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# Ambidextrous Innovation Strategy of New Ventures

*Vincent Kuo*

## **Ambidextrous Innovation**

Innovation is the mechanism by which organizations produce new products, processes and systems required for adapting to changing markets, technologies and modes of competition (Utterback 1994; Dougherty and Hardy 1996). Innovation strategy as an integrated means to build and manage multiple capabilities, and to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the firm and its stakeholders (Kanter 1989; Cohen and Levinthal 1990; Henderson and Clark 1990). It is a key business process for success, survival and organizational renewal both for incumbents and new ventures (Lengnick-Hall 1992; Brown and Eisenhardt 1995).

The notion of exploration and exploitation has emerged for more than two decades, involving in the fields of organizational learning and strategy, innovation, and entrepreneurship. Exploration is more about learning new knowledge of technology and market. Exploitation is more about using existing knowledge to use the technology and serve the market (Li, Vanhaverbeke et al. 2008). Exploratory innovations are radical innovations and are designed to meet the needs of emerging customers or markets.

**4** They offer new designs, create new markets, and develop new channels of

distribution. Exploratory innovations require new knowledge or departure from existing knowledge. Business operations engaged in exploratory innovation pursue new knowledge and develop new products and services for emerging customers or markets. Exploitative innovations are incremental innovations that are designed to meet the needs of existing customers or markets. They broaden the existing knowledge and skills, improve established designs, expand existing products and services, and increase the efficiency of existing distribution channels. Exploitative innovations build on existing knowledge and reinforce existing skills, processes, and structures. Business operations engaged in exploitative innovation build upon existing knowledge and external existing products and services for existing customers.

Various researches from scholars and practitioners have urged that organizations need to be ambidextrous. The outperforming firms are recognized as those who can manage balance between exploitation and exploration innovation simultaneously (Tushman, Smith et al. 2002; Gibson and Birkinshaw 2004; Andriopoulos and Lewis 2009). The small and medium size enterprises, and particularly new ventures, characterized by constrained resources, operated differently to large and multi-national firms such that generating current recipe for ambidexterity into innovation strategies for these firms may be incorrect and inappropriate (Chang and Hughes 2012).

### **Strategic entrepreneurship and resource orchestration**

Strategic management and entrepreneurship are concerned with creating value and wealth. Entrepreneurship involves identifying and exploiting opportunities, and strategic management involves creating and sustaining one or more competitive advantages as the path through which opportunities



are exploited. Therefore both strategic management and entrepreneurship are concerned about growth, creating value for customers, and subsequently creating wealth for owners. To integrate strategic management and entrepreneurship, strategic entrepreneurship offers a framework to illustrate how entrepreneurs can and should conduct opportunity-seeking and advantage-seeking behaviours simultaneously to achieve superior performance by orchestrating resources strategically. Resource orchestration poses a key process involves resource management framework and asset orchestration (Sirmon, Hitt et al. 2011). Resource management framework contains resource structuring, bundling and leveraging. Asset orchestration refers to the search, selection, configuration and deployment of asset and capabilities.

Due to the nature of exploratory innovation, new ventures are risky for high uncertainty and the survival rate is relative low. Entrepreneurs are passionate about realizing creative ideas, but bearing social, financial and psychological risks. Can new ventures manage exploratory and exploitation innovation simultaneously? To address this question, we collected data on two new ventures in the greater China area that adopted ambidextrous innovation strategy. The two cases were chosen to illustrate different types of ambidextrous strategy (case summary at Table 1). One adopted ambidextrous strategy aligned with customer base while the other aligned with technology base. Data collected via interviews with founders, investors, advisors and senior managers, were triangulated with observations collected during periodic visits to the new ventures within 6-month period. We want to illustrates how new ventures orchestrated resources to manage the balance of ambidextrous innovations.

**Table 1: case summary**

	Robospark Tech Inc.	White Rabbit Entertainment
Capital	USD 6M	USD 2.5M
Exploration Innovation	Living appliance	3-D rendering
Exploitation Innovation	Digital Content	Animation movie
Ambidextrous interlink	Customer base	Technology base

## Case Study

### Case 1 Robospark Tech Inc.

Robospark Technology is founded in July 2009 with the vision to offer digital contents of education for children under twelve years old. Particularly, the new venture wanted to seize the opportunity of the increasing demand in education before primary school. The market opportunity resulted from the structural change of population due to the low birth rate in the past two decades. Parents and grandparents are anxious for the new generation's education and invest with all they can afford. That Chinese family emphasize heavily on education strengthens the need for early education.

