



The Impact of TPP/RCEP Accession on Taiwanese Agricultural Industry

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IMPORTANCE OF TPP ON ECONOMIC DEVELOPMENT

It is a current strategy to reduce trade barriers and deepen the supply chain between countries by signing FTA/ ECA because the WTO Doha Agreement is still under-developed. There have been 381 valid FTAs/ ECAs achieved until September 23, 2013, while over 50% of them were effective for nearly a decade. It is a fast and significant trend that the emerging scale of FTA/ ECA becomes regionalistic, particularly in Asia. In terms of GDP, China, Japan, and South Korea account for 21% of global FTA coverage, while RCEP based ASEAN accounts for 29% of global GDP. The 12-country membership of Trans-Pacific Partnership (TPP), including major countries like the US, Japan, Canada, accounts for 38% of global GDP, which is the most relevant to Taiwan's participation in global scio-economic activities.

Compared with the aggressive FTA agreement signed between many countries to remove tariff and non-tariff trade barriers, the export of Taiwanese products is challenged by the trade barriers that threaten their competitiveness. Thus, it is unfair to the Taiwan-based companies that are going international. Because of Japan's accession to TPP, TPP becomes even more important and also influences the upcoming FTAs in the Asian-Pacific region. For instance, RCEP accelerated the negotiation process, while the negotiations of FTA among China-Japan-Korea have been re-activated. The current situation of Taiwan is obviously threatened by various regional integration agreements, which causes potential non-competitive trade terms and weaken Taiwan's economy.

The following three major resolutions explain how Taiwan's accession to TPP might improve the current difficult situation.

- Avoid the marginal role in the international society
Take the year 2012 as the baseline, the progress of signing regional integration agreement with Taiwan's neighbor countries is slow, in terms of coverage and number of countries. The current effective and work-in-progress FTAs, including ECFA with China, only cover 33.66% trade areas, far behind 70%~90% of Japan, South Korea, and Singapore. If Taiwan can enter TPP successfully in the future, another 35.02% trade coverage can be increased, achieving a total of 63.54%.
- Avoid the loss of fair competition in the international market
TPP provides trade privileges among all membership countries, while trade barriers can

be removed. If Taiwan cannot participate in TPP, the trade barriers with those major trade counterparts will increase the possibility of overseas market cannibalization against those TPP membership countries. In contrast, if Taiwan can enter TPP, it will benefit the trade sectors. In particular, Japan and South Korea are among the most key counterparts of our trade, both in terms of collaboration and competitiveness. Both of them have been aggressive towards regional economic integration, especially the current work-in-progress FTA of China-Japan-Korea. Thus, if Taiwan enters TPP, the impact of unfair trade environment will be minimized.

- Avoid the over-concentrated trade dependency in few countries
The trade volume between Taiwan and China (including Hongkong and Macau) has been quickly increased over the past decade, from US\$62.6 billion in 2003 to US\$162.9 billion in 2012. Nearly 40% of the entire Taiwan trade volume between Taiwan and China is highly concentrated, which might be resolved by such high dependency via the increase of trading with other TPP membership countries.

THE CHALLENGE OF TPP/ RCEP ACCESSION FOR THE TAIWANESE AGRICULTURAL SECTOR

Market openness

First, the current averaged tariff of the 71.5% agri-products (1,291 items of 8-digit codes listed) trade to Taiwan is 202%, except those 16 listed non-tariff quota products such as rice, banana, oriental pear, and dry mushroom. There are 14 agri-products such as peanuts, chicken meat, liquid milk listed for special hygiene investigation in order to prevent high volume or low cost of imports. If the above protected sensitive agri-products are released by TPP requirements, accounting for 46% of agricultural production value, the impact will be larger than our commitment upon WTO accession. Second, China is a member of RCEP. Because Taiwan still prohibits the majority of agri-products from China, Taiwan will be under great pressure once it enters RCEP in the agricultural sector.

