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Growing Canada-Taiwan Trade and Investment Co-operation

by Eric Miller

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POLICY PERSPECTIVE

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Taiwan recently graced the front cover of *The Economist* under the banner "The Most Dangerous Place on Earth." While cross-strait tensions are all too real, Taiwan is not merely a geopolitical chess piece in a Sino-American competition. It is also a prosperous democracy of 23.5 million people situated at the heart of the world's most economically dynamic region. Taiwan has developed robust ways of managing its social and economic challenges. Its focus on learning from the SARS outbreak in 2003, for example, spurred it to build its pandemic monitoring and management system that proved highly successful in containing COVID-19. It has taken that same mindset in advancing its economic competitiveness in a variety of strategic sectors. As Canada advances its trade diversification strategy, deepening commercial linkages with Asia broadly – including Taiwan – should be a central priority.

Canada and Taiwan have many complementarities. Differences in geographic scale, industrial structure and climate make the two economies natural partners. These differences show up in the trade statistics, as set forth in Appendix One below. Canada exports significant volumes of natural resources and motor vehicles to Taiwan. Taiwan sends significant volumes of information technology products as well as an array of specialized manufactured goods, such as bicycles and stainless steel, to Canada. Overall, Taiwan is Canada's 15th largest trading partner globally and sixth largest in Asia.

The key question is: what strategies should Canada follow to grow its trade with Taiwan? This paper will offer some thinking on how and where to grow commercial linkages. The first dimension relates to formal enhanced trade rules. The second piece will assess potential sectoral partnerships. The third dimension will focus on the efficiency of export controls. Finally, the paper will offer some guideposts for moving forward.

Enhanced Trade Rules

As a founding member of the General Agreement on Tariffs and Trade (GATT) in 1947 and the World Trade Organization (WTO) in 1995, Canada has worked for decades to reduce trade barriers. When the GATT process stalled in the 1980s, Canada pivoted and began a concurrent process that lasts to this day of seeking to knock down trade barriers through the negotiation of bilateral and regional free trade agreements.

Despite Taiwan's complicated diplomatic situation, it has succeeded in participating in key international trade processes. It became a member economy of the Asia-Pacific Economic Cooperation grouping in 1991. In 2002, it joined the WTO. Canada trade with Taiwan is governed through both bodies, but especially the WTO.

For more than a decade, the nations of East Asia have sought tighter economic integration through formal trade rules. The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) have inspired each other to action.

Compared to the Chinese-led RCEP process, CPTPP has a much higher level of ambition in its content, both in terms of breadth and depth.

The government of Taiwan has repeatedly expressed its interest in acceding to CPTPP. To date, the existing members have invited only one new country – the United Kingdom – to negotiate accession.[1] While other economies, from Thailand to Korea, are still assessing their interest, Taiwan has been clear in its desire to join CPTPP.[2] Taiwan is an integral part of the Asian regional supply chain and the facts on the ground suggest that its participation would only strengthen the vitality and importance of the CPTPP project. As a WTO and an APEC member, Taiwan is broadly seen as a distinct economy for trade purposes. There is no reason why CPTPP members should not champion and welcome its accession.

Canada has substantial experience in negotiating trade agreements. In most every case, the resulting arrangement grows bilateral trade. While there is an ongoing debate about how to get more out of trade agreements, there is always a certain level of growth that inherently comes from a knocking down of barriers to commerce. There is every reason for Canada to move to capture the growth in goods and services trade that will come from free trade with Taiwan. The easiest and most beneficial path to bilateral free trade is through CPTPP. According to the best available estimates, the cost to Canada of keeping Taiwan out of CPTPP is $1.54 billion.[3] Canada therefore should work vigorously with its fellow members to bring Taiwan into the CPTPP fold.

Sectors of Interest

There are a wide variety of sectors with strong potential for growth in the Canada-Taiwan relationship.