#### *Ambidextrous Strategy*

With the perceived opportunity, the founding members articulated their business into two units. One aimed for education materials for children and the other aimed for house appliances for health living. They expect to fulfil their mission with the two interlinked business and operations.

For exploitation, they leveraged their existing capabilities and experiences that chose to represent an international brand of household appliances exclusively in the greater china region. They selected the product categories to carry based on two criteria. One was health related. For



example, air cleaner, antibacterial and vacuum cleaner are products that help build healthy environment. The other criterion was technical characteristics that can associate with automation and robotic technology. The first product introduced was a robot vacuum cleaner from Korea. The distribution channels for the appliance include department stores, online shopping sites and TV shopping channels. The second product they carried was an antibacterial bed vacuum cleaner that can kill bacterial and remove dust mites and their allergens.

As for exploration, it is the unit aiming for education materials for children. The founding members realised that contents were more valuable and scalable than hardware from their prior experiences. They also found that it is better positioned to be a content aggregator than a developer. However, they lacked of the knowledge and expertise in education. To fill in the gap, Robospark allied with a kindergarten group for their proprietary teaching method and reading materials. Robospark offered to digitalize these materials in exchange for the digital content license. The same arrangement has been made with other publisher or traditional content owners without digitalization. To distribute the content, Robospark developed a platform, iSpark, to provide access for the customers via app services for PC, smartphones and tablet devices. Members can subscribe the service by monthly payment or buy all contents at one time.

### *Resource orchestrating*

In terms of resource structuring, the founding members have made several achievements. They successfully convinced angels and venture capitalist for five million US dollars fund raising. The founder also invited experienced executives to be board members. The partnership with the specialized kindergarten obtained education methods and proprietary

materials as critical resources in developing education market. Robospark did not have strength to transform traditional materials into digital format on their own capacity. By referring, Robospark identified a company that dedicated to making digital content. Robospark contracted a bulk service of a thousand pieces of flash work to transform all the materials into digital.

For resource bundling, more partnerships were formed with traditional publisher who have reading materials for children in paper-based format to enlarge the content portfolio. Robospark started to interact with the teachers to be familiar with the usage in kindergarten. Robospark also tried to cooperate with the semi-government organization in China, taking advantage of their symbolic authority to influence the market.

For resource leveraging, the customer base of the house appliance and children education materials can be mutually beneficial to each other. The customer database of children education materials has detail information about the age and number of children in the family because in every development stage, children need different materials to develop specific capability. Family with children are care more for environment hygiene so this gives great opportunity to sell house appliances.

## **Case 2 White Rabbit Entertainment**

White Rabbit Entertainment was set up in February 2011 by three computer engineers. The venture aimed to make motion pictures by integrating their technology and creativity like Pixar. In Asia, this was a market where there were only a few players based in China. Japan remained focused on 2-D animations and Korea focused on gaming and TV drama. With the insights, White Rabbit Entertainment was confident of the emerging opportunity in Asia.



## *Ambidextrous Strategy*

Three founding members researched the relevant technology in computer graphic, pattern recognition and information management from literature and built their prototype TWR3D technology from the scratch. 3-D image effects come from two types of technology, image based rendering and depth image based rendering. TWR3D utilize depth image based rendering that servers can calculate the parameters to generate the 3-D cues that present 3-D effects. It can lower the cost by sixty-six percent compared with current practice. The cost reduction resulted from the automation of the transformation by computing and therefore less manpower and time was needed. Further, this technology is applied on a private cloud environment. There is no storage device at terminal end and each picture and image were processed via the internet. By doing so, the infrastructure is scalable at an affordable cost and there is high confidentiality of each project.

With this technology, White Rabbit stepped into the entertainment and movie industry by offering post-production service. To bring TWR3D to the international stage, Charles recruited a creative director that participated in Hollywood post-production projects such as Avatar, Happy Feet, and Rise of the planet of the Apes. With the leadership, White Rabbit started to cultivate their own director, storyboard expert, and screenplay writer. This is to prepare for the long term mission, their own animation movies.

The 3-D transformation service has been recognized by the movie industry in Asia and worldwide. White Rabbit participated in the production of Titanic 3-D version in 2011. In 2012, they were the main partner for symbolic movie in Chinese society for New Year holiday, the twelfth zodiac animals. In addition to the movies, they extended the service category to popular music concerts. Popular music artists tended to shoot the concert

and made into films. These concert videos were also in favor of 3-D effects that requires post-production process. Nonetheless, it required visual effect directors to involve. White Rabbit not only participated in post-production, but also involved in visual effect planning and directing. These performances they have cooperated with include May Day concert and Wang Lihon's Shanghai concert.

