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Article

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Aussenwirtschaft

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Suggested Citation: Ziltener, Patrick (2017) : Missing link: The case of free trade between Switzerland and Taiwan, Aussenwirtschaft, ISSN 0004-8216, Universität St.Gallen, Schweizerisches Institut für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW-HSG), St.Gallen, Vol. 68, Iss. 1, pp. 115-138

This Version is available at:

<https://hdl.handle.net/10419/231251>

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Missing link: The case of free trade between Switzerland and Taiwan

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In the years after the conclusion of the Economic Cooperation Framework Agreement (ECFA) between Taiwan and the People's Republic of China (PRC) in 2010, it became possible for countries that recognize the PRC to negotiate FTA-like economic agreements with Taiwan. Singapore and New Zealand took the lead in demonstrating that “effective economic representation” is possible “without touching upon sovereignty issues.” The Taiwanese new administration, led by Tsai Ing-wen, has confirmed its determination to make proactive use of this foreign economic policy instrument. For Switzerland, Taiwan is an economically significant missing link in its chain of FTAs in East Asia. This study assesses the potential benefits of mutual tariff abolition as part of a possible bilateral economic agreement between the WTO members Switzerland and Taiwan, taking into account the impact of the recently extended Information Technology Agreement (ITA). Taiwanese companies could envisage significant duty savings (of CHF9 million annually) in their exports to Switzerland, especially for metal goods, machinery, bicycles and motorcycles. Swiss exporters could profit even more, by up to US\$47 million annually, especially for wrist watches (over \$20 million), machinery and processed agricultural goods. Based on interviews with political actors, diplomats and civil servants in Taipei, the study concludes that there is a window of opportunity for Switzerland to complete its chain of FTAs in East Asia and to put an end to the (unintended) trade policy discrimination against Taiwan. There is a convergence of interests among all actors involved and there are no major obstacles for swift bilateral negotiations for the time being. Switzerland is well advised to take this chance to realize preferential market access for its companies before their main competitors in the Asia-Pacific area do the same.

JEL codes: F14, F17

Key words: free trade agreement, FTA, trade policy, bilateralism, Switzerland, Taiwan, China

¹ A Taiwan Fellowship allowed the author to conduct research in Taiwan in the first term of 2016. This Fellowship is established by the Ministry of Foreign Affairs (MOFA), Taipei, to award foreign experts and scholars interested in researches related to Taiwan, cross-strait relations, mainland China, Asia-Pacific region and Chinese studies to conduct advanced research at universities or academic institutions in Taiwan. The Chung-Hua Institution for Economic Research (CIER) in Taipei proved to be a most useful research context and welcoming host institution during this period. The views expressed in this paper are those of the author and do not reflect the official policy or position of CIER or the Taiwanese government, the University of Zurich, the University of St. Gallen or the Swiss Government.

1 Introduction: The missing link

In early 2007, *The Economist* reported, under the title “A missing link in the chain of East Asian free trade agreements”, that:

Bilateral Free Trade Agreements (FTAs) are all the rage. Taiwan is excluded. It has made great strides in slashing tariffs, removing other barriers to trade, and improving its protection of intellectual property rights... Taiwan's quest for trade deals with important partners is doomed.
(*Economist*, 20 January 2007, 62)

A year later, HOADLEY and YOUNG (2008, 130) noted: “Taiwan has been trying to play the FTA card to advance its political acceptance in Asia and elsewhere”. They also warned that the People's Republic of China (PRC) might counter this trend for political reasons. It is an obvious fact that cross-Strait relations between Taiwan and the PRC have “a limiting impact ... on Taiwan’s foreign economic ties, particularly in terms of the scope for Taiwan to reach FTAs with its trading partners” (TSANG 2012, 13), and more specifically that “cross-Strait tensions constrain Taiwan’s ability to sign FTAs with other countries” (KASTNER 2012, 128).

In spite of many adverse factors, Taiwan – a WTO member since 2002 under the name “Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)” – has worked hard to conclude bilateral economic agreements that come close to the standard template of FTAs with countries that recognize the PRC as part of its One-China Policy.² Negotiations with Singapore commenced in May 2011 and were concluded two years later, when the *Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP)*³ was signed in Singapore on 7 November 2013. In the same year, an Economic Cooperation Agreement with New Zealand (ANZTEC)⁴ was concluded – “a diplomatic coup for Taipei and a win for New Zealand”, as WHITE, CHU and LOWMASTER (2013) saw it, at the same time expressing the hope that the ANZTEC will pave “the way for Taiwan to close similar bilateral trade deals and bolsters its case for participation in regional trade frameworks”.

2 Previously, Taiwan had signed FTAs with countries that diplomatically recognize Taiwan as the Republic of China (ROC): Panama (2004), Guatemala (2006), El Salvador (2008), Honduras (2008) and Nicaragua (2008).

3 For more information on ASTEP, see <https://www.iesingapore.gov.sg/Trade-From-Singapore/ASTEP/Overview-of-ASTEP>.

4 For more information on ANZTEC, see <https://www.nzcio.com/en/anztec/>.

How did this development become possible? The main reason is the conclusion of the Economic Cooperation Framework Agreement (ECFA) Taiwan-PRC in 2010 and the consequent “relaxed cross-Strait atmosphere” (KASTNER 2012, 129). One of the motivations on the Taiwanese side was that passage of ECFA would make it easier for Taiwan to reach FTAs with other countries, having the “potential to lower some of the barriers blocking Taiwanese participation” in FTAs (ibid.). YOUNG (2014), in his research on the success factors for New Zealand’s way to an agreement with Taiwan, confirms this and sees it as being related to the “growth in the number of countries with existing preferential economic agreements and good relations with the PRC”. For the successful conclusion of the negotiations – notably conducted by “private sector negotiators” – the strict use of WTO nomenclature was an important factor.⁵ The agreement between WTO members New Zealand and Taiwan proves that “effective economic representation” is possible “without touching upon sovereignty issues” (ibid.).

Taiwan signed an investment pact with Japan – another important economic partner – in 2011, and two years later a whole series of bilateral agreements on issues such as electronic commerce, the protection of patent applicants, and cooperation in pharmaceutical codes,⁶ which are among the regular topics of FTAs.

In 2015, the *Act of Providing Support in Response to Trade Liberalization* was passed, stipulating that the government should establish a fund to assist negatively impacted industries to weather any damage caused by market liberalization.⁷ This is another clear sign that Taiwan is determined to pursue the goal of becoming a node in the increasingly dense global FTA network. The high relevance of this long-term strategic goal was confirmed by the new administration led by Tsai Ing-wen after the elections in 2016. Building on the efforts of a Trans-Pacific Partnership (TPP) taskforce established the year before, a new trade negotiations office was set up.⁸ The initiative aims at spurring Taiwan’s efforts to enter into free trade relations with Asia-Pacific countries, including ASEAN and India, but also other countries and economic areas worldwide.

5 WHITE, CHU and LOWMASTER (2013) report that 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”. They quote a New Zealand representative as saying that “[w]e have a no-surprises relationship with China” and that “Beijing was ‘comfortable’ with how ANZTEC had proceeded”.

6 “Taiwan, Japan sign 5 accords to expand cooperation”, *Focus Taiwan*, 5 November 2013. The agreements on electronic commerce and patent protection are the first such accords Taiwan has concluded.

7 “Act to ease free-trade impacts passed”, *Taipei Times*, 16 December 2015. Under the act, “observing mechanisms” are to be set up before economic agreements are signed to understand how well industries are prepared for trade liberalization, and a consultation service should be provided to the enterprises after the agreements are signed.

8 “Taiwan trade negotiations office planned by Tsai”, *Taiwan Today*, 26 February 2016. Taiwan’s exports to the 12 TPP countries account for roughly one-third of its total exports (ibid.).

Switzerland, on the other hand, currently has – in addition to the EFTA Convention and the FTA with the European Union of 1972 – a network of 28 FTAs with 38 partners outside the European Union. In East Asia, this includes FTAs with the PR China, Hong Kong (China), Japan, South Korea and Singapore. FTAs are underway with the ASEAN members Thailand, Indonesia, Malaysia, Vietnam and the Philippines.⁹ The aim of Switzerland's FTA policy is “the improvement of the framework conditions for economic relations with relevant economic partners”. The objective is “to provide Swiss companies with an unobstructed, stable and non-discriminatory market access in these countries compared to their main competitors” (SECO, 2016).

An unintended effect of this legitimate policy to create a network of FTAs worldwide is *discrimination* against those economic partners not forming part of this network. Soon, Switzerland will grant preferential access to all of Taiwan's regional neighbors (and thereby to virtually all main competitors of Taiwanese companies on the Swiss market).

According to the Taiwanese Investment Commission, between 1952 and 2014 Swiss companies invested US\$803 million on the island. Today, Swiss companies employ around 17,500 people in Taiwan (FDFA, 2016). Taiwan is Switzerland's fifth largest export market in Asia (after China, Japan, Hong Kong, and South Korea); regarding imports to Switzerland, it is among the top four in Asia. Taiwan is the 25th largest trading partner for Switzerland worldwide, it ranks 14th on the list of economies with a trade surplus with Switzerland.¹⁰ Given this economic relevance, a bilateral FTA with Taiwan could truly be considered the missing link in Switzerland's FTA chain in East Asia.

Against this background, this study assesses the potential benefits of mutual tariff abolition as part of a possible bilateral economic agreement between Switzerland and Taiwan, first for industrial goods (Section 3) and then for agricultural goods (Section 4). The next section defines the scope and methodology of the study. The final section provides some conclusions and speculations on the timeframe for possible negotiations on a bilateral, FTA-like economic agreement between Switzerland and Taiwan.

9 The EFTA States (Iceland, Liechtenstein, Norway and Switzerland) signed an FTA with the Philippines in Bern, Switzerland, on 28 April 2016.

10 Information from Trade Office of Swiss Industries (TOSI), Taipei, 21 July 2016.

2 Scope and methodology

This is not an analysis of the potential benefits of a free trade agreement (FTA), since a comprehensive FTA usually consists of a dozen chapters on a wide range of economic topics such as non-tariff barriers (NTBs), intellectual property rights (IPR), public procurement, services, and movement of natural persons, all of which are beyond the scope of this analysis. However, the mutual abolition of tariffs, either immediately upon enforcement of an agreement or in the course of *phasing-out* periods, is a core element of every FTA. Therefore, this analysis is a contribution to an *ex ante* assessment of the potential benefits of an FTA-like bilateral economic agreement between the WTO members Switzerland and Taiwan.¹¹

The utility of *ex ante* FTA assessments is increasingly acknowledged. As the Asian Development Bank (ADB) stated in a report in 2010, “a clear and accurate understanding of the potential effects of an FTA before its negotiation (*ex-ante* evaluation) is necessary in deciding the overall negotiation position of the country, based on overall cost-benefit analysis and the identification of what the country can and cannot provide to its FTA partners in the negotiations” (PLUMMER et al. 2010, 2).¹²

Ex ante assessments of the benefits of the negotiated agreement may be helpful to avoid raising unrealistic or disproportionate expectations from policymakers, economic actors or the general public.

The empirical analysis consists of two parts. In Section 3.1, the results concerning Taiwanese exports to Switzerland are presented. The data source is the Swiss Customs Directorate. Switzerland's collection of customs duties is based solely on specific assessment bases, generally the gross weight. Most other countries collect their customs duties on a value basis.

This analysis is conducted based on access to the Swiss Customs tariff income statistics for 2015 and not a computed approximation to it, which grants a high

11 The same methodology has been applied in other studies by the author for the countries of the Gulf Cooperation Council (GCC), Central America and the People's Republic of China, among others (ZILTNER, 2014a; 2014b; 2014c).

12 The ADB also sees pre-negotiation studies as “helpful to exploit the potential exporting benefits of FTAs and to draw up necessary adjustment policies for sectors which may be negatively affected by FTAs. The results of pre-negotiation impact assessment studies should be reflected effectively in the FTA negotiations. Likewise, assessing the actual impacts of an FTA after its implementation (*ex-post* evaluation) to examine whether the impacts are within the expected range is also important to draw up further necessary adjustment policies for the affected sectors and to exploit the benefits that are yet to fully materialize. This kind of impact assessment is especially important when the negative effects of the FTA seem to be larger than the positive effects.” (PLUMMER et al. 2010, 2).

level of statistical accuracy. By definition, the total duties levied on imports from Taiwan equal the maximum FTA savings potential. The usual caveat applies, namely, that *the concept of the maximum savings potential does not imply that this potential will completely be realized under the conditions of an FTA, even a comprehensive one*. Some goods will not qualify for tariff exemption due to non-compliance with the rules of origin or because the export activity does not meet the proper procedural and administrative requirements. Also, given the rather low level of Swiss tariffs, some companies will consider the financial incentives to apply for tariff exemption under FTA insufficient. Others will simply not be aware of the tariff exemption opportunities provided by the FTA. Therefore, the FTA *utilization rate*, measuring the degree to which the FTA is successfully used to reach duty-free trading, is usually lower than 100%. A utilization rate of 70%, for example, means that 70% of all exports (according to value) from country *A* to country *B* in a specific year were effectively making use of the FTA. Some empirical examples follow. For Swiss exports to Germany, we found a utilization rate of 50% and another 40% being exported on duty-free basis already, with the result that 90% of Swiss exports to Germany are effectively duty-free. The utilization rate in Swiss exports to France is 37% (another 61% being duty-free already), to Mexico 51%, and to South Korea 60% (ZILTENER and BLIND, 2014). Obviously, utilization rates, and therefore the true benefits of tariff abolition, can be analyzed only after implementation of a given FTA.

This also applies to the analysis of Swiss exports to Taiwan, the results of which are presented in Section 3.2. Here, the data source is UN Comtrade 2015, and information about the applied tariff rates (ATRs) comes from the WTO. The maximum FTA savings potential is computed by multiplying each export position (value) with the respective ATR, weight (and mixed) tariffs having been excluded. In both analyses (in Sections 3.1 and 3.2), goods that fall under HS71 (bullion, pearls, precious stones, jewelry) and HS97 (works of art, collectors' pieces and antiques) have been excluded.

3 Tariff treatment and savings potential in bilateral trade

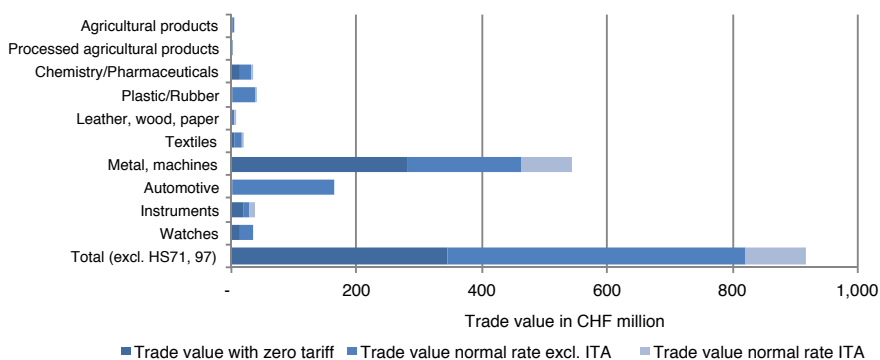
This section takes a closer look at the current bilateral trade between Taiwan and Switzerland and derives conclusions regarding the savings potential provided by tariff abolition by both sides for exporters on both sides. Trade in agricultural goods and related savings potentials are analyzed in more detail in Section 4.

This statistical analysis takes into account the impact of the recently extended multilateral Information Technology Agreement (ITA),¹³ to which Switzerland and Taiwan are signatories. The participants are committed to completely eliminating tariffs on IT products, which inevitably reduces the potential benefits of other trade agreements such as bilateral FTAs.

3.1 Taiwan's exports to Switzerland

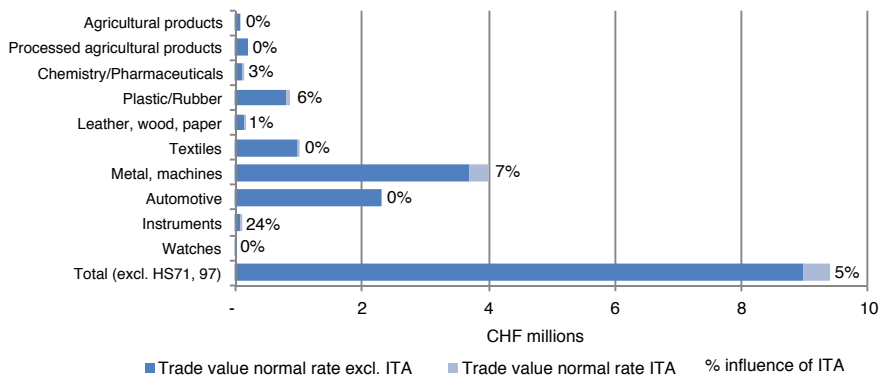
Taiwan's exports to Switzerland consist mainly of metal goods, machinery and vehicles parts (Figure 1). About one-third of total exports are already free of duties (mainly metal goods and machinery, as well as some instruments and watches parts). The implementation of the ITA will further increase the percentage of goods free of Swiss duties considerably, but significant potential for savings as a consequence for tariff abolition remains (CHF9 million), especially for metal goods, machinery and vehicles parts (Figure 2).

Figure 1: Tariff treatment of Taiwan's exports to Switzerland, 2015



Source: Swiss Customs Directorate; author's calculations.

¹³ The Information Technology Agreement (ITA) was concluded by 29 participants at the Singapore Ministerial Conference in 1996. Since then, the number of participants has grown to 82, representing about 97% of world trade in IT products. At the Nairobi Ministerial Conference in December 2015, over 50 members concluded the expansion of the ITA, which now covers an additional 201 products (Source: WTO, July 2016).

Figure 2: Savings potential for Taiwan's exports to Switzerland, 2015

Source: Swiss Customs Directorate; author's calculations.

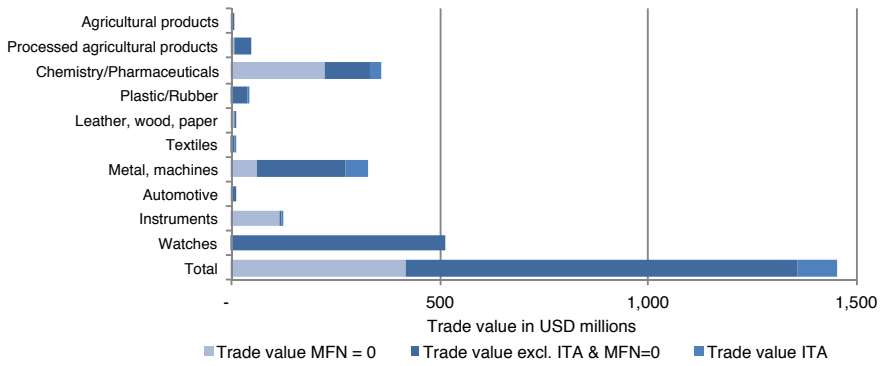
Table 1 reveals that the export category with the highest savings potential is bicycles, followed by screws and bolts, and motorcycles.

3.2 Switzerland's exports to Taiwan

Switzerland's exports to Taiwan consist mainly of watches, chemicals/pharmaceuticals, and some machinery (Figure 3). Less than a quarter of total exports are already free of duties (mainly pharmaceuticals and instruments). The implementation of the ITA will further increase the percentage of goods free of Swiss duties considerably, but significant potential for savings as a consequence for tariff abolition remain (US\$47 million), especially for watches (over US\$20 million), machinery and processed agricultural goods (Figure 4).

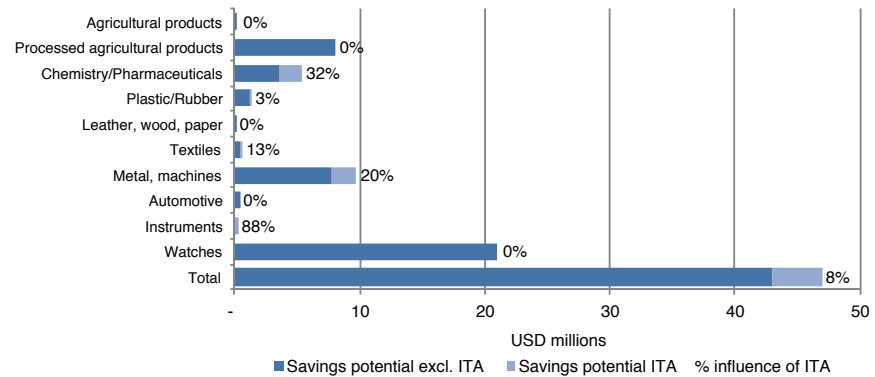
Table 2 reveals that wrist watches feature in six out the ten export categories with the highest savings potential. Also highly relevant are the potential savings for cigarettes, food preparations, and printing ink (for agricultural goods, see Section 4).

Figure 3: Tariff treatment of Switzerland's exports to Taiwan, 2015



Note: Imports (US\$2.7 million) with volume tariffs are excluded.
Source: Taiwan Customs; ATR: WTO; author's calculations.

Figure 4: Savings potential for Switzerland's exports to Taiwan, 2015



Note: Imports (US\$2.7 million) with volume tariffs are excluded.
Source: Taiwan Customs; ATR: WTO; author's calculations.

Table 1: Savings potential for Taiwan's exports to Switzerland (HS-8 level), 2015

HS8	Value (CHF)	Customs duties (CHF)	Description
8712.0000	81,532,789	1,043,208	Bicycles and other cycles, incl. delivery tricycles, not motorised
7318.1592	11,896,044	655,570	Threaded screws and bolts, of iron or steel, whether or not with their nuts and washers, of a hole diameter of \leq 6 mm (excl. coach screws and other wood screws, screw hooks and screw rings, self-tapping screws, lag screws, stoppers, plugs and similar, and turned articles, weighing each \leq 100 g)
8711.9000	26,047,913	317,064	Motorcycles, incl. mopeds, and cycles fitted with an auxiliary motor, with or without side-cars (excl. those with reciprocating internal combustion piston engine); side-cars
7318.1420	7,127,106	294,184	Self-tapping screws, of iron or steel, of a shank thickness \Rightarrow 6 mm (excl. wood screws)
7318.1591	6,171,616	250,027	Threaded screws and bolts, of iron or steel, whether or not with their nuts and washers, of a hole diameter of $>$ 6 mm (excl. coach screws and other wood screws, screw hooks and screw rings, self-tapping screws, lag screws, stoppers, plugs and similar, and turned articles, weighing each \leq 100 g)
6303.9210	706,476	201,317	Curtains, incl. drapes, and interior blinds, curtain or bed valances of synthetic fibres, not embroidered, made of lace, nor containing lace (excl. knitted or crocheted, awnings and sunblinds)
8708.7090	2,096,449	188,813	Road wheels and parts and accessories thereof, for motor cars and other motor vehicles designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, n.e.s.
8714.9990	15,062,921	161,162	Parts and accessories, of bicycles and other cycles not motorized, n.e.s.
3926.9000	8,553,323	157,471	Articles of plastics and articles of other materials of heading 3901 to 3914, n.e.s
9506.9100	5,472,885	147,849	Articles and equipment for general physical exercise, gymnastics or athletics
8507.2000	1,608,148	130,937	Lead acid accumulators (excl. of a kind used for starting piston engine)
8714.9190	10,457,373	114,065	Frames and forks, and parts thereof, of bicycles, n.e.s.
3907.6000	7,274,473	111,723	Poly "ethylene terephthalate", in primary forms
7318.1220	1,676,960	87,225	Wood screws of iron or steel, of a shank thickness \leq 6 mm (excl. coach screws)

HS8	Value (CHF)	Customs duties (CHF)	Description
2008.9999	508,500	84,676	Edible parts of plants, prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, n.e.s.
3903.3000	3,037,766	83,299	Acrylonitrile-butadiene-styrene copolymers "ABS", in primary forms
8538.9040	4,905,245	80,376	Parts suitable for use solely or principally with the apparatus of heading 8535, 8536 or 8537, weighing =< 0,3 kg each, n.e.s.
5407.5200	455,165	78,298	Woven fabrics of yarn, dyed, containing => 85% by weight of textured polyester filaments, incl. woven fabrics obtained from monofilament of heading 5404
8708.2990	1,131,796	77,090	Parts and accessories of bodies for motor cars and other motor vehicles designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles, incl. cabs, n.e.s.
3924.1000	1,493,683	76,652	Tableware and kitchenware, of plastics
8302.4290	668,829	75,731	Base metal mountings, fittings and similar articles suitable for furniture (excl. those of iron or steel other than stainless steel and locks with keys, hinges and castors)
8711.2000	1,982,002	74,792	Motorcycles, with reciprocating internal combustion piston engine of a cylinder capacity > 50 cm ³ but =< 250 cm ³ , with or without side-cars
5806.3200	520,868	66,619	Narrow woven fabrics of man-made fibres, n.e.s.
9403.9020	764,383	66,190	Parts of other furniture than seats, of base metal, n.e.s. (excl. those of iron or steel other than stainless steel)
6307.9099	655,657	65,957	Made-up articles of textile materials, incl. dress patterns, n.e.s. (excl. of vegetable textile fibres)
8204.2000	2,832,784	65,042	Interchangeable spanner sockets, with or without handles, of base metal
8207.9020	1,123,108	64,615	Interchangeable tools for hand tools, whether or not power-operated, or for machine tools, weighing =< 0,5 kg each, n.e.s.
8481.8090	3,374,751	58,107	Appliances for pipes, boiler shells, tanks, vats or the like (excl. those of iron, of steel other than stainless steel, or of lead, pressure-reducing valves, valves for the control of pneumatic power transmission, check "non-return" valves and safety or relief valves)

HSS	Value (CHF)	Customs duties (CHF)	Description
7318.1210	1,278,631	57,984	Wood screws of iron or steel, of a shank thickness > 6 mm (excl. coach screws)
8419.9089	2,511,644	57,224	Parts of machinery, plant and laboratory equipment, whether or not electrically heated, for the treatment of materials by a process involving a change of temperature, such as heating, cooking, roasting, distilling, rectifying, sterilizing, pasteurizing, steaming, drying, evaporating, vaporising, n.e.s. (excl. those of iron or steel other than stainless steel or of aluminium)
7318.1410	1,738,359	54,602	Self-tapping screws, of iron or steel, of a shank thickness > 6 mm (excl. wood screws)
7616.9919	1,869,551	54,542	Articles of aluminium, n.e.s.
8302.4190	1,095,573	51,062	Base metal mountings and fittings suitable for buildings (excl. those of iron or steel other than stainless steel, locks with keys and hinges)
1515.5019	174,666	50,032	Crude sesame oil and its fractions (excl. those for animal feeding)

Source: Swiss Customs Directorate; author's calculations

Table 2: Savings potential for Switzerland's exports to Taiwan (HS-8 level), 2015

Commodity Code	Trade Value (USD)	Tariff	Savings potential (USD)	Description
91022100	230,844,998	4%	9,233,800	Wrist-watches, with automatic winding, other than those of heading 91.01
91012100	104,888,724	4%	4,195,549	Wrist-watches, with automatic winding
91021100	63,429,482	5%	3,171,474	Wrist-watches, electrically operated, with mechanical display only, other than those of heading 91.01
24022000	10,673,919	27%	2,881,958	Cigarettes containing tobacco
21069099	6,895,779	30%	2,068,734	Other food preparations, n.e.s.
91012900	50,898,588	4%	2,035,944	Wrist-watches, other methods driven
32151900	25,638,650	7%	1,666,512	Other printing inks
28433010	62,927,383	3%	1,573,185	Potassium gold cyanide
91011100	27,108,368	4%	1,084,335	Wrist-watches, electrically operated, with mechanical display only
91022900	21,564,217	4%	862,569	Wrist-watches, other methods driven, other than those of heading 91.01
19019021	7,005,668	12%	840,680	Prepared milk powder, milk food canned or packaged 5 lbs and under for retail
84561000	14,411,647	4%	576,466	Machine-tools operated by laser or other light or photo beam processes
84818090	13,034,005	4%	521,360	Other articles of heading 84.81
84602100	8,511,190	6%	510,671	Other numerically controlled grinding machines, in which the positioning in any one axis can be set up to an accuracy of at least 0.01 mm
17049000	1,785,348	28%	490,971	Other sugar confectionery (including white chocolate), not containing cocoa
84669390	16,723,951	3%	418,099	Other parts and accessories of machines of heading 84.56 to 84.61
84119900	20,419,447	2%	408,389	Parts of other gas turbines

Commodity Code	Trade Value (USD)	Tariff	Savings potential (USD)	Description
84461000	17,788,483	2%	355,770	Weaving machine (looms), for weaving fabrics of a width not exceeding 30 cm
39089000	12,996,931	3%	324,923	Other polyamides, in primary forms
18063100	2,757,036	10%	275,704	Other chocolate preparations, in blocks, slabs or bars, weighing not exceeding 2 kg, filled
84198100	8,145,646	3%	244,369	Machinery, plant and equipment, for making hot drinks or for cooking or heating food
84589100	3,810,179	6%	228,611	Other numerically controlled lathes
29349990	4,395,772	5%	219,789	Other heterocyclic compounds
18063200	2,184,212	10%	218,421	Other chocolate preparations, in blocks, slabs or bars, weighing not exceeding 2 kg, not filled
87149200	4,197,753	5%	209,888	Wheel rims and spokes
21050010	2,078,713	10%	207,871	Ice cream, whether or not containing cocoa
84563000	3,460,852	6%	207,651	Machine-tools operated by electric-discharge process
32041719	4,044,663	5%	202,233	Other synthetic organic pigments
39119090	7,896,603	3%	197,415	Other products specified in Note 3 to this Chapter, not elsewhere specified or included, in primary forms
84798990	4,897,235	4%	195,889	Other machinery of heading 84.79
85011090	3,709,011	5%	185,451	Other motors of an output not exceeding 37.5 w
84614000	5,941,755	3%	178,253	Gear cutting, gear grinding or gear finishing machines
87149310	3,477,609	5%	173,880	Hubs, other than coaster braking hubs and hub brakes
91011990	4,037,767	4%	161,511	Other wrist-watches, electrically operated

Source: Taiwan Customs; ATR: WTO; author's calculations.

4 A special look at agricultural goods trade

Given the complementary structures of Swiss and Taiwanese agriculture, the competent Taiwanese authority (the Council of Agriculture Executive Yuan) sees no problems in the mutual abolition of tariffs in the agricultural sector, since the impact of the Taiwanese agriculture would be rather small. This has been confirmed several times during the last decade. Under the new administration, there is a high level of policy continuity in agricultural trade policy. Therefore, the agricultural part of a possible economic agreement might follow closely the template of ANZTEC and ASTEP.¹⁴ Excluded from tariff abolition are a small number of agriculture goods such as fresh milk, mixtures of nuts and seeds, and red beans. Some textile and dairy products, as well as some processed food products, are subject to tariff phasing-out.

4.1 Taiwan's agricultural exports to Switzerland

Taiwan exports to Switzerland agricultural products to the amount of CHF3,145,365 and processed agricultural products to the amount of CHF3,479,388.¹⁵ Switzerland levies annually about CHF280,000 on these imports.

Table 3 shows Taiwan's agricultural exports to Switzerland with the relevant duties (over CHF5000 per annum). The list contains only a few items: parts of plants (mostly nuts), sesame oil, pasta (noodles) and some beverages.

These few items account for almost 80% of Swiss duties on agricultural products from Taiwan. They, as well as many other agricultural products not yet exported in large volumes to Switzerland, might be freed of duties on day one, which would enable Taiwanese food and beverage producers to realize significant savings (see column 5, "Duties", in Table 3).

4.2 Switzerland's agricultural exports to Taiwan

Switzerland exports agricultural products (US\$3,281,016) and processed agricultural products (US\$47,426,810) to Taiwan.¹⁶ Sixty-six percent of agricultural products exports are already tariff-free, and 11% of processed agricultural products.

¹⁴ Source: Interview with trade specialists at the Department of International Affairs, Council of Agriculture Executive Yuan, Taipei, 28 June 2016.

¹⁵ Swiss customs data, 2015.

¹⁶ UNCOMTRADE data 2015.

The savings potential of processed agricultural exports to Taiwan has been estimated to more than US\$8 million annually, and for unprocessed goods approximately US\$82,000 (Figure 4). In this section, this finding will be further analyzed.

Exports of *sugar confectionery* (HS170490, including white chocolate without cocoa) to Taiwan are subject to high tariffs (27.5%), accordingly the savings potential for Swiss exporters is large (almost US\$500,000 annually; see Table 5). Swiss *chocolate* amounting to almost US\$5 million is exported annually to Taiwan, with duties of almost US\$500,000. In both cases, tariffs are expected to be phased out over period of eight years, as in the case of ANZTEC.

The main agricultural goods that profit from New Zealand's FTA-like agreement with Taiwan (ANZTEC) and compete with Swiss products are *dairy products* such a milk powder, butter, and cheese. It is likely that most of these exports will be freed of duties upon entry into force of the agreement, as in ANZTEC (see Table 4). The amount of Swiss cheese exports to Taiwan is rather small, but tariff abolition might provide a stimulus to compete with New Zealand's products on this important growth market. The same applies to wine – freed of duties on day one, Swiss wines may win a bigger market share in coming years.

A rather heterogeneous group of food preparations (HS21069099, US\$6.9 million in exports from Switzerland to Taiwan annually) has the savings potential among agricultural exports (apart from tobacco; see Table 5). Since Taiwan's tariffs here are as high as 30%, Swiss exporters may save more than US\$2 million on duties every year. Tariffs might be expected to be phased out over a period of eight years, as in the case of ANZTEC.

Tariffs on tobacco products (cigarettes, cigars), already an important export for Switzerland, are also expected to be phased out over a period of eight years (as in the New Zealand case). This will allow Swiss exporters to potentially save almost US\$2.9 million per year on cigarettes and US\$72,000 on cigars and cigarillos.¹⁷

¹⁷ The competent authority regarding tobacco and wine in Taiwan is the National Treasury Administration, Ministry of Finance.

Table 3: Taiwan's agricultural Exports to Switzerland with relevant duties, 2015

HS8	Value (CHF)	Customs duties (CHF)	Description
2008.9999	508,500	84,676	Edible parts of plants, prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, n.e.s.
1515.5019	174,666	50,032	Crude sesame oil and its fractions (excl. those for animal feeding)
1515.5099	125,137	24,228	Sesame oil and its fractions, whether or not refined, but not chemically modified (excl. crude oil, oil and its fractions for animal feeding, and those in tanks or metal drums)
1902.3000	63,562	23,700	Pasta, cooked or otherwise prepared (excl. stuffed pasta)
2202.9090	1,809,450	20,822	Non-alcoholic beverages (excl. water, fruit or vegetable juice and milk)
2106.9023	31,377	18,518	Mixtures of non-alcoholic extracts and concentrates of vegetable substances, of a kind used for the manufacture of beverages, containing added sugar or other sweetening matter, containing $\geq 50\%$ by weight of sucrose

Source: Swiss Customs Directorate; author's calculations

Table 4: New Zealand's top ten exports to Taiwan under ANZTEC

Rank	Product	Current tariff	Zero tariff date	Trade value, 2012 (NZ\$)
1	Milk powder	10%	On entry into force	\$152 million
2	Frozen beef	NTD\$10/kg	Year 2	\$121 million
3	Kiwifruit	20%	Year 3	\$95 million
4	Butter and milk fat	5% and 8%	On entry into force	\$53 million
5	Sheep meat	15% or NTD\$11.30/kg	Year 4	\$52 million
6	Milk powder preparations	12%	On entry into force	\$42 million
7	Sawn or chipped wood	0%	On entry into force	\$32 million
8	Cheese	5%	On entry into force	\$28 million
9	Apples	20%	On entry into force	\$18 million
10	Chemical wood pulp	0%	On entry into force	\$17 million

Source: NZCIO (2013, 12).

Table 5: Major Swiss agricultural exports to Taiwan by savings potential, 2015 (in US dollars)

Commodity Code	Trade Value (USD)	Tariff	Savings potential (USD)	Description
24022000	10,673,919	27%	2,881,958	Cigarettes containing tobacco
21069099	6,895,779	30%	2,068,734	Other food preparations, n.e.s.
17049000	1,785,348	28%	490,971	Other sugar confectionery (including white chocolate), not containing cocoa
18063100	2,757,036	10%	275,704	Other chocolate preparations, in blocks, slabs or bars, weighing not exceeding 2 kg, filled
21069020	1,179,964	10%	117,996	Synthetic sweetening agent and special dietary foods solely for patients
19053100	433,381	25%	108,345	Sweet biscuits
21069051	1,009,594	10%	100,959	Non-alcoholic compound preparations for making foodstuff
19059090	481,447	20%	96,289	Other articles of heading 19.05
19011000	1,834,561	5%	91,728	Preparations for infant use, put up for retail sale
19053200	523,291	18%	91,576	Waffles and wafers
18062000	630,493	13%	78,812	Other preparations in blocks, slabs or bars weighing more than 2 kg or in liquid, paste, powder, granular or other bulk form in containers or immediate packings, of a content exceeding 2 kg
24021000	360,422	20%	72,084	Cigars, cheroots and cigarillos, containing tobacco
21069096	194,111	30%	58,233	Confectionery, gums and the like, containing synthetic sweetening agents instead of sugar
04015090	161,761	20%	32,352	Cream and other milk, not concentrated and unsweetened, of a fat content, by weight, exceeding 10%
20099090	128,096	25%	32,024	Other mixtures of juices
22029019	158,940	20%	31,788	Other fruit juice drink, unfermented
21039090	255,302	12%	30,636	Other articles of heading 21.03

Commodity Code	Trade Value (USD)	Tariff	Savings potential (USD)	Description
13023210	496,036	4%	17,361	Mucilages and thickeners, whether or not modified, derived from locust beans or locust bean seeds
19019011	419,939	3%	12,598	Malt extract
13021990	244,402	5%	12,220	Other vegetable saps and extracts (other than extracted oleoresins)
21069010	46,614	20%	9,323	Syrups, coloured or flavoured
04090000	23,961	35%	8,386	Natural honey
21022000	135,768	6%	7,467	Inactive yeasts; other single-cell micro-organisms, dead
21012000	24,400	28%	6,710	Extracts, essences and concentrates, of tea or mate, and preparations with a basis of these extracts, essences or concentrates or with a basis of tea or mate
20060090	30,320	20%	6,064	Fruit, nuts, fruit-peel and other parts of plants, preserved by sugar (drained, glace or crystallised)
20098990	22,980	25%	5,745	Other juice of any other single fruit or vegetable, nature, unfermented and not containing added spirit
20079110	23,140	20%	4,628	Orange jam and marmalade
22042100	44,610	10%	4,461	Other wine of fresh grapes, in containers holding 2 liter or less

Source: UNCOMTRADE 2015; ATR: WTO; author's calculations.

5 Conclusions and outlook

Against many odds, Taiwan has made some significant progress in the use of bilateral, FTA-like economic agreements in the last decade. Taiwan's new administration has confirmed its determination to make proactive use of this important foreign economic policy instrument and is eager to prove this in practice. For Switzerland, Taiwan represents an economically significant missing link in its chain of FTAs in East Asia. Recently, interests in a bilateral economic agreement have been converging, and at least two successful cases (Singapore and New Zealand) prove that it is possible to conclude trade agreements with Taiwan without touching upon sovereignty issues, and therefore without interference from 'One-China Policy' issues.

With an FTA-like economic agreement, both Taiwan and Switzerland would improve the framework conditions for economic relations with relevant economic partners by providing their companies with non-discriminatory market access compared to their main competitors.

This *ex ante* assessment of the savings potential of mutual tariff abolition aims to contribute to an increased awareness by traders, exporting companies, as well political actors regarding the economic potential of a bilateral FTA-like agreement between Switzerland and Taiwan. Its potential might even be higher if it leads to dynamic trade effects, which were not within the scope of this study. Furthermore, this study should increase public attention to the unintended discriminatory effects of bilateral FTA networks.

The abolition of tariffs in bilateral trade between Taiwan and Switzerland would create considerable savings potential for exporters on both sides. On the Taiwanese side, exporters of vehicles (bicycles, motorcycles) and metal wares would benefit. On the Swiss side, the watch industry would be the main beneficiary, followed by mechanical and electrical engineering industries.

The implementation of the ITA will have an impact on the savings potentials in some areas, but it will not render a bilateral FTA-like agreement irrelevant.

Regarding agricultural products, tariff abolition would result in significant potential savings for exporters both in Taiwan and Switzerland. In particular, trade in preserved fruits and nuts, sesame oil and beverages from Taiwan to Switzerland might be stimulated. Swiss exporters would be able to make use of improved market access in Taiwan for sugar confectionery, chocolate, dairy products, and maybe also wine and cigarettes/cigars.

From a trade policy perspective, an FTA-like agreement with Switzerland would be a major success for Taiwan, extending its still rudimentary FTA net beyond the Asia-Pacific region for the first time. It would reduce the discriminatory effect of existing FTA networks against domestic producers and exporters in at least one major case, sending an explicit message to other trade partners in Europe and beyond. Furthermore, the successful conclusion of an economic accord including tariff abolition might signal that such bilateral agreements with the WTO member Taiwan are indeed feasible without negative geopolitical repercussions. Taiwan's chances of becoming a "normal case" as an FTA partner might increase.

Taiwan, however, has even bigger ambitions: joining multilateral schemes such as the Trans-Pacific Partnership (TPP).¹⁸ Even assuming that TPP will not be implemented soon, there will be other regional integration projects that would lead to Swiss exports facing a discriminatory situation on the Taiwanese market similar that of Taiwanese exports on the Swiss market today – i.e., *main competitors having better market access*. This process has already started in the form of the advantaged competition from New Zealand in dairy products. I see a temporary window of opportunity for Switzerland. Completing the negotiations for a multilateral FTA-like economic agreement in East Asia may take several years, then the tricky process of integrating Taiwan may start and consume all of Taipei's trade policy resources for years.¹⁹ A bilateral FTA-type agreement would not completely compensate for the trade policy shock induced by such a mega-regional agreement and its subsequent enlargement, but it would contribute significantly to absorbing it.

Even in a world without such a regional FTA, there ought to be a political aspect to Switzerland's reasoning on the issue. Being an independent, and therefore highly vulnerable, "speedboat" in the world economy (just like Taiwan), Switzerland should work proactively to avoid unsound discriminatory effects of its high-flying trade policy bilateralism wherever possible. On the way to completing its FTA net with all major East Asian economies, the "missing link" of Taiwan should not be left out, not only in view of the significant savings potential for Swiss exporters, but also in view of a fundamental value that is essential – indeed, indispensable