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## CHALLENGES AND PROSPECTS FOR THE CPTPP IN A CHANGING GLOBAL ECONOMY: TAIWANESE ACCESSION AND CANADA'S ROLE

Hugh Stephens

### SUMMARY

In the past, Canada has had to deal with the matter of Taiwan very delicately. China considers Taiwan to be an integral part of the nation: a rogue province that must eventually be reunified with the mainland. Since Canada relies much more on trade with China than with Taiwan, the stakes have favoured policies that avoid engaging with Taiwan in ways that would unnecessarily irritate China. As a result, there has been little appetite here for negotiating a bilateral trade deal with Taiwan.

That attitude is finally changing. One main reason is because China is already angry with Canada, and vice versa. Relations between the two countries are at an all-time low, and domestic support for accommodating China is minimal.

As a result, Canada is freer than before to consider negotiating a trade agreement with Taiwan. At the same time, Taiwan is interested in joining the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), to which Canada is already a party. By supporting Taiwan's accession to the CPTPP,

Canada can achieve a free-trade agreement with Taiwan without having to negotiate one bilaterally. The ability to do so under the aegis of a multilateral agreement should serve to mitigate any remaining concerns that China might further retaliate against Canada directly.

However, striking back at China is not a reason for Canada to support Taiwan's accession to the CPTPP. We should do so because it is in the interest of Canada and the other members of the CPTPP to add to the strength of the organization by welcoming an economy that is an important global trader and a key player in global supply chains. In addition, Taiwan is a country that is clearly willing and able to accept CPTPP disciplines. Canada should move quickly and enthusiastically to support Taiwan's accession. The benefits of having Taiwan join Canada in a free-trade agreement are obvious. The opportunity to make it a reality is finally here.

The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), which entered into force on Dec.30, 2018 for six of the 11 signatories that had completed ratification at that time (Australia, Canada, Japan, Mexico, New Zealand and Singapore),<sup>1</sup> is a beacon of hope in a dark, protectionist landscape. Along with the Regional Comprehensive Economic Partnership (RCEP) agreement, which was signed on Nov. 15, 2020, the CPTPP advances the trade and investment liberalization agenda at a time when protectionist measures by some major trading countries are threatening to undo decades of progress. The commitments and new disciplines of the CPTPP are particularly important because of malaise infecting the World Trade Organization, where the work of the Appellate Body has now ground to a halt because of actions by the United States, and to offset the negative impact of the U.S.-China trade war now underway.

## **THE CPTPP CAN HELP OFFSET NEGATIVE IMPACTS OF THE U.S.-CHINA TRADE WAR**

A recent study<sup>2</sup> undertaken by professors Peter Petri and Michael Plummer has argued that the CPTPP and RCEP combined could offset the global trade losses of US\$301 billion to 2030 caused by the U.S.-China trade war. Adding additional members to the CPTPP, such as South Korea, the Philippines, Thailand, Indonesia and Taiwan, increases the gains — which jump substantially if China also joins (although, under current circumstances, this seems unlikely). Still, Petri and Plummer note that “The RCEP and CPTPP offer hope in a dangerously divided world. They partly offset the damage of the US-China conflict, encourage cooperation in the Asia-Pacific, and suggest viable directions for the world trading system.”<sup>3</sup>

The CPTPP sets out high-level standards of trade and investment liberalization, focusing particularly on “behind the border” measures rather than traditional tariff reduction. To quote the Government of Canada, “The Agreement features ambitious market access commitments in trade in goods, services, investment, labour mobility, and government procurement. The Agreement also establishes clear rules that help create a consistent, transparent and fair environment to do business in CPTPP markets. Additionally, the CPTPP features chapters on the protection of the environment and labour rights, enforceable by dispute settlement.... (It) also includes a variety of chapters aimed at trade-related technical cooperation among CPTPP members, including with respect to small and medium sized enterprises, regulatory coherence and economic development.”<sup>4</sup>

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Vietnam subsequently ratified and the CPTPP entered into force in Vietnam in January 2020. The remaining members of the agreement (Brunei, Chile, Malaysia and Peru) have yet to complete ratification procedures.

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<https://voxeu.org/article/new-east-asian-trade-blocs-create-tough-choices-china> (accessed August 10, 2020).

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<https://www.scmp.com/week-asia/opinion/article/3090800/can-beijing-ease-us-china-trade-war-through-asia-pacific> (accessed August 10, 2020).

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[https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpp/background-document\\_information.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpp/background-document_information.aspx?lang=eng) (accessed August 9, 2020).