To make an animation movie requires not only technology but also screenplay, story and filmmaking techniques. For a young motion picture house, it is very exploratory in the sense. To make White Rabbit's own animation movie, the Journey to the West, the animation department developed the technology they may need apart from 3-D effects. The leading actor in the story was a monkey. It is very difficult to draw the fur and hair vividly and natural. And the hair in motion is more complicated. The R&D team developed a technology that solved the problem based on computer generated imagery. This technology offers molding, design, and coloring for hair in animation. The embedded engine can perform the movement of hair smoothly and seemingly natural. This technology, called Big Cat, has been licensed to many studios for 3-D and animation post-production. The animation department made their first short animation pictures Hatching in 2012 and was nominated to participate in SIGGRAPH 2012. This was a milestone of international recognition.

### *Resource orchestration*

The founding members are resources structuring on their own right. They offered the foundation of the technology capabilities in this new venture. The recruitment of expert with industry domain knowledge strengthened the resource portfolio and brought the company into international arena.



The experiences learned in movie post-production, 3-D rendering, and visual effect directing, would be crucial for White Rabbit to make their own animation movie. Moreover, the 3-D and visual effect department could generate not only the revenue to support the exploration of animation department but also the knowhow and skills to make a film. The animation department can also leverage technology, know-how, and industry domain knowledge originated from 3-D rendering business.

## **Conclusion**

The two cases illustrated how new ventures adopts ambidextrous strategy to generate innovation. It is little discussed about the ambidexterity in new ventures in the literature, and in practice, new ventures are usually characterized by exploratory. We propose that exploitation innovation strategy is beneficial for new ventures if its customer base or technology development can align with the exploratory arms. One of the advantages to adopt ambidextrous strategy for new ventures is that it allows entrepreneurs to mitigate the risks. The business unit for exploitation innovation can generate positive cash flow in a short time. This not only can support the exploratory business but also can ease the capital requirement by soothing the burn rate. The customer and technology base developed by the initial investment could reduce the time it may take to put exploratory innovation into market. Nonetheless, the exploitation innovation business unit can operate independently and accumulate more resources regardless the performance of the exploratory innovation.

The lesson for managers can be derived from these observations is that ambidextrous strategy can offer benefits to new ventures. New ventures can orchestrate the resources by leveraging the customer and technology

base bundled and structured by exploitation innovation strategy. This does not only mitigate the risks from allocating entire resources on exploratory innovation but also generate more resources to support exploratory activities.

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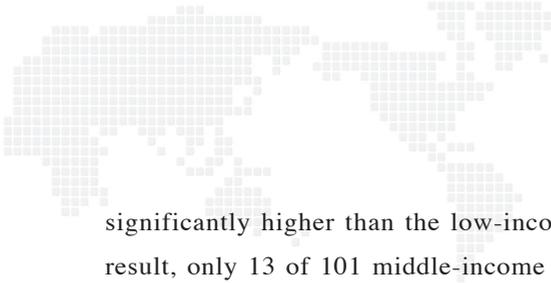
# Enhancing Structural Reform to Escape from Middle Income Trap

*Wayne Chen*

Proposed by China the host economy of APEC 2014, avoiding the Middle Income Trap (MIT) was adopted as one very important issue requiring all APEC economies' attention and action. As illustrated by China at the first Senior Official Meeting that escaping from MIT is crucial to boost economic growth in the Asia-Pacific and initiating structural reform is the inevitable course. In this light, the APEC New Strategy for Structural Reform (ANSSR) can serve well as guidelines to assist APEC economies move forward the development ladder and meanwhile facilitate sharing of best practices and ideas on conquering the MIT. As a result, MIT and ANSSR are highlighted in the agenda of "Promoting Innovative Development, Economic Reform and Growth", a priority area for the APEC 2014.

## **MIT as a Trap on the Development Ladder**

According to the World Bank, economies with per capita income of US\$1,036- US\$12,615 are considered in a middle-income status, and MIT refers to the situation in which a middle-income economy fails to leap into high-income status. Aiyar et al. (2013) argue that middle-income economies are disproportionately likely to suffer from growth slowdowns. The relative frequency of economic slowdown period for the middle-income status is



significantly higher than the low-income and high-income groups. As a result, only 13 of 101 middle-income economies in 1960s escaped from MIT and entered high-income phase by 2008. In the Asia-Pacific region, 5 economies completed the leap from the middle to the high income stage of the development ladder, namely Japan, Korea, Taiwan, Hong Kong, and Singapore.

