” with existing members through this process.

As noted in the opening section, Taiwan has been engaged in accession negotiations since 1992, before the WTO, as presently constituted, existed. Recently, Taiwan has made dramatic progress in these negotiations. Accession talks have now been completed with all members of the working group, including the United States, Europe, and Japan. (All concessions granted to one member must be granted to all. Most Favored Nation or MFN status, which requires equal treatment, is a cornerstone of the WTO.) Some of the key outcomes of these accession talks regarding tariff and non-tariff

barriers are worthy of some discussion.

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Tariff Provisions

Currently, Taiwan's average nominal tariff rate is 8.2 percent, a fairly low level comparable to the low single digit rates of the United States, Europe, and Japan. In accession talks, Taiwan has agreed to lower its average tariff rate to 5 percent. This may not sound like an enormous change, but even small shifts in many sectors can have a notable effect. These tariff concessions will ultimately impact 3,470 industrial products and 1,021 agricultural products²⁸. In fact, it is this reduction in tariffs that is responsible for many of the economic benefits projected in the next section.

28.Chung-Hua Institution for Economic Research, op.cit, p. 94.

Beyond that, the average tariff hides the fact that in a number of sectors tariffs remain important barriers to trade. As is the case in many countries, tariff spikes are quite high in a number of sectors; automobiles and agriculture provide two notable examples.

Many countries have employed various trade barriers to protect the automotive sector. In the case of Taiwan, most of this protection has come in the form of tariffs. Currently, tariffs on passenger vehicles range up over 60 percent, the average tariff on automobiles

is almost 44 percent. At this level, tariffs have a strong impact upon trade and greatly restrain imports. There are similar high tariffs on imports of auto parts; auto part tariffs reach over 20 percent and average over 17 percent.

Most of these tariffs will be reduced substantially upon WTO accession. The average tariffs on automobiles falls to 16 percent after phase in and auto parts tariffs fall to just over 10 percent. At these levels, tariffs will still impact trade, but imports of both can be expected to rise substantially.

Agriculture

Tariffs as well as non-tariff measures (NTMs) are also quite significant in the agriculture sector. Tariffs on many meat products exceed 50 percent. Tariffs on various types of fruits and vegetables are also prohibitive.

Textiles and Apparel

Taiwan's textile and apparel market is also potentially a promising export opportunity for many developing countries around the world. Taiwan has a large textile industry, but it has already been adapting in the face of increased competition from abroad and Taiwan does import a significant volume of textiles and apparel.

Most of the formal protection in this sector is provided by tariffs, which average almost 12 percent. Upon completing accession the average tariff on textiles will be lowered by about 20 percent – to under 10 percent. At this level, tariffs will still restrain imports, but substantial trade opportunities will be created. Tariffs on specific products will fall even more dramatically creating various niche opportunities.

Industrial Tariffs

Many of Taiwan's other industrial tariffs are already fairly low. For example tariffs on semiconductors are now at less than 1 percent and scheduled to fall to zero. Tariffs on semiconductor manufacturing equipment are now just under 6 percent and scheduled to be cut by more than 50 percent.

Tariffs on a number of consumer electronic products, such as cassette players, are sizeable – many in the low teens – and scheduled for substantial reduction. Tariff reductions on these and other consumer products are likely to create substantial opportunities for Taiwan's trading partners.

Estimates of Taiwanese Non-Tariff Barriers

Of course, tariffs are not the only barriers to trade. In Taiwan and most other countries, there are a number of Non-Tariff Measures, as well. NTMs take a wide variety of forms, including quotas, import licenses, and product standards that discriminate against imports. The steps taken to reduce these measures are also quite important and have considerable impact on economic estimates of the value of Taiwan's accession for its trading partners.

The most widely accepted method of estimating the impact of NTMs and that used here involves estimating a tariff equivalent of the various NTMs. Under the best of circumstances, estimating an equivalent tariff for NTMs is a challenging task. There have, however, been efforts to create such tariff equivalents in several sectors and for a number of countries. This makes it possible to borrow from past efforts and compare results with estimates of protection in other countries to test the “reasonableness” of the

estimate²⁹.

Overall Estimate

There is a wide range in estimates of the tariff equivalent of various non-tariff barriers in other countries, including Japan at 173 percent³⁰ to South Korea at 30.7 percent³¹.

Because this involves estimating the trade impact of real, but difficult to quantify, trade barriers, such as government tolerated collusion in the marketplace, such estimates are always open to debate.

29. On this basis, an estimate of non-tariff barriers in China of 22 percent was rejected as not consistent with other estimates or the reports of trading partners.

30. T. Sananami, et.al., *Measuring the Costs of Protection in Japan* (Washington, D.C.: IIE) 1994.

31. J. Kim, *Measuring the Costs of Visible Protection in Korea* (Washington, D.C.: IIE) 1996.

The process of making overall estimates for Taiwan is complicated by the fact that many of the objectionable trade programs are being changed or have recently been changed. Nonetheless, an analysis of the WTO working party³² process and the concerns raised by Taiwan's trading partners³³ indicate that substantial non-tariff restrictions, including import licenses, quotas, import bans, sanitary and phytosanitary restrictions continue to have significant impact upon trade. These non-tariff measures are most pronounced in

the agricultural and high technology sectors. A more detailed breakdown of the barriers in particular sectors is included below.