Food safety and animal/ plants quarantine investigation (SPS)

The regulation of food safety and animal/ plants quarantine investigation in Taiwan is based on WTO and other international organizations. However, there are a lot of SPS issues on bilateral negotiations with TPP/ RCEP membership countries, such as the US export request for pork containing Ractopamine. In the upcoming TPP/ RCEP negotiations, how to resolve the counterparty's pressure on market openness is a key issue to be overcome.

Subsidization offer

Many countries strongly require to cancel subsidization offer, which is considered to have a bias trade effects towards trade liberalization. Meanwhile, many countries adopt some strategic policies to promote industry competitiveness and income support to farmers in order to overcome the impact caused by trade liberalization. The protection of the domestic market by subsidization offer is not

a long-term solution. For example, Japan and South Korea already cancelled guaranteed purchasing price and changed to income payment. If Taiwan plans to attend TPP/ RCEP, it is necessary to reconsider the current public grain purchase and shift to income support acts in order to maintain the competitiveness of the rice industry as well as farmers' income.

COST-BENEFIT ANALYSIS OF MARKET OPENNESS ON TPP/RCEP ACCESSION

Entering TPP/ RCEP and releasing protection of agri-products by tariff and non-tariff will definitely cause a severe impact on the Taiwanese agricultural sector, even much severe than the time of WTO accession. While farmers might get suspicions, the positive impact from promoting agricultural exports also exists. The cost-benefit analysis demands a clarification.

Benefits

- **TPP/RCEP tariff releases benefits to international market entry**
The bunch entry of FTAs and EPAs of many countries already caused negative impact on the Taiwanese agri-products to compete in the overseas market. For example, the FTA between Japan and Thailand promotes the Thia-green-soybean exports to Japan because of zero tariff, while Taiwanese green-soybean exports to Japan pays additional 6% tariff rate. Japan also provides Generalized System of Preferences (GSP) to the Philippines, so that Philippine banana export to Japan is charged 5.5%~9.1% tariff rate. Compared with 20% to 25% rate on Taiwanese bananas export to Japan, the diminishing competitiveness caused a decreasing banana market share in Japan. If Taiwan enters TPP/ RCEP, agri-products can get privileged tariff rates for exports to membership countries. On the other hand, it will make more attraction for global agribusinesses to invest in Taiwan for superior technology and product processing.
- **Multiple sources of import benefits to agri-product processing**
Entering TPP/RCEP will release the current import tariff, which will reduce costs of overseas imports and motivate more sourcing opportunities. By doing so, it enhances international competitiveness to agricultural processing businesses.
- **Facilitation of niche market of new products benefits agriculture international marketing**
The zero tariff privilege among TPP/ RCEP membership countries will facilitate an agri-tech niche market in new product development, such as small and medium agri-machines, bio-agricultural medicines, fertilizers, and seedlings, which are beneficial to the Taiwanese agricultural exports.

Cost

- Reduction of agricultured production value and food sufficiency
The majority of Taiwanese agri-products is still protected by tariffs, and some of those sensitive products get multiple level of protection such as quota and special quarantine checks. On the other hand, the restrictions on Chinese agri-product imports avoid direct competition from big countries with low production costs. The release of the above tariffs and non-tariff protections will definitely motivate imports and reduce the domestic food sufficiency ratio.
- Suspicion on cancelling of public grain purchase
The potential suspicion upon the policy change on public grain purchase towards direct payment needs to be communicated as a caution to farmers and the entire Taiwanese society. The careful designs of sufficient supporting mechanisms need to be planned well.

IMPORTANT POLICY STRATEGY TOWARDS ECONOMIC LIBERALIZATION

The agricultural sector in Taiwan is a small-scale farming and operating society. Given the global trend of trade liberalization, it is not feasible to adopt a defensive strategy. On the contrary, it is more important to upgrade the industry structure towards a new value of innovation for international competitiveness.

