

## Pacific Partners Outlook

Volume III | Issue 8 | August 2013

### ANZTEC and Taiwan's Quest for Economic Integration

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*August 1, 2013*

The carefully titled Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC), signed on July 10, represents a diplomatic coup for Taipei and a win for New Zealand. The trade pact is not only Taiwan's first economic cooperation agreement (ECA) with a developed nation and first trade agreement with a Trans-Pacific Partnership (TPP) member state, but also its first ECA with a nation that has an existing trade agreement with mainland China. Though not a watershed agreement in terms of absolute trade volume, the pact paves the way for Taiwan to close similar bilateral trade deals and bolsters its case for participation in regional trade frameworks.

ANZTEC liberalizes trade in goods and reduces barriers to investment in services and cooperation in areas such as e-commerce, intellectual property rights, environmental protection, entertainment, indigenous peoples, and educational exchanges. The agreement's actual economic impact is projected to be moderate. It will eventually save New Zealand businesses about \$60 million in duties paid each year while costing Wellington only \$2 million in lost tariff revenues. Despite increased competition, it will prove a boon to exporters, especially in the backbones of the export economy, dairy and agriculture. Tariffs on almost all New Zealand dairy exports to Taiwan will be eliminated right away and beef will follow suit two years later.

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According to a Taiwanese government study, ANZTEC will increase Taiwan's GDP by 0.076 percent (\$303 million) annually, create 6,250 new jobs, and save around \$76 million in duties. At the same time, Taiwan's agriculture sector will shrink by \$130 million as duties on New Zealand's livestock, fruit, wine, and dairy exports are removed. In the near term, Taiwan will enjoy some modest benefits as New Zealand waives import tariffs on 7,510 Taiwanese products, including manufactured goods and petrochemicals. By 2025, tariffs on 100 percent of all current trade in goods will have been eliminated, along with duties on most nongovernment services.

Though Taipei claims that "the trade and industrial structures of the two countries strongly complement each other, and that the ECA will have a significant complementary effect on their economic development," the scale tips in favor of New Zealand's exports over Taiwan's. Given that New Zealand's \$607 million annual agricultural exports to Taiwan make up 20 percent of the total value of its agricultural exports, New Zealand's agricultural sector, especially the dairy industry, will reap the most benefits from the deal. The pact is projected to save New Zealand \$32 million on export duties per year as soon as it takes effect. Nevertheless, consumers in both nations will see the cost of essential goods fall as a result of the agreement. Taiwan's real economic victory, though, is potentially even greater than the lower food prices it secures.

ANZTEC sends a positive signal to Taiwan's potential trading partners and provides it with crucial momentum for regional economic integration. The Office of Trade Negotiations of the Taiwan Ministry of Economic Affairs has applauded the agreement for its role in "reinforcing Taiwan's ongoing efforts to conclude and participate in other economic cooperation agreements and regional trade agreements in the future."

Indeed, the success of the Taiwan-New Zealand negotiations provides other interested nations with a model for economic cooperation with Taipei. No country, including New Zealand, is willing to jeopardize its relationship with a major economy like China by signing a trade agreement with Taiwan unless the former does not object. To avoid ruffling the feathers of diplomatic relations with its second-biggest trading partner and largest export market, New Zealand kept the entire negotiation process as low-profile as possible and held the signing ceremony at a local university in Wellington without the presence of senior officials from either side. "We have a no-surprises relationship with China," a New Zealand representative stated, insisting that Beijing was "comfortable" with how ANZTEC had proceeded.



*Kiwi fruit imported from New Zealand on sale in Taiwan. Kiwis are among a raft of agricultural products eventually covered by the New Zealand-Taiwan economic cooperation agreement. <http://www.flickr.com/photos/catandgirl/213048766/>*

## ANZTEC and Taiwan's Quest for Economic Integration *(continued)*

Chinese Foreign Ministry spokesperson Hua Chunying confirmed in a July 10 press conference that Beijing does not object to Taiwan's "nongovernmental business and cultural exchanges" as long as there is agreement between the two on not creating "two Chinas" or "one China, one Taiwan." Thus far, Wellington has managed to avoid provoking Beijing's ire by addressing Taiwan according to its Organization for Economic Cooperation and Development designation, the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu. The extent to which adherence to the "one-China" policy will affect Taiwan's ability to increase engagement on the international stage remains to be seen.



Even in the midst of this ambiguity, ANZTEC is an important first step, both toward signing similar bilateral ECAs with even larger economies and toward dissolving barriers to Taiwanese membership in broader regional trade agreements like the TPP and the Regional Comprehensive Economic Partnership. Reports indicate that more than two and a half years of negotiations for a trade pact with Singapore, Taiwan's fifth-largest trading partner, have recently concluded and a draft has entered a "legal scrubbing phase." What is more, Taiwanese vice minister of economic affairs Cho Shih-chao indicated in the days after the New Zealand deal that talks with Indonesia and India have already begun.