Yiping Huang argues that MIT is a critical issue for APEC where a large number of developing economies fails to overcome MIT and thus undermines social equity and efforts on trade and investment facilitation. On the other hand, MIT also appears as an opportunity to APEC. Firstly, considering APEC member economies are diverse in terms of development ranging from under development to high income status and 5 of them have escaped from MIT. APEC is in a unique position to assist economies transcend the obstacle of development by improving exchange of views and best practice sharing. Furthermore, given that structural reform is a fundamental work in conquering MIT, particularly on industrial structure and manufacturing patterns, ANSSR can contribute substantially to individual economies as well as the Asia-Pacific region as a whole.

## **Determinants of MIT**

Empirical research demonstrates at least 6 important factors lead to growth slowdown, they are institutions, demography, infrastructure, economic environment and policies, economic structure, and trade structure.

The existing, completeness and quality of legal institution is essential to attracting FDI and financial liberalization for domestic entrepreneurs. Protection of property rights and contract enforcement, for example, is the foundation to boost economic performance. Age distribution of the

population is another factor correlates to economic slowdown, in particular, the demographic dividend. A positive impact of the working age ratio was found on economic growth. The correlation comes from higher production of people of working age compared to labor outside this age group as well as higher saving rates increase domestic resources available for productive investment. Skilled labors are needed and should be cultivated through quality education systems, more importantly the avocational education, and training to continuous support industrial transformation and meet the need of changing manufacturing patterns.

A wide range of macroeconomic factors are also related to economic growth and slowdown. Encouraging domestic investment, e.g. through mobilizing local savings, is crucial to economic growth considering cross-border capital inflows may be more volatile. Competition policy is considered important to enhance openness and transparency of local market and protection to foreign investors and thus greatly benefits long-term growth and reduces economic shocks. The economic structure refers to formal employment and output in sectors. The World Bank's World Development Indicators demonstrate that employment, output and add-in value expand in the industrial sector while the agricultural sector shrink along the way of economic development. However, this structural change also creates risk of slowdown. For MIT economies, production activities need to transform from exporting natural resources and essential goods to higher add-in value and capital/knowledge intensive industries. Similarly, MIT economies also face further distance and regional integration and are required to learn to deal with external shocks, e.g. economic crisis, in the regional and global sphere.



## Structural Reform as a Solution

The factors illustrated above create needs and challenges facing economies reached middle income status in moving forward to higher grade to which ANSSR aims to contribute. The main objective of ANSSR is to improve openness and transparency of policy environment which is essential to introduce FDI and partners to local business. Given that there is no one size for all remedy for MIT problem, ANSSR serves an open platform upon which APEC economies of a wide range of development are encouraged to exchange experience and best practice for regional prosperity.

Moreover, APEC growth strategy also plays an indispensable role which illustrates economics need to pursue innovative and inclusive growth which is aligned with industrial structural reform of MIT economies. However, at present ANSSR is more focused on policy environment and the connection with growth strategy need to be further forged to contribute to the MIT task in an effective manner.

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# The Dynamics of Multilevel TPP Negotiations

*Eric Chiou*

International trade negotiations have been characterized by a model of so-called "two-level game." This model highlights a challenging predicament in which a chief negotiator faces pressures from both external trading counterparts and domestic interest groups when undertaking international trade pact negotiations.

Nevertheless, it is noteworthy that the complexity and development of Trans-Pacific Partnership (TPP) negotiations among 12 members may have gone beyond the traditional two-level game model and can be depicted as a new form of "multilevel game." The latest TPP development regarding the US-Japan trade talks provides an intriguing case to illustrate the characteristics of this newly emerging trade negotiation.

To boost momentum to TPP trade talks and to reassure its allies in Asia, US President Barack Obama paid a week-long visit to Asia by visiting Japan, South Korea, Malaysia, and the Philippines in April. Many believe that this trip signaled US determination to implement its "pivot-to-Asia" policy with concrete action.

In addition to strengthening strategic alliances with its existing allies, on economic front, the most important task for Obama was to increase impetus on TPP talks with Japan. Nevertheless, it seemed that Obama had failed to achieve this goal, since in the US-Japan Joint Declaration in April, it only



stated that the two "have identified a path forward on important bilateral TPP issues," and that "this marks a key milestone in the TPP negotiations."

Since the US began taking a lead in TPP talks in 2009, the complexity and intricacy of this multilateral negotiation process have been broadly recognized, given its wide range of coverage on various issues. Thus, even after more than 20 rounds of negotiations, there is no explicit sign to see the conclusion of TPP treaty.