## THE IMPLEMENTATION OF THE AGREEMENT IS INCOMPLETE

In short, the agreement not only results in important commitments to reduce barriers to trade and investment, but it also recognizes the importance of trade facilitation and capacity-building in ensuring that the benefits of liberalized trade are sustainable, equitable and inclusive. That said, as important as this is, the implementation of the agreement is incomplete. Not only are four of the original signatories still engaged in the ratification process, but the original dozen countries that began the precursor Trans-Pacific Partnership (TPP) agreement, collectively known as the TPP-12, became the TPP-11 when the United States withdrew after signing but prior to ratification, after the Trump administration came into office. This was considered a serious foreign policy mistake by many critics in the U.S, ranging from the late senator John McCain, to Richard Haass, president of the Council of Foreign Relations.<sup>5</sup> However, under Japan's leadership, the remaining TPP partners came together to keep the gains that had been achieved. With minor modifications (primarily to suspend issues of primary interest to the U.S.), the TPP text was adopted. Now the first priority needs to be to ensure that Brunei, Chile, Malaysia and Peru complete the ratification process. Internal political issues and disagreements, now worsened by the COVID-19 crisis, have slowed down this implementation, but the demonstration effect of the benefits of the CPTPP should help revitalize the ratification process once the immediate crisis of the pandemic has passed.

## EXPANSION IS DESIRABLE IF ASPIRANTS MEET BENCHMARKS

Beyond completing ratification for existing members, expansion is the next step. (At some future point, it would also be desirable if the U.S. reconsidered its position and sought to rejoin the agreement.) With regard to expansion, a number of countries have expressed interest in accession, including, perhaps somewhat surprisingly, the United Kingdom<sup>6</sup> (post-Brexit), Thailand, Indonesia, the Philippines, Korea, Taiwan and, most recently, China.<sup>7</sup> Last year, Canada held public consultations on CPTPP expansion, seeking input from domestic stakeholders.<sup>8</sup> Other countries, including Japan, Australia,<sup>9</sup> and New Zealand,<sup>10</sup> have also spoken favourably of CPTPP expansion. At its first meeting in January 2019, the commission for the CPTPP adopted guidelines for

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<sup>5</sup> [https://www.washingtonpost.com/business/economy/withdrawal-from-trans-pacific-partnership-shifts-us-role-in-world-economy/2017/01/23/05720df6-e1a6-11e6-a453-19ec4b3d09ba\\_story](https://www.washingtonpost.com/business/economy/withdrawal-from-trans-pacific-partnership-shifts-us-role-in-world-economy/2017/01/23/05720df6-e1a6-11e6-a453-19ec4b3d09ba_story) (accessed November 3, 2020).

<sup>6</sup> <https://biv.com/article/2020/06/uk-announces-plans-join-cptpp> (accessed August 9, 2020).

<sup>7</sup> <https://www.scmp.com/economy/article/3087725/china-and-cptpp-it-time-rethink-beijings-involvement-trans-pacific-trade> (accessed August 9, 2020).

<sup>8</sup> <https://www.international.gc.ca/trade-commerce/consultations/cptpp-ptpgp/negotiations-2019-07.aspx?lang=eng> (accessed August 9, 2020).

<sup>9</sup> <https://www.afr.com/policy/economy/australia-to-push-tpa-expansion-in-japan-20190114-h1a1m4> (accessed August 9, 2020).

<sup>10</sup> <https://www.beehive.govt.nz/release/cptpp-meeting-agrees-guidelines-expand-trade-agreement> (accessed August 9, 2020).

expansion,<sup>11</sup> which included setting out a process through an accession working group and benchmarks that “aspirant economies” must agree to meet.

## **TAIWAN’S INTEREST IN ACCESSION**

The Taiwanese government has made no secret of its interest in accession. As a full member of the WTO, there is no reason that Taiwan (under its WTO nomenclature) could not enter a regional trade pact that would be consistent with Article XXIV and be notified to the WTO. Japan, in particular, has been a strong supporter of Taiwan’s accession to the CPTPP, despite some bilateral disputes over Taiwanese imports of Japanese agricultural products from the Fukushima area.<sup>12</sup> Canada, for one, has been officially non-committal, but it has certainly not opposed Taiwan’s participation. A few years ago, when the TPP was under negotiation and Taiwan had expressed interest in joining the negotiations then underway among the original 12 economies, Stephens and Goold wrote an op-ed<sup>13</sup> expressing cautious support for Taiwan’s participation. They recommended, however, that the initial stage of the agreement be completed first (that has now happened) and noted that Taiwan needed to prepare for negotiations, notably by demonstrating the political willingness to make significant reforms to dismantle entrenched trade barriers. That has also happened, and the preparatory work that has been underway in various agencies of the Taiwan government to get ready for CPTPP negotiations has been impressive.

