



Prospects & Perspectives

2014 APEC Summit's Big Win for China is a Warming Sign for Taiwan

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This year's APEC Summit held in Beijing last week (November 10-11, 2014) is one of the most important milestones for the 25-year old organization. Among other things, it pushes one step forward in the realization of the Free Trade Area of Asia Pacific (FTAAP). It also denotes and confirms China's status as the world's super powers. It is undoubtedly a successful show for China. Yet for Taiwan, the risk of economic and political marginalization has risen to an alarming level.

The outcome of the APEC Leaders' Summit is highlighted in the 2014 Leaders' Declaration titled "The Beijing Agenda for an Integrated, Innovative and Interconnected Asia-Pacific." As suggested by the title, the focuses of this year's Summit can be divided into three distinct, yet interrelated, sets of issues. The first is how to pursue free and open

trade and investment through advancement of Regional Economic Integration (REI). In addition to APEC Leaders' continued support of the multilateral trade system and relevant negotiations under the auspices of the World Trade Organization (WTO), the Leaders' Summit also endorses the "Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP" (The Beijing Roadmap) as an Annex to the Declaration.

In the Beijing Roadmap, APEC Leaders agree to launch a collective strategic study of issues related to the realization of the FTAAP. The study will build on, and update, existing studies and past work, providing an analysis of potential economic and social benefits and costs, performing a stock take of RTAs/FTAs in force in the region, analyzing the various pathways towards





the FTAAP, assessing impacts of the “spaghetti bowl” phenomenon on economies, identifying trade and investment barriers, identifying challenges economies may face in realizing the FTAAP, and considering any recommendations based on the study’s findings. The Leaders instruct APEC economies to submit the study to Ministers and Leaders by the end of 2016.

The second item on the agenda is the promotion of innovative development, economic reform and growth. To underpin future works, the Leaders endorse the “APEC Accord on Innovative Development, Economic Reform and Growth”, which identifies Economic Reform, New Economy, Innovative Growth, Inclusive Support and Urbanization as the five pillars for promoting experience sharing, policy dialogue, capacity building and practical cooperation.

The first and last item on the agenda is the strengthening of comprehensive connectivity and infrastructure development. The Leaders recognize the importance of the APEC connectivity

initiatives and achievements already made in this area. To provide new impetus for the APEC Connectivity and Infrastructure development agenda, the 2014 Leaders’ Meeting endorses the APEC Connectivity Blueprint for 2015-2025 as the new mandate and guidelines for the next ten years.

Other equally important high-level bilateral meetings also took place on the sideline of the Leaders’ Summit, and China is the primary beneficiary of these meetings. The event that drew most attention is unquestionably the meeting between Chinese president Xi Jinping and U.S. president Obama. In the ten-hour meeting, both Xi and Obama exchanged views on a wide range of issues. The meeting is as important for China as for the U.S. For China, it is a showcase to demonstrate that China is now a world super power and an equal-footing strategic partner with the U.S. For the U.S., as Obama’s Democratic Party has just suffered a defeat in the midterm election, the agreements by China to participate more in the fight against terrorism and to establish a Sino-U.S. military mutual trust mechanism are all



critical for the Obama administration in enabling it, to some extent, to regain political authority domestically.

More importantly, Obama and Xi Jinping also reached a consensus on climate and carbon reduction issues, which was described by the *New York Times* as ‘extraordinary.’ In return, the Obama administration not only extended the visa duration for Chinese students, but the President also openly stated that while the U.S. supports the freedom of speech in Hong Kong, it is not involved in the Occupy Central. Consistent with the notion that ‘diplomacy is an extension of internal affairs,’ the meeting is obviously a win-win for both China and the U.S. for enhancing mutual trust as well as for enhancing the leaders’ domestic support.

Xi and Japan’s prime minister Abe also held a landmark meeting after bilateral relations between China and Japan had deteriorated in recent months over the Diaoyutai Islands dispute. Despite the brief (25 minutes) and somewhat awkward atmosphere surrounding the meeting, both countries recognize that there are different claims

and positions on the recent tension over the Diaoyutai Islands. This first meeting between the two leaders since they took office opens a new window of opportunity for both countries to resume dialogue at technical levels, including in the stalled China-Japan-Korea FTA negotiation. As such, the media in Japan has described the meeting as a major breakthrough in efforts to improve the Sino-Japan relationship.

With regard to the key issue of regional integration, China’s effort to take the central stage in the integration process amid the rapid development of the U.S.-led Trans-Pacific Partnership Agreement (TPP) and the ASEAN-led Regional Comprehensive Economic Partnership Agreement (RCEP) is apparently yielding fruit. Despite the fact that the original Chinese proposal to start a FTAAP “feasibility study” has been “watered-down” by the U.S. and Australia to a “strategic study,” the successful inclusion of the “Beijing Roadmap” for the FTAAP nonetheless underpins China’s increasingly leading role as the decisive power in Asia Pacific regional integration. This achievement is also complementary to China’s recent conclusions of FTAs





with Korea and Australia and its initiation of the Asia Infrastructure Investment Bank (AIIB) and the Silk Road Development Fund. All these developments further demonstrate China's ambition to take the leadership in regional integration in the region.

As for Taiwan, the development of the FTAAP is definitely a positive direction for an economy that until today faces many political and economic obstacles to participating in the regional integration process. This is because the membership of the FTAAP is open to all APEC Economies. Yet with China's role as a leading country in the formation and creation of the FTAAP, there is a risk that Taiwan's participation will face unfavorable terms and conditions.

More importantly, with the rise of China as an economic and political superpower, Taiwan's status and identity is likely to be further marginalized. This indicates that hostility and non-cooperation with the world superpower are increasingly risky policy options for Taiwan to adopt. Instead, cross-Strait dialogue and cooperation would be more sensible to ensure Taiwan's safety and prosperity. Still this policy approach is constrained by the increasing discontent and distrust in Taiwan with the way the Government is handling the cross-Strait issue. How to rebuild confidence and trust thus becomes a major challenge for the Taiwan government in the near future.

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