For the United States, TPP serves as a multi-functional tool to achieve its national interests. Strategically, it plays a crucial economic element in support of US pivot-to-Asia policy, for bolstering US economic involvement and relevance in the region. Economically, TPP is viewed as an effective policy instrument to accomplish Obama's economic objectives of creating more US jobs, boosting US exports, and eventually stimulating its economic growth.

However, Japan's entry to TPP has dramatically increased difficulties in TPP negotiations. Furthermore, TPP negotiation has transcended the traditional sense of multilateral trade talks, since TPP allows its members to settle their differences via bilateral negotiations, while undertaking multilateral talks simultaneously. These features imply that a chief negotiator in each TPP member has to adroitly make an accurate assessment of ongoing multifaceted negotiations and aptly utilize leverage to boost bargaining power for maximizing profits while minimizing costs on both bilateral and multilateral negotiation tables.

In other words, this chief negotiator is also forced to engage battles on both domestic and external fronts. On the one hand, the negotiators might want to transform domestic opposition against the trade deal into bargaining chips for asking few concessions from other negotiating counterparts. On the other hand, they might also want to strategically translate external pressures

on opening domestic market during the negotiation process into positive momentum on undertaking critical economic reforms.

As a result, the TPP negotiations have been undertaken through this multi-level, intertwined, and dynamic interaction. For example, on the US-Japan bilateral trade talk, Washington's primary goal has been persuading Japan to open up its market for American agricultural products, while Tokyo has persisted in protecting five sensitive agriculture categories intact from foreign competition, including beef and pork, dairy products, sugar, rice, wheat and barley.

To break up Japan's resistance, the US Trade Representative (USTR) has utilized multiple strategies. The chief of USTR, Michael Froman, argued that all TPP members expected Japan to allow market access on agricultural products, in order to move TPP negotiation forward. On domestic front, several US Congressmen across the aisle signed on a letter to USTR and the US Department of Agriculture, urging them not to make a TPP deal with Japan, if the latter refuses to eliminate tariffs and non-tariff barriers on agricultural goods.

Moreover, Obama and US senior trade officials announced on different occasions that any breakthrough in TPP negotiations will send a positive signal to Congress on granting the Trade Promotion Authority (TRA) to the Obama administration. In other words, Washington has tried to transform its domestic discord on TPP into pressure on other TPP members, especially Japan, to obtain more concessions. Finally, Washington has attempted to take this window of opportunity through Obama's visit to finalize this trade deal with Japan by imposing political and diplomatic pressures. Nonetheless, it has failed.

Facing mounting pressures from Washington, Japan has strived to set a bottom line for its tolerable concession by concluding the Australia-Japan



Economic Partnership Agreement (EPA) in early April. Tokyo's strategy is to provide Australia, a US competitor on agricultural products, with an early and acceptable range of market access to Japan, in order to persuade Washington to consent to its terms as Australia did. By doing so, Tokyo intended to sabotage a possible coalition gathered by TPP agricultural exporting members to jointly push Japan for more comprehensive market access on a multilateral TPP negotiation table. The strategy of "divide and conquest" gives Japan with more leeway to focus on demands from the US and New Zealand, respectively, while not severely damaging the core political support of Abe's ruling party.

As for Australia, its strategy is to get "two bites of the cherry" by negotiating with Japan through a bilateral EPA and a multilateral TPP. In other words, signing an EPA with Japan does not mean that Australia has submitted its right to request Japan for additional market access in TPP negotiation. Furthermore, it is reported that the Australia-Japan EPA also covers a most-favored nation (MFN) clause for cheese products, which would ensure Australia to obtain the same treatment, if Japan provides more access to other counterparts in the same sector in future trade treaties.

Additionally, the formation of Australia-Japan EPA is partly derived from Canberra's political calculation. Despite Japan's rejection to expand agricultural market access in the EPA, Australia's assent to Japan's terms might be attributed to following reasons. First, the Abbott administration has been eager to make tangible achievement in distinction with the former Labor Party government. Second, the Abbott administration has publicly declared its policy objectives of concluding free trade agreements with South Korea, Japan, and China by the end of 2014. Hence, it is crucial for Australia to sign an EPA with Japan before the deadline. Finally, Australia-Japan EPA provides Australia's agricultural products with a first mover advantage in Japanese

market, favoring Australia's products over others while not sabotaging its future claims for more market access from Japan.