## **THE CHINA FACTOR**

In sum, the evidence suggests that Taiwan is more than ready to adopt the standards required for CPTPP membership. But let’s address the most serious inhibiting issue: the China factor. As much as it is unacceptable that one member of the WTO should seek to block another WTO member from entering a regional trade pact, the fact remains that there are unique historical and geographical circumstances that surround the question of how China would respond to Taiwan’s accession to the CPTPP. Each member of the CPTPP may approach this question somewhat differently, but each will inevitably consider China’s reaction as it makes its decision.

## **CANADA-CHINA RELATIONS AND POSSIBLE ACCESSION BY TAIWAN TO THE CPTPP**

Caution has always been the watchword for Canada when it comes to dealing with Taiwan and China. Since 1970, Canada has accepted that Beijing is the “sole legal

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<sup>11</sup> [https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptppg/accession\\_process-processus\\_adhesion.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptppg/accession_process-processus_adhesion.aspx?lang=eng) (accessed August 9, 2020).

<sup>12</sup> <https://www.taiwannews.com.tw/en/news/3902080> (accessed August 9, 2020).

<sup>13</sup> [https://www.asiapacific.ca/sites/default/files/canadataiwanptpp\\_-\\_final.pdf](https://www.asiapacific.ca/sites/default/files/canadataiwanptpp_-_final.pdf) (accessed August 9, 2020).

government of China.” At the same time, Canada only “took note of”<sup>14</sup>(it did not “acknowledge” and did not “accept”) China’s assertion that Taiwan is an “inalienable part of the territory of the PRC.” This formula has allowed Canada, like other countries, to maintain diplomatic relations with Beijing, while at the same time developing economic and other non-diplomatic relations with Taiwan. However, it must be said that Canadian governments over the years have always been cautious, if not overly cautious, with regard to more fully developing relations with Taiwan, lest this damage prospects for closer economic ties with China, where the stakes are much greater.

Taiwan is Canada’s fifth-largest trading partner in Asia, with two-way trade totalling almost \$8 billion in 2019, and Taiwan enjoying a three-to-one surplus in goods trade with Canada.<sup>15</sup> This total is small when compared to Canada-China trade (\$98 billion in 2019, with roughly the same three-to-one trade surplus in China’s favour),<sup>16</sup> but it is not insignificant and, for comparison purposes, is roughly double that of Canada’s trade with Australia. Would China “punish” Canada for supporting or promoting Taiwan’s accession to the CPTPP?

China has demonstrated that it is prepared to use trade actions in furtherance of its broader political objectives, even when such actions may be contrary to its international commitments. Examples include the actions it took against exports of Canadian pork and canola to China, based ostensibly on phytosanitary concerns, that were clearly a response to Canada’s detention of Huawei executive Meng Wanzhou. As a result, Canadian exports to China in 2019 suffered a 16-per-cent decline from the previous year. China has also taken action to slow down or block imports of Australian coal and wine because of unhappiness with Australian actions regarding alleged Chinese political interference in Australian domestic politics and Australia’s call for a full accounting of the causes of COVID-19. What is significant is that Australia and China have a free-trade agreement in place, yet this has not stopped China from taking punitive action.

Given this history, Canada is correct to approach any change in its relations with Taiwan carefully. But supporting Taiwan’s accession to a multilateral trade agreement, where there are already 10 other participating partners, is quite different from engaging in bilateral negotiations. New Zealand signed a bilateral free-trade agreement (FTA) with Taiwan, but prior to concluding this arrangement, it first reached a bilateral trade agreement with China. Given the current state of Canada-China relations, there is no prospect of Canada and China concluding a bilateral pact that would smooth the way to a Canada-Taiwan FTA. That is not even to mention the poison pill (Article 32.10)<sup>17</sup> in the new Canada-U.S.-Mexico Agreement (CUSMA) trade pact that effectively bars

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<sup>14</sup> <http://www.china.org.cn/english/features/81632.htm>.

<sup>15</sup> [https://www.canadainternational.gc.ca/ci-ci/assets/virtual\\_includes/taiwan-en.html](https://www.canadainternational.gc.ca/ci-ci/assets/virtual_includes/taiwan-en.html) (accessed November 3, 2020).

<sup>16</sup> <https://www.ualberta.ca/china-institute/media-library/media-gallery/research/analysis-briefs/canada-china-trade-2019-year-in-review.pdf>.

<sup>17</sup> <https://www.international.gc.ca/trade-commerce/assets/pdfs/agreements-accords/cusma-aceum/cusma-32.pdf> (accessed November 3, 2020).

Canada or Mexico from entering into a bilateral trade agreement with China on pain of CUSMA being terminated. Thus, while there is no legal impediment preventing Canada from negotiating a free-trade agreement with Taiwan (as New Zealand has done), there has historically been little appetite for such a move. This attitude is now changing for several reasons.