Value creation for international market expansion

- Promotion of free-trade demonstration zone for value-added agriculture: Construct export-oriented agricultural value-added chain to use imports and domestic raw materials for export value adds.
- Promotion of agri-technology global center: Establish an agricultural technology research center as a platform for industrialization and innovation of new agricultural ventures.
- Assistance to brand establishment for international marketing: Promote agricultural materials, technology, and turn-key exports. New channels of internet e-commerce is demanded to be developed.
- Maintain global competitiveness of the fishery sector: Promotion of high quality and safety standard of aqua-products demands more rigorous management and international certification.

Local production and local consumption for market segmentation

- Enhance agri-product tracking system and safety management: Using the agri-food cloud to establish the tracking mechanism from farm to table with rigor management system. In addition, the food safety certification system and product origin labels should be implemented.
- Take advantage of local production: Manage the divided flows of domestic and imported products. For example, the enforcement of frozen and unfrozen

procedure needs to be implemented. Furthermore, the development of distinguishing product origins and varieties is critical to segment the domestic agri-product against imports, which can support the fresh advantage of local production.

- Rural area regeneration and community industry: The Sixth Revolution can integrate the agricultural premier gift products, local special dishes, cultural preservation, and village tours for rural regeneration.
- Assist professional farmers to establish micro-agribusinesses: Incorporate with venture capital resources to encourage mass market participation and be considered as shareholders.
- Enhance branding & marketing: Using the farmers' market channels to promote internet marketing and food and farming education. It can be combined into several concepts such as nutritious lunch, restaurants, and group meals, into a mega-trend of trendy and healthy lives.

Facilitate industry restructuring for synergy

- Promote agricultural specialized zone: Enhance agriculture and fishery core industry development to integrate resources for scale and cluster effectiveness.
- Adjust farming institution and scale: Promote re-activation of fallow, small landlord big tenant, and golden walkway new agricultural project in order to increase the resource efficiency.
- Rationalize farmland usage and management: Extend value added chain to encourage upscale farmland and concentration. The rationalization of farmland management is important to maintain superior agricultural environment.
- Cultivate agricultural management: Set up projects to cultivate entrants of young generation to breed inter-disciplinary talents. In addition, it is a trend to assist farmers to establish shareholding companies for agribusinesses.

Direct payment for farmers' income protection

- Promote direct payment to farmers under WTO-regime: Adopt a flexible and gradual procedure to improve from the current public grain purchase system towards direct payment to rice farmers. Via this adjustment, it can lead the structural adjustment of the whole rice industry towards a superior rice value added chains to secure rice farmers' income.
- Provide comprehensive information of subsidy information: Take the farmer's ID to manage the oil and fertilizer subsidy to farmers in order to accurately manage reasonable resource allocation.
- Enhance farmers' welfare and social security system: Inspect, audit, and review the farmer's qualification to protect farmer's identity.

Strengthen quarantine checks for environmental quality

- Break through the barrier of export quarantines: Develop new types of animal and plants quarantine technology of inspection in order to break through the export barrier. Enhance the test and certification system of seeds and seedlings for an upgrade of agri-product quality in terms of international competitiveness.
- Implement the quarantine procedure: Establish the pre-alert system of reporting suspected unsafe animals, plants, and meats. Build a safety-net of disease threats in order to secure Taiwan's out of virus zones. It is important to evaluate risk of potential harmful agri-products via a rigor gatekeeping process for sure import agri-product safety.

CONCLUSION

Economic and trade liberalization is a serious issue for Taiwan to reconsider the entry of regional economic integration societies. The Council of Agriculture will continue to budget a quota for "Aid Fund of Agriculture Product Loss by Import Competition". The fund can be used to adjust preempt for industry structure transformation as well as for international marketing projects. In addition, the fund can be used specifically to less competitive industry to compensate the accession to TPP/ RCEP. On the other hand, the threat can be turned into an opportunity to push domestic agricultural production and upgrade its quality, transforming from production-oriented agriculture into new value-added agriculture, in order to enhance the international competitiveness of the Taiwanese agricultural industry.

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