The above case on US-Japan agricultural goods negotiation shows the intricacy and complexity of ongoing TTP negotiations. The dynamic process of TPP talks, coupled with both bilateral and multilateral bargaining approaches, requires relevant negotiating members to devote enormous time and resources to vigilantly observe other counterparts' each step, in order to generate sagacious and foresighted decisions. Undeniably, the demanding features of TPP process have posed a critical challenge to existing TPP members and significantly raised the level of uncertainty regarding the future success of TPP.



# Implications of Taiwan to Become a Member of Trans-Pacific Partnership

*Darson Chiu*

It has long been discussed and stressed how important it is for Taiwan to join the Trans-Pacific Partnership (TPP) agreement. Main arguments by Taiwanese governmental and academic circles were about how Taiwan would be seriously marginalized without a TPP membership due to the fact that Taiwan was a heavily external trade oriented economy. However, those arguments were derived from the perspective of this island but others. I doubt and wonder how these Taiwan-centered arguments can even be convincing to existing TPP members. It is noted that to become a member of TPP will take a consensus from existing members. That simply means it only takes one vote to exclude Taiwan out of the integration process. Therefore, in order to convince all members to receive Taiwan, how Taiwan's membership can bring economic benefits to the entire region would be the key.

There are actually several major reasons why the existing members of TPP agreement should invite and welcome Taiwan to join this multilateral trading process. Taiwan's participation in the TPP can indeed add to their national interests.

First, Taiwan's membership in TPP can help strengthen the supply value chains in the region of Asia Pacific. Taiwan has been intensely and deeply integrated in the value chains of Asia-Pacific region. The most obvious evidence would be Taiwan's exports structure. Above 70% of Taiwan's

annual exports to other regional destinations would be intermediate goods. In addition, more than 50% of Taiwan's exports orders have been produced overseas, mostly in economies of Asia-Pacific region. If Taiwan is not joining the TPP, the process will very likely make the supply value chains to shift and eventually push Taiwan away. Why does it even matter to other TPP members? A new set of supply value chains generated by economic policies or treaties will not be able to create as much economic welfares for the entire region as the origin set of chains caused by the natural rules of supply and demand by economic theory. For that reason, Taiwan's status in supply value chain and its membership in TPP will benefit the region and help more optimally allocate regional resources.

Second, TPP as the trading rules charted and set mainly by the United States of America would be used to supervise and manage US's East Asian trading partners. Before the formation of TPP, the US had been stressing the significance and consequences of Trans-Pacific imbalances (TPI). Some US trade experts believed that the reason why US had to suffer from huge trade deficits only because some East Asian counterparts that did not play fair. Issues such as protection in intellectual property rights (IPR) and vested interest of state-owned enterprises (SOE) would be the cases in point. When the US paid its attention to the so called "high quality" TPP, it is sensible that the US seized the chance and used the original P-4 agreement as a mechanism to take care the long-lasting matter. In a nutshell, the purpose of TPP is to deal with the problem of TPI. For that reason, main contributors to TPI such as China, Japan, South Korea, and Taiwan should all be included in the high quality process. Japan has already attended the negotiations of TPP. The US has also extended its welcome for South Korea to join in. China has announced in public that it will not rule out the possibility to take part in the TPP in the future. With the inclusion of Taiwan, the TPP can better be



utilized to manage TPI. This is more of a US based reason. However, the US is now leading the TPP negotiations. Although a TPP membership requires a consensus, a solid support from the US will certainly make a difference.

**Table 1: Tariff Profiles of Asia-Pacific Economies(%)**

Economy	RCEP members			Economy	TPP members		
	all	Ag	Non-ag		all	Ag	Non-ag
China	9.6	15.6	8.7	US	3.4	4.7	3.2
India	13.7	33.5	10.4	Vietnam	9.5	16.1	8.4
Korea	13.3	52.7	6.8	Malaysia	6.5	11.2	5.8
Indonesia	7.0	7.9	6.9	Australia	2.7	1.2	2.9
Philippines	6.2	9.8	5.7	N Zealand	2.0	1.4	2.2
Thailand	9.8	21.8	8.0	Brunei	2.5	0.1	2.9
Laos	18.8	19.3	18.7	Peru	3.7	4.1	3.6
Myanmar	5.6	8.6	5.1	Canada	4.3	16.2	2.4
Cambodia	10.9	15.2	10.3	Chile	6.0	6.0	6.0
Japan	4.6	16.6	2.6	Mexico	7.8	21.2	5.8
Singapore	0.2	1.4	0.0	Japan	4.6	16.6	2.6
Brunei	2.5	0.1	2.9	Singapore	0.2	1.4	0.0
Vietnam	9.5	16.1	8.4	<b>Averaged</b>	<b>4.4</b>	<b>8.4</b>	<b>3.8</b>
Malaysia	6.5	11.2	5.8	Taiwan	6.1	16.4	4.5
Australia	2.7	1.2	2.9	PNG	32.1	45.6	30.0
N Zealand	2.0	1.4	2.2	Russia	10.0	13.3	9.4
<b>Averaged</b>	<b>7.7</b>	<b>14.5</b>	<b>6.6</b>	HK	0.0	0.0	0.0
<b>Averaged tariffs of APEC</b>					<b>7.0</b>	<b>13.5</b>	<b>6.2</b>

Source : WTO Tariff Profiles, 2013.