Energy

One good strategy for growing trade is to look at sectors that are undergoing a transformation. The enabling feedstock that powers Taiwan's energy system is radically shifting. In 2019, coal powered almost half of Taiwan's electricity. Coal is also Canada's top export to Taiwan. Yet, as concern about climate change accelerates, the Taiwanese government is driving a shift in the sources of electricity that power its economy. By 2025, it envisions the share of energy derived

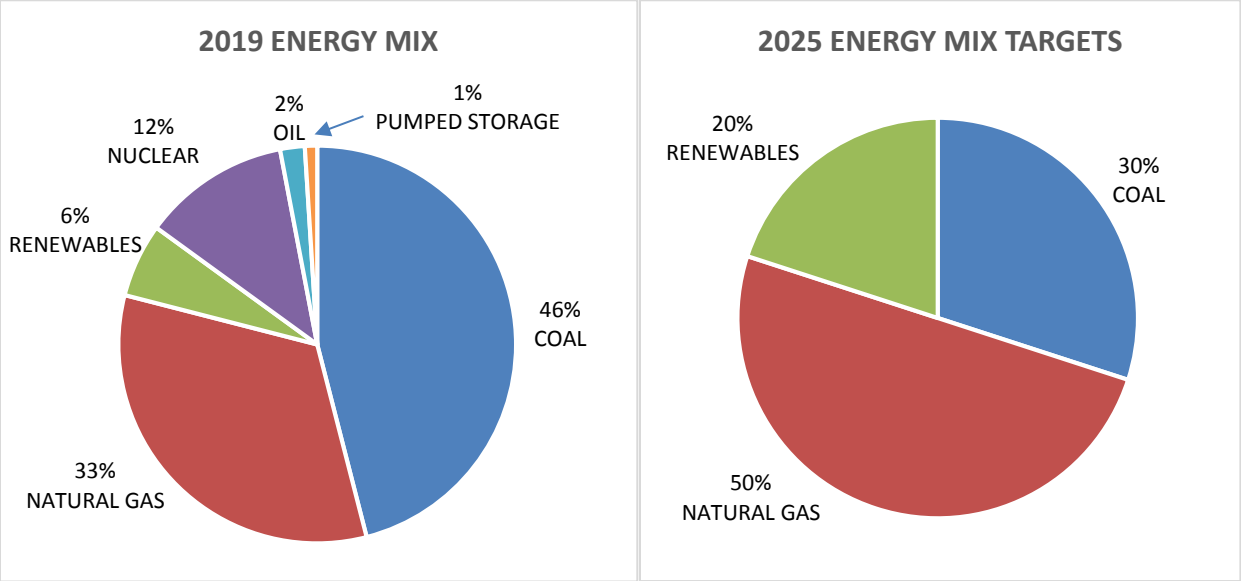
[1] David Dharshini, "UK Applying to Join Asia-Pacific Free Trade Pact CPTPP," BBC News, January 31, 2021, https://www.bbc.com/news/business-55871373; The Comprehensive and Progressive Trans-Pacific Partnership, U.K. Parliament, June 22, 2021, https://commonslibrary.parliament.uk/research-briefings/cbp-9121/.
[2] Walter Sim, "Taiwan Keen to Join Trans-Pacific Trade Pact and World Bodies like WHO," *The Straits Times*, June 3, 2021, https://www.straitstimes.com/asia/east-asia/taiwan-emphasises-desire-to-join-multilateral-pacific-trade-deal.
[3] Eric Miller and Sarah Goldfeder, "The Imperative of Trade Diversification: Why Canada Should Embrace Taiwan's Accession to CPTPP," Canadian Global Affairs Institute, November 2019, https://www.cgai.ca/the_imperative_of_trade_diversification_why_canada_should_embrace_taiwans_accession_to_cptpp#Support.

from coal to fall to less than one-third. In its place, reliance on renewables and natural gas will surge.[4]

Canada has both natural gas and the technologies and expertise in renewables in abundance. This positions Canada to be a strong supporter of Taiwan's energy transition at each phase of the process. This includes providing the coal necessary to avoid disruption as other energy infrastructure is built and brought online.

An important example of potential in this area is the Hai Long offshore wind project being built by Toronto's Northland Power and its local partner, Yushan Energy. The project was awarded in 2018 and is a pioneering example of offshore wind generation in Taiwan. When it comes online in 2025, the Hai Long will add 1,044 MW of electricity from three locations in the Taiwan Strait.[5]

COMPOSITION OF TAIWAN'S ENERGY GENERATION[6]



Forest Products

Taiwan is already an important market for Canadian forest products. Much of these imports come from British Columbia, for whom Taiwan is the fourth largest forest products market.[7] Building

[4] Evan Feigenbaum and Jen-Yi Hou, "Overcoming Taiwan's Energy Trilemma," Carnegie Endowment for International Peace, April 27, 2020, https://carnegieendowment.org/2020/04/27/overcoming-taiwan-s-energy-trilemma-pub-81645.
[5] Northland Power, "Hai Long – Taiwanese Offshore Wind," https://www.northlandpower.com/en/projects-and-updates/hai-long-taiwanese-offshore-wind.aspx.
[6] Adapted Feigenbaum and Hou.
[7] B.C. Council of Forest Industries, "Renewable BC Wood is in Demand," https://www.cofi.org/forest-products-for-the-world/.

materials that are used in flooring, decks and fences are a strong area of focus. Yet, the forest products industry is undergoing significant transformation as mass timber buildings, innovative biomaterials and an array of other applications open new areas of growth. Capturing this growth potential is a great opportunity. At present, Canada Wood, the nation's export marketing arm for forest products, does not have an office in Taipei. Ensuring dedicated coverage in this market would be a good step for growing this already positive commercial relationship.

Food

Canada is a food superpower whose bounty feeds the world. Taiwan is a net food importer. Yet, Canada is only the 11th largest supplier of agri-food and seafood products to Taiwan.[8] This suggests that there is ample room to grow bilateral trade in these products if there is appropriate prioritization.

Take seafood. Taiwanese consumers eat more than 30 kg per capita of fish and seafood products annually.[9] Taiwan's imports of fisheries products grew by 30 per cent between 2017-2019.[10] Yet, Canada sent a mere C$38 million in fish and seafood exports to Taiwan in 2019, making it Canada's 10th largest seafood export market overall.[11] Considering that Taiwan's love of seafood will continue for the foreseeable future, deepening Canada's participation in this market should be a priority. Taiwanese consumers prefer fresh over frozen fish, meaning that the type of real-time delivery system developed for Nova Scotia lobster exports to China could be developed and extended for Taiwan.[12]

For agri-food products, Canada does not exceed a four per cent market share in any of Taiwan's top 10 imports. There are myriad reasons for this, but the rather small share in areas of traditional Canadian strengths such as wheat and beef, suggests room for Canada to grow.

Bicycles

Bicycles are one of Taiwan's persistently strong sectors that is under-explored by Canadian analysts. Taiwan is home to Giant, the world's largest bicycle manufacturer, and a series of other producers. Taiwan has refined its dominance in this space. Approximately three-quarters of

[8] Agriculture Canada, "Market Overview – Taiwan," September 2019, https://www.agr.gc.ca/eng/international-trade/market-intelligence/reports/market-overview-taiwan/?id=1567611870297.
[9] Laura Dawson, "Canada Should Focus on Taiwan Trade," *Western Producer*, January 16, 2015, https://www.producer.com/opinion/canada-should-focus-on-taiwan-trade/.
[10] Foreign Agricultural Service, U.S. Department of Agriculture, "Taiwan - Seafood Market Presents Niche and High Value Opportunities," March 4, 2021, https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Taiwan%20-%20Seafood%20Market%20Presents%20Niche%20and%20High%20Value%20Opportunities_Taipei%20ATO_Taiwan_03-04-2021.
[11] Fisheries and Oceans Canada, "Canada's Fish and Seafood Trade in 2019: Overview," 2021, https://waves-vagues.dfo-mpo.gc.ca/Library/40966392.pdf.
[12] Nova Scotia has grown its exports of live lobsters by having producers, government agencies, Halifax Stanfield Airport and Canadian and global air carriers work together. In 2019, Nova Scotia live lobster exports were valued at $947 million. In 2020, despite the global pandemic, exports were valued at $822 million; Paul Withers, "Global Pandemic Took Double-digit Bite out of Nova Scotia Seafood Exports," CBC News, June 1, 2021, https://www.cbc.ca/news/canada/nova-scotia/nova-scotia-seafood-exports-pandemic-1.6047713; James Muir, "Live Lobster is Catch of the Cargo at Halifax Stanfield," *Air Cargo Week*, March 21, 2019, https://www.aircargoweek.com/live-lobster-is-catch-of-the-cargo-at-halifax-stanfield/.

Taiwan's bicycle exports go to the United States and the European Union – markets with whom Canada has free trade agreements.[13] All but the lowest end bikes have significant value added today, whether in materials or components. Most mid-tier adult bikes start at US$500 and can easily reach several thousand dollars for higher end models. Bicycles are not only growing in popularity but are also changing. The rise of the "electric assist" or "e-bike" has opened a whole new market segment. Taiwan reportedly exported 759,000 e-bikes in 2020, up 20 per cent over the year before.[14] Overall, Taiwan has a 63 per cent market share for e-bikes in Europe. E-bikes are expensive, tending to start at US$2,000 and can often reach US$4,000.

Canada has at least 30 bicycle manufacturers[15] and expertise in electrical systems from years of work in the auto sector. Some companies, including Dorel Industries, which owns an array of well-known brands including Cannondale, Mongoose and Schwinn, are global. Others, such as Vancouver's Chromag, which is relatively tiny, already outsource some production to Taiwan. It would be worth undertaking a serious analysis both of potential complementarities between Taiwanese and Canadian bicycle and component manufacturers as well as ascertaining the interest of Taiwanese OEMs in localizing some production in Canada to serve the North American market.

Export Controls

Canada maintains a robust system of export controls for an array of products ranging from military goods to unprocessed logs to peanut butter. The biggest class of export-controlled products destined for Taiwan is military equipment. According to the government's annual report, Canada sent C$19.8 million in "military goods and technology" to Taiwan in 2020.[16]

Defence exports are important to the Canadian economy. Under Canadian law, all sales of military goods and technology bound for jurisdictions other than the United States must obtain an export permit before proceeding. According to the *Export and Brokering Controls Handbook*, the service standard for processing applications for export permits to low-risk destinations is 10 working days and for other destinations is 40 working days. The performance target for achieving this standard is set at 90 per cent.[17] The defence industry has been increasingly vocal that these service standards are not being met. According to the government's own data, only 71 per cent of "other destination" reviews were completed within the 40 working days

[13] Road to Bike, "Opportunities and Challenges of Taiwan's Bicycle Industry," https://roadtobike.weebly.com/bike-news/opportunitie-and-challenge-of-taiwan-bike-industry.
[14] Bike Europe, "Taiwan E-bike Exports Rise 20% during Turbulent 2020," https://www.bike-eu.com/market/nieuws/2021/02/taiwan-e-bike-exports-rise-20-during-turbulent-2020-10139737.
[15] Canadian Cycling Magazine, "Canadian Bicycle Brands," July 1, 2019, https://cyclingmagazine.ca/sections/gear-reviews/bikesframes/canadian-bicycle-brands/.
[16] Government of Canada, "2020 Report on Exports of Military Goods from Canada," June 5, 2021, https://www.international.gc.ca/trade-commerce/controls-controles/reports-rapports/military-goods-2020-marchandises-militaries.aspx?lang=eng.
[17] Ibid.

In addition to missing the targets, the industry has lamented the lack of visibility on the status of given applications. In a recent report, the Canadian Association of Defence and Security Industries (CADSI),[18] cited an example of an export that was delayed for over 500 days without reply. It does not seem unreasonable for the government to be required to provide a status update once things go beyond four or six months, so the exporter at least has some sense of direction.

Public reports do not suggest any specific issues with exports to Taiwan. It will be important to keep things working effectively with respect to these sales.

Conclusion

Trade diversification has been a stated Canadian policy objective for many years. In terms of economic complementarities, there is no reason for Canada and Taiwan to forgo pursuing new opportunities in each other's markets.

Working to get Taiwan into CPTPP is a good first step. Not only would it make Canadian goods cheaper, but it would also fortify Canadian market advantages in Taiwan. This would become particularly important if the United States, a key Canadian competitor in certain sectors, pursues a deepening of trade linkages with Taiwan. Some in the U.S. Congress have proposed that the U.S. seek a free trade agreement with Taiwan.[19] For now, the Biden administration is focused on revitalizing the bilateral "Trade and Investment Framework" process.[20] While there is still a window of uncertainty, it would be wise for Canada to put its shoulder into expanding CPTPP membership to include Taiwan.

One factor that is reshaping global trade beyond any one bilateral relationship is the process of supply chain realignment. As this evolution plays out, new areas of trade opportunity between Canada and Taiwan will undoubtedly emerge. One area to watch is semiconductors. As countries around the world seek to diversify supplies of semiconductors – an area in which Taiwan is a global leader – this will invariably have an impact on Canada. These macro shifts seem likely to generate new, economically viable opportunities between Canada and Taiwan.

[18] Canadian Association of Defence and Security Industries (CADSI), "Canadian Defence Exports in Uncertain Times: A Primer for Responsible Canadian Defence Exporters," May 14, 2021, https://online.flippingbook.com/view/529194515/.
[19] Examples include: Albio Sires, "Taiwan Caucus Co-Chairs Lead Letter to USTR on Beginning Trade Deal Negotiations with Taiwan," Dec. 20, 2019, https://sires.house.gov/media-center/press-releases/taiwan-caucus-co-chairs-lead-letter-to-ustr-on-beginning-trade-deal; Lisa McClain, "Congresswoman McClain Urges Biden Administration to Pursue Free Trade Agreement with Taiwan," March 22, 2021, https://mcclain.house.gov/media/press-releases/congresswoman-mcclain-urges-biden-administration-pursue-free-trade-agreement.
[20] Office of the U.S. Trade Representative, "United States and Taiwan Hold Dialogue on Trade and Investment Priorities," June 30, 2021, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/june/united-states-and-taiwan-hold-dialogue-trade-and-investment-priorities.

CANADA'S TOP 25 EXPORT PRODUCTS TO TAIWAN – 2019
(at the HS-4 Digit Level in Thousands of C$)

2701 - Coal and Solid Fuels Manufactured from Coal	$468,037
2601 - Iron Ores and Concentrates	$213,483
8703 - Motor Vehicles for Passenger Transport	$114,186
3004 - Medicaments - Put Up in Measured Doses or Packed for Retail Use	$109,274
0203 - Meat of Swine - Fresh, Chilled or Frozen	$95,257
7901 - Zinc and Zinc Alloys	$77,859
4407 - Lumber (Thickness >6Mm)	$73,730
7204 - Ferrous Waste and Scrap; Remelting Scrap Ingots of Iron or Steel	$63,616
2603 - Copper Ores and Concentrates	$52,794
1201 - Soya Beans, Whether or Not Broken	$39,653
4801 - Newsprint - in Rolls or Sheets	$38,059
7502 - Unwrought Nickel	$33,869
4703 - Chemical Wood Pulp - Soda or Sulphate	$33,530
2309 - Pet Food and Animal Feed Preparations	$21,506
4702 - Chemical Wood Pulp - Dissolving Grades	$19,763
0207 - Meat and Edible Offal of Domestic Poultry - Fresh, Chilled or Frozen	$19,626
2106 - Protein Concentrates, Textured Protein Substances and Other Food Preps	$19,108
7504 - Nickel Powders and Flakes	$18,969
0202 - Meat of Bovine Animals - Frozen	$18,891
2004 - Potatoes and Other Vegetables - Frozen without Vinegar/Acetic Acid	$15,278
0306 - Crustaceans – Shell or Not, Live, Chilled, Frozen, Dried, Salted, Smoked	$15,187
4705 - Semi-Chemical Wood Pulp	$14,142
8471 - Magnetic/Optical Readers, Machine Transcribing Data to Media in Code	$13,644
9031 - Other Measuring or Checking Instruments, Appliances and Machines	$13,276
8542 - Electronic Integrated Circuits	$12,038
Sub-total	**$1,614,772**
Top 25 Products as Share of Total	**79.17%**
Total (All Products)	**$2,039,482**

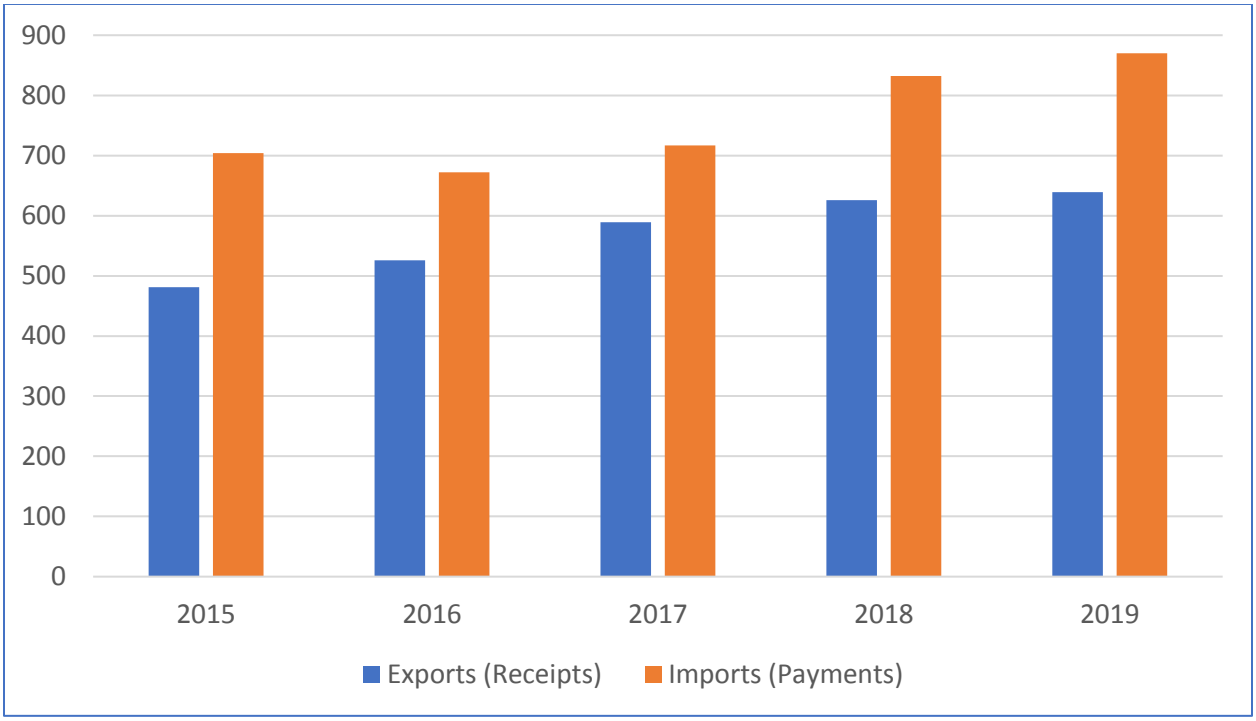
Source: Government of Canada

CANADA'S TOP 25 IMPORT PRODUCTS FROM TAIWAN – 2019
(at the HS-4 Digit Level in Thousands of C$)

8542 - Electronic Integrated Circuits	$389,902
8517 - Telephone Sets; Other Apparatus for Trans/Recep of Voice/Image/Data	$336,498
8471 - Parts and Accessories of Automatic Data-Processing Machines	$321,556
7318 - Screws, Bolts, Nuts, Rivets, Washers, Like Articles of Iron or Steel	$312,419
8708 - Motor Vehicle Parts (Excl. Body, Chassis and Engines)	$192,286
8473 - Parts & Accessories, Other than Covers, Carrying Cases & the Like	$159,226
8712 - Bicycles and Other Cycles	$114,371
7219 - Flat Rolled Products of Stainless Steel - Width >600Mm	$110,355
8803 - Parts of Helicopters, Airplanes, Balloons, Dirigibles and Spacecraft	$109,916
8302 - Metal Mountings, Fittings and Similar for Furniture, Buildings, Vehicles	$109,182
8523 - Discs, Tapes, Ssnvsd, Smart Cards & Other Media for Recording Sound	$101,813
8525 - Transmission Apparatus for Radio-Broad or TV	$98,584
9506 - Articles and Equipment for Sports, Gymnastics, Athletics; Swim Pools	$95,349
8714 - Parts for Motorcycles and Mopeds	$90,777
4011 - New Pneumatic Tires of Rubber	$86,595
8481 - Taps, Cocks, Valves and Similar for Pipes, Boiler Shells, Tanks, Vats	$85,815
8512 - Electrical Lighting or Signalling Equipment	$80,768
9403 - Furniture - Other than for Medical, Surgical or Dental Use	$77,808
8526 - Radar; Radio Navigational Aid Apparatus; Remote Control Apparatus	$76,825
7306 - Other Tubes, Pipes and Hollow Profiles Nes of Iron or Steel	$70,910
8504 - Electrical Transformers, Static Converters and Inductors	$65,139
8465 - Machine-Tools for Working Wood, Cork, Bone, Hard Rubber	$59,568
8536 - Elect Apparatus for Switching/Protecting/Connecting	$54,289
3923 - Articles for the Conveyance or Packing of Goods of Plastics	$50,766
8528 - Monitors & Projectors, W/O TV Recep, TV Receivers	$49,673
Sub-total	**$3,300,389**
Top 25 Products as Share of Total	**55.40%**
Total (All Products)	**$5,957,409**

Source: Government of Canada

CANADA'S TRADE IN SERVICES WITH TAIWAN – 2015-2019
(in millions of C$)



Source: Government of Canada

About the Author

Eric Miller *is a Fellow at the Canadian Global Affairs Institute and President of Rideau Potomac Strategy Group, a cross-border consultancy that advises clients on government affairs, economics, cybersecurity and geopolitical developments. He focuses on issues related to North America, trade, technology and security.*

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