Given the uncertainty involved in the process, each of the estimates of NTM levels should be taken as the mid-point of a range of reasonable estimates that would be as much as 25 percent more or less than the estimate. To reflect this uncertainty, in making the economic estimates of the impact of NTM reduction in the next section, a range of possible impacts is calculated using this plus or minus 25 percent range for NTMs in each sector.

Based on this information, the average tariff equivalent of NTMs for Taiwan, reflecting substantial reductions in recent years, was estimated to be approximately 20 percent. Full implementation of WTO requirements would likely reduce the overall level of non-tariff barriers by about 50 percent or to approximately a tariff equivalent of 10 percent³⁴.

Agriculture:Fruits and Vegetables

Taiwan maintains a number of non-tariff barriers on fruit and vegetable imports, many of which are specifically listed in the WTO working party report³⁵. In addition, various sanitary and phytosanitary regulations impede imports of a number of these products. In addition, farmers in Taiwan are eligible for a number of subsidy programs, some of which may have a trade impact. Because of the high frequency of non-tariff barriers in this area and their relative severity — — for example, import bans on a number of citrus fruits and potatoes — — the tariff equivalent rate in this sector was set quite high — 60 percent.

32. Working Party on the Accession of Chinese Taipei, "Draft Report of the Working Party on the Accession of the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu," (Geneva: WTO) April 23, 1999.

33. The most detailed of which is the United States' 1999 National Trade Estimate Report on Foreign Trade Barriers (Washington, D.C.: US GPO) 1999.

34. The reader should note that in many cases the WTO does not necessarily require the elimination of trade barriers considered in this analysis. This is particularly true in the agricultural sector.

35. Working Group, *op. cit.*, Attachment C.

Most of these barriers are specifically listed in the Working Group Report and scheduled for phase-out, though some subsidies will remain. For this reason, the post-accession estimate reflects a substantial reduction to approximately 20 percent.

Agriculture: Meat and Meat Products

Much of the analysis applied to fruits and vegetables also applies to meat and meat products. A number of non-tariff barriers, such as import licenses, sanitary and phytosanitary restrictions, and subsidies also appear to impact Taiwan's meat imports. But again, many of these problems are specifically listed in the Working Group Report and scheduled for elimination. The pre-accession tariff equivalent for this sector is thus estimated at 45 percent; it is considerably lower than fruits and vegetables because there has already been significant liberalization in this sector. The post-accession rate is estimated to be 20 percent.

Auto Parts

Over the years, Taiwan has imposed substantial import protection in the auto part sector, but much of it has been in the form of tariffs. There are, however, substantial technical (product standard) barriers to trade and industrial subsidies also present in this sector. Some of the protection applied to automobiles (passenger vehicles) also impacts imports of auto parts. The pre-accession tariff equivalent is estimated at 10 percent, the post-accession at 5 percent.

Automobiles

As is the case in a number of developed countries, the auto sector has enjoyed significant protection in Taiwan, but most has been in the form of very high tariffs. As in other industrial sectors, however, there are also significant non-tariff barriers. Import restrictions on several types of passenger vehicles are given attention in the Working Group Report.³⁶ In addition the technical barriers to trade and industrial subsidies cited above, have a substantial impact in this sector. Given the high tariff levels, however, it is difficult to ascribe a precise value to the impact of these non-tariff barriers. Despite these difficulties, the pre-accession equivalent for NTMs is estimated at 20 percent, post-accession at 10 percent.

36. Working Group, *op. cit.*, and p. 53.

Textiles

As noted above, Taiwan is both a substantial exporter of textile products as well as a significant importer. Some of the technical barriers to trade and import restrictions applied

to other products are applied to textiles, but the overall level of non-tariff measures seems fairly low; pre-accession is estimated at 5 percent, post-accession at 3 percent.

Semiconductors

Over the years, Taiwan's aggressive programs to encourage the establishment and nurture the development of high technology industries, have often been criticized by trading partners and received substantial mention in the Working Groups proceedings³⁷.

Semiconductor manufacturing received considerable attention under these programs over the years. In addition, Taiwan is in the process of applying antidumping duties on some imported semiconductors. Antidumping duties are permissible under the WTO, but some trading partners have criticized the procedures applied as WTO inconsistent³⁸

Taiwan has pledged to make its antidumping procedures WTO consistent as part of the WTO accession process as well as reduce or modify various government industrial policies that have been cited³⁹. Some trading partners have continued to express concern over these programs, however. This issue is particularly complex because Taiwanese authorities are now considering antidumping cases on imported semiconductors which could impose large duties; there are some significant WTO compliance issues raised in these cases.

The cumulative pre-accession level of non-tariff measures, except for antidumping measures, is likely equivalent to a 6 percent tariff. Upon accession, this figure would be reduced to approximately 4 percent. The cumulative impact of pending antidumping measures is considerably larger, approximately 30 percent. Accession is assumed to eliminate this NTM. The total pre-accession NTM level is thus 36 percent, post-accession is 4 percent.

37. Working Group, *op. cit.*, and pp. 43-51.

38. Working Group, *op. cit.*, p.37

39. *Ibid.*