Third, TPP members will gain further access to the market of Taiwan with Taiwan's participation in TPP in the future. According to the 2013 WTO Tariff Profiles database, the simple average most favored nation (MFN) applied tariffs in Taiwan stands at 6.1% in general, 16.4% for agricultural goods and 4.5% for non-agricultural products. By comparison, the simple average MFN applied tariffs of current 12 TPP members on average would be 4.4% in general, 8.4% for agricultural goods and 3.8% for non-agricultural products. Therefore, Taiwan's TPP membership will come with the function

of peer pressure that can help speed up Taiwan's pace in liberalizing its market and lower the barriers for TPP members. In other words, Taiwan's TPP membership will help Taiwan to speed up its economic reform for sure. As most TPP members are Taiwan's close economic partnership, they probably are more willing to work with an open economy.

Fourth, Taiwan's membership in TPP will certainly help other TPP members to access to the market of Mainland China. Taiwan is the Asian economy that understands the Chinese market better than any others. Taiwan shares the same language, customs, and cultures, etc with China. Taiwanese businessmen have long been investing in China and doing business with the Mainland Chinese public as well as private sectors. Although the Taiwanese market implies a rather small size one with a population of only 2,300 million, it's actually a gateway to the world potentially biggest market with 1.3 billion populations. The cross-Strait Economic Cooperation Framework Agreement (ECFA) will also help Taiwan to better serve as the role as a platform to conduct economic activities with the world's second largest economy. This reason only sustains if Taiwan becomes a TPP member and China does not or both China and Taiwan join the TPP together. We shouldn't discard the likelihood of China and Taiwan becoming TPP members at the same time. Both sides of the Taiwan Strait joined the WTO, APEC, and even PECC in chorus could be good models to duplicate.



# Developing an APEC FTAAP Conceptual Framework

*Chen Ho*

## **Introduction**

APEC has begun to seriously consider the importance of realizing a Free Trade Area of the Asia-Pacific (FTAAP). The FTAAP goal can be considered to be more comprehensive and ambitious than the Bogor Goals. The reason is that an FTAAP could imply the inclusion of non-members of APEC that are linked to the Asia-Pacific region. It also indicates that APEC seeks to enhance regional economic integration (REI) through deeper trade and investment liberalization and facilitation as well as economic and technical cooperation.

Most importantly, APEC has regarded RCEP, TPP and other regional undertakings to be pathways to an FTAAP. This development shows that APEC would like to place an FTAAP at a higher level of REI than the Bogor Goals. There is also the possibility that an FTAAP could be achieved through the signing of a free trade agreement (FTA) among APEC members. Since APEC is still working on achieving the Bogor Goals, the realization of an FTAAP remains a long-term APEC goal without a deadline.

Thus APEC has not exerted the greatest efforts to develop a framework for an FTAAP. In response, ABAC has incessantly called on APEC to generate an FTAAP plan. The 2014 APEC host, China, has raised the issue of building an FTAAP framework (APEC SOM1 2014). In sum, the idea

of creating an FTAAP is receiving more focused attention and necessitates greater consideration. The main purpose of the article is to construct an APEC conceptual framework for attaining an FTAAP in a systematic manner based on APEC principles.

## **The Development of an FTAAP**

The views of APEC on the creation of an FTAAP were stated in the various annual APEC Leaders' Declarations. The 2004 Leaders' Declaration mentioned that ABAC had presented a relevant proposal regarding the need to study the feasibility of an FTAAP (APEC 2004). In 2006, the Leaders' Declaration said that difficulties in negotiating an FTAAP existed but APEC should undertake studies on ways to promote REI and FTAAP. The creation of an FTAAP will be a long-term prospect (APEC 2006).

By 2008, Leaders had mentioned in the Declaration that an FTAAP could bring economic benefit to the region but challenges existed. The Leaders called on Ministers to examine the prospects of an FTAAP through analyzing the economic impact of an FTAAP as well as discussing the capacity requirements that would be needed for negotiations in the future (APEC 2008).