The stalled U.S.-Taiwan Trade and Investment Framework Agreement talks have also recently resumed, potentially making it easier for developed economies to conduct similar trade talks with Taiwan. ANZTEC's conclusion, bolstered by Beijing's tacit approval, may usher in a series of planned agreements by a diplomatically savvy Taipei to establish itself as an attractive trading partner in the region. ▲

*Taiwan's Suao Port. Under a new trade agreement between Taiwan and New Zealand, tariffs on all current trade in goods will be eliminated by 2025. <http://www.flickr.com/photos/47572092@N04/6944492348/>*

# The Month That Was

## AUSTRALIA

**Interest rate cut likely as business in Australia slows.** The Reserve Bank of Australia's governor Glenn Stevens hinted on July 30 that the bank is likely to cut interest rates soon, as the business conditions index compiled by National Australia Bank reached a four-year low. The central bank is expected to cut the benchmark rate from 2.75 percent to 2.5 percent in August, the eighth straight cut in 21 months. The mineral resources boom that fueled Australia's economy for the last decade is widely perceived to have peaked, and non-mining sectors like retail and manufacturing remain weak amid low consumer confidence.

**Rudd announces plan to settle asylum seekers in PNG.** Prime Minister Kevin Rudd and his Papua New Guinea (PNG) counterpart, Peter O'Neill, on July 19 announced a deal to resettle refugees that arrive in Australia by boat in PNG. Rudd declared in an unexpected video announcement that any asylum seekers that attempt to reach Australia by boat will never be resettled there. Opposition leader Tony Abbott initially welcomed the deal, but has since questioned the government's competency to carry out the plan.

**Labor prepared to shelve carbon tax, make early transition to cap-and-trade system.** The ruling Labor government says it will attempt to replace Australia's carbon tax with an emissions trading scheme before federal elections, which must be held by November 30. Former prime minister Julia Gillard introduced the carbon tax after forming a governing coalition between her Labor Party and the Greens Party in 2010, breaking a campaign promise in the process. By dumping the tax and transitioning quickly to a cap-and-trade system, current prime minister Kevin Rudd likely hopes to distance himself from his unpopular predecessor.

**Trade minister attempts to salvage Pacific free trade deal.** Trade Minister Richard Marles traveled to Papua New Guinea on May 15 in the hope of saving a free trade agreement with the Pacific Islands. The deal, known as PACER Plus, seeks to establish a free trade block among Australia, New Zealand, and 13 Pacific Island nations. Negotiations were initiated in 2009 but stalled in April due to an impasse over issues of labor mobility and development assistance. Papua New Guinea's trade minister, Richard Maru, has opposed the deal, noting that almost all goods from his country already enter Australia tariff-free.

**Rudd implements new rules to deter leadership challenges.** Prime Minister Kevin Rudd won a party vote on July 22 to reform the process by which



*Australia's regional processing facility for asylum seekers on Papua New Guinea (PNG)'s Manus Island. Australia and PNG have announced a deal under which refugees seeking asylum in the former will instead be settled in the latter. <http://www.flickr.com/photos/diacimages/8155626676/>*

Australia's Labor Party selects its leadership. The new rules aim to prevent frequent leadership challenges to sitting prime ministers, the mechanism by which Rudd was deposed in 2010 and replaced his successor Julia Gillard in May 2013. The new rules give members of Parliament and rank-and-file party members an equal proportion of votes in leadership challenges, while the old system was weighted heavily toward legislators.

## NEW ZEALAND

**New Zealand dollar rises amid strong economic data.** The New Zealand dollar rose about 5 percent in July to 1.26 to the U.S. dollar as of July 1. The strengthening currency is thanks to strong economic data that contrast sharply with rival exporters like Australia and Canada. New Zealand's exports are largely dominated by the agriculture and dairy sectors, which have been insulated from the falling demand affecting commodities like mineral exports. Consumer confidence in New Zealand is at a three-year high.

**New Zealand, Taiwan sign free trade deal.** New Zealand became the first developed nation to sign a free trade agreement with Taiwan despite not recognizing the country diplomatically. The deal, signed on July 10 in a low-key ceremony at a New Zealand university, gives a boost to Taiwanese efforts to reach agreements with other countries, including India, Indonesia, and Singapore. It is also seen as a foot in the door for Taiwan's future entry into the Trans-Pacific Partnership or Regional Comprehensive Economic Partnership blocs.

**Earthquake rattles Wellington.** Wellington experienced a minute-long, 6.5 magnitude earthquake on July 21 that caused an estimated \$1 billion in damage. No major injuries were reported, but the city was brought to a standstill in the days following the quake. Authorities have since been working to repair damaged water pipes and downed power lines.