First, as noted above, accession by Taiwan to a plurilateral agreement is different from entering into bilateral trade negotiations. Second, there is unlikely to be public pushback in Canada over the risk of irritating China, given that Canada's relations with China are at an all-time low. This is because of China's response to the arrest of Meng in Vancouver in December 2018, on the basis of a U.S. warrant. A few days after Meng's detention, China arrested and has now charged two Canadians, Michael Kovrig and Michael Spavor, with national security violations. Canadians regard China's actions as hostage-taking and, according to recent polls,<sup>18</sup> just 14 per cent of Canadians currently have a favourable view of China.

Meng may be released, or she may be extradited to the U.S., depending on the outcome of her extradition hearing, but in the meantime, Canada-China relations have never been worse. That fact, however, is not a reason for Canada to encourage Taiwanese accession to the CPTPP. Rather, as Stephens has commented elsewhere,<sup>19</sup> Taiwanese accession should be pursued because it is in the interest of Canada and the other members of the CPTPP to add to the strength of the organization by welcoming an economy such as Taiwan, which is an important global trader, a key player in global supply chains and is willing and able to accept CPTPP disciplines. China could still retaliate but is unlikely to further complicate the bilateral relationship simply because Canada is working with others to expand CPTPP membership. The multilateral nature of the CPTPP accession process provides Canada with a degree of insulation from direct Chinese pressure, while the fact that relations with China are poor diminishes what, in the past, might have been a constraining factor in terms of pro-China domestic influences in Canada. To look at it another way, were Canada to decide to eschew any support for Taiwanese accession to the CPTPP, it is very unlikely that this would do anything to improve Canada-China relations.

## NEXT STEPS

While COVID-19 has cast a pall over the global economy, governments need to take steps now to prepare for the post-pandemic era by laying the foundation for economic recovery. Taiwan's handling of COVID-19, meanwhile, has been exemplary. The CPTPP Commission has recently concluded its third meeting, conducted virtually under Mexico's chairmanship. Its statement<sup>20</sup> focused on the need to maintain co-operation and open

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<sup>18</sup> <http://angusreid.org/covid19-china/> (accessed August 10, 2020).

<sup>19</sup> <https://www.policyschool.ca/canada-should-encourage-taiwans-accession-to-the-cptpp/> (accessed August 10, 2020).

<sup>20</sup> [https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/2020-08-06-cptpp-statement\\_declaration-ptpgp.aspx?lang=eng](https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/2020-08-06-cptpp-statement_declaration-ptpgp.aspx?lang=eng) (accessed August 10, 2020).

supply chains in a time of COVID-19, especially with regard to trade in medicines and medical products, agriculture and food supplies. With regard to expansion, the commission's statement said, "We support growing the value of CPTPP through accession and warmly welcome the interest shown by several economies to accede to the CPTPP by showing their willingness to meet the Agreement's high standards."

That sounds like an invitation that Taiwan is more than capable of accepting. Taiwan is ready and willing to negotiate accession. The CPTPP needs to move forward and accepting new members willing and able to meet CPTPP benchmarks is the best way to do this. The conditions are ripe, and the timing is right.

Right now, it seems that no one wants to formally apply to join a club where the response may be "no," while the members of the club don't want to invite a potential member who may refuse or not be ready. To break this impasse, CPTPP participating economies, with Canada's active support, should solicit firm expressions of interest from potential members by a fixed date — such as the 2021 meeting of the CPTPP Commission — and subsequently launch the negotiations through establishment of an accession working group. Preparatory work needs to begin now. Canada as the second-largest economy in the CPTPP can play an important role in getting the accession process started, including supporting the extension of an invitation to Taiwan to begin negotiations. It's time to move from talk to action.



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Before returning to Canada in December 2009, he was Senior Vice President (Public Policy) for Asia-Pacific for Time Warner for almost a decade, located at the company's regional headquarters in Hong Kong. In recent years, he has written and commented extensively on Canada's engagement with the Asia Pacific region including articles published in *The Globe and Mail*, *National Post*, *Ottawa Citizen*, *iPolitics*, *The Diplomat*, *Open Canada*, and others. He currently maintains an active blog on international intellectual property issues ([www.hughstephensblog.net](http://www.hughstephensblog.net)).

Prior to joining Time Warner in 2000, Mr. Stephens spent 30 years in the Canadian Foreign Service with the Department of External Affairs, later the Department of Foreign Affairs and International Trade (DFAIT). His last Ottawa assignment was as Assistant Deputy Minister for Policy and Communications in DFAIT. He also served abroad as Canadian Representative in Taiwan, Counsellor and Charge d'affaires at the Canadian Embassies in Seoul, Korea and Islamabad, Pakistan, among a number other overseas and headquarters assignments, including service at the Canadian Embassies in Beirut, Lebanon, Beijing, China and Mandarin language training in Hong Kong.

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