Afterwards, the support for attaining an FTAAP seems to lose momentum without mentioning a free trade agreement. In the 2012 Leaders' Declaration, Leaders mentioned that they recognized FTAAP to be an important instrument to advance APEC's REI. In addition, they noted that the various regional undertakings could serve as a way towards an FTAAP. The Leaders also maintained that APEC will continue to be an incubator of an FTAAP and will also provide leadership and intellectual input (APEC 2012). APEC Leaders mentioned in the 2013 Declaration that they reaffirmed their



commitment to realize an FTAAP. APEC will continue to offer leadership and intellectual input into the REI process (APEC 2013).

Another related issue is about the meaning of an FTAAP. It was mentioned previously that ABAC had called for negotiating a region-wide agreement in the 2004 ABAC Report to Leaders. In addition, APEC Leaders had stated the need to negotiate a comprehensive free trade agreement in the 2010 Leaders' Declaration. However, the idea of an FTAAP to be derived from a negotiated agreement does not seem to be evident in recent years. There exists the possibility to define an FTAAP to be different from a free trade agreement. For example, an FTAAP could be an expanded form of the Bogor Goals in which the achievement of an FTAAP would mean the further advancement of free and open trade and investment in the Asia-Pacific region.

Furthermore, it is possible to state that the number of APEC members promoting the Bogor Goals would be different from the number of members joining an FTAAP. There is the possibility that APEC would increase the number of APEC members in the future, so as to strengthen the development of an FTAAP. Since the FTAAP idea comes from APEC, there is certainly the need to ensure that members of FTAAP are also APEC members. In the 2013 APEC Leaders' Declaration, Leaders called for the achievement of a seamlessly and comprehensively connected and integrated Asia-Pacific region to be part of APEC's work to realize the Bogor Goals and the Yokohama Vision of "Bogor and Beyond" (APEC 2013). Therefore, the enlargement of APEC's membership would strengthen the advancement of a seamless regional economy and generate greater benefits from an expanded FTAAP.

## **Suggestions: Elements of an FTAAP Conceptual Framework**

The development of an FTAAP conceptual framework necessitates the inclusion of ideas that will follow APEC principles of voluntarism and consensus building. The APEC approach of making decisions in a cautious and evolutionary manner will continue to guide the building of an FTAAP. In addition, APEC also recognizes the importance of abiding by views that have been presented previously, so that this tradition should be respected. Therefore, the suggestions presented in the following paragraphs are considered to be able to satisfy APEC beliefs.

The first suggestion is that APEC promotes the open regionalism idea. The advancement of an FTAAP will also promote the WTO and ensure that non-APEC members are not discriminated. APEC can show the world that the creation of a free trade area can also benefit non-APEC members.

The second suggestion is that the achievement of the Bogor Goals should come first before the attainment of an FTAAP. If APEC members would like to hasten the realization of an FTAAP, they could seek to reach the Bogor Goals before the final 2020 deadline. The important point is that the meaning of Bogor Goals' free and open trade and investment should be clear and achievable. Furthermore, the setting of the year 2025 to be a potential deadline for realizing an FTAAP will be a positive development because it will exert pressure on APEC. Most importantly, APEC must have an FTAAP conceptual framework to accompany any FTAAP deadline.

The third suggestion is that APEC membership in the future should be enlarged to enhance the advancement of an FTAAP. The expansion of APEC membership would increase the size of an FTAAP. This means economies that touch the Pacific Ocean should be able to join APEC. Furthermore, economies that border the economies touching the Pacific Ocean should also



become APEC members. The result is the building of a seamless regional economy and the generation of greater benefits from an enlarged FTAAP.

The fourth suggestion is that APEC should promote open membership to link the TPP, RCEP and PA with an FTAAP. APEC members should be able to become members of the three aforementioned FTAs, on the condition that they can adhere to the rules. Members of the three FTAs will become APEC members. Thus the difference in the rules of the FTAs will have less negative impact. In addition, businesses can choose the FTAs that satisfy their needs in terms of less transaction costs.

The fifth suggestion is that APEC should welcome the development of free economic zones (FEZs) and create an APEC Free Economic Zones Network (AFEZN). The FEZs are effective for assisting with the achievement of the Bogor Goals and an FTAAP through the implementation of economic liberalization measures. A FEZ serves as a model for economic liberalization in an economy and full scale adoption of the economic liberalization measures is possible at a later stage. The AFEZN is a platform for sharing experiences and strengthening linkages.

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