**Key, Park discuss economics during trip to South Korea.** Prime Minister John Key arrived in Seoul on July 28 for talks with South Korean president Park Geun-Hye and to observe the 60th anniversary of the Korean War, in which New Zealand troops actively fought alongside the South Koreans. Key discussed economic matters with Park, announcing on July 28 that he is 65 percent confident a free trade agreement between the two countries will be reached in 2014. He also attended an armistice ceremony alongside veterans of the war.

**Controversial intelligence gathering bill set to pass Parliament.** Prime Minister John Key on July 22 secured the votes necessary to pass a



*New Zealand's currency, which has bucked the trend among other commodities exporters and appreciated against the U.S. dollar. <http://www.flickr.com/photos/4nitsirk/4663879483/>*

controversial amendment to a law defining the powers of New Zealand's domestic intelligence agency, the Government Communications Security Bureau (GCSB). The amended law will allow the agency to intercept citizens' private communications—a change that has mobilized hundreds of protesters. Key gained the numbers necessary for passage after agreeing to greater government oversight of the GCSB.

#### PACIFIC ISLANDS

**Asylum seekers detained in Nauru face charges after riot.** The Nauru government announced on July 22 that 152 asylum seekers involved in a riot at the country's Australian-run detention center will face charges of arson, willful damage, and rioting. The July 18 violence razed the detention camp and caused an estimated \$55 million in damage. A petition signed by 31 camp employees over the past 10 months suggests a riot may have been inevitable due to poor conditions, including overcrowding.

**Trade ministers agree to push for a Pacific-U.S. trade agreement.** Trade ministers from across the Pacific Islands on July 19 announced several initiatives to improve their nations' access to world markets, including prioritizing a trade and development agreement with the United States. The officials were gathered in Samoa for the annual Pacific Islands Forum Trade Ministers Meeting. Officials will meet in September in Majuro, the Marshall Islands, to discuss the agreement further. An eventual deal with United States is expected to build on the momentum from the renegotiation of a U.S.-Pacific Islands fisheries treaty, expected to be completed in 2014.

**French prime minister visits New Caledonia to determine path toward independence.** French prime minister Jean-Marc Ayrault visited New Caledonia on July 26–28 to discuss the territory's progression toward independence. A referendum on independence was originally slated for 2014 but has been delayed until 2018. Ayrault called for New Caledonia to resolve ethnic differences before deciding on whether to declare independence or remain a part of France.

**Solomon Islands celebrates anniversary of international assistance mission.** The Solomon Islands on July 24 celebrated 10 years since the start of the Regional Assistance Mission to the Solomon Islands (RAMSI). The largely Australian-led contingent of 2,200 troops intervened in the Solomon Islands to restore order and rebuild the country following a bloody civil war. Dramatic improvements in governance have led Australia and regional partners including New Zealand and Papua New Guinea to begin winding down the operation.



*New Zealand troops stationed in the Solomon Islands perform a Maori war dance called a haka. The Regional Assistance Mission to the Solomon Islands is winding down as it reaches its 10th year. [http://commons.wikimedia.org/wiki/File:MC\\_09-0081-354.jpg\\_-\\_Flickr\\_-\\_NZ\\_Defence\\_Force.jpg](http://commons.wikimedia.org/wiki/File:MC_09-0081-354.jpg_-_Flickr_-_NZ_Defence_Force.jpg)*

**Vanuatu vote of no confidence shot down.** A motion of no confidence lodged by 38 members of Vanuatu's Parliament was thrown out on July 13. The motion was in response to ongoing charges of current ministers buying votes during the 2012 national elections. A judge tossed out the motion because one legislator who signed has yet to be sworn in and several others said their signatures were forged. ▲

# Looking Ahead

**Mayday: The Decline of American Naval Supremacy.** The Heritage Foundation will host a launch event on August 1 for *Mayday*, a new book by former U.S. deputy undersecretary of the Navy Seth Cropsey. The book warns of the potential dangers that would accompany a U.S. naval drawdown in the Asia Pacific. The event will be held from 12:00 p.m. to 1:00 pm in the Heritage Foundation's Allison Auditorium, 214 Massachusetts Ave., NE. Please [click here](#) to RSVP or watch the event online.

**House subcommittee hearing on the Trans-Pacific Partnership.** The House Subcommittee on Terrorism, Nonproliferation, and Trade will hold a hearing August 1 on prospects for the Trans-Pacific Partnership trade deal currently being negotiated by the United States, Australia, New Zealand, and nine other nations. Topics likely to be covered include labor protection and intellectual property rights. The hearing will be held at 1:30 p.m. at the Rayburn House Office Building, Room 2200, 45 Independence Ave., SW.

**Pacific Islands Forum in the Marshall Islands.** The Republic of the Marshall Islands (RMI) will host the 2013 Pacific Islands Forum in Majuro from September 3 to 6. RMI's minister in assistance to the president Tony de Brum has indicated that his country will use the forum to draw attention to the extreme weather events it has recently experienced and propose a "Majuro Declaration for Climate Leadership" to urge greater action on climate change. For more information on the forum, visit its [website](#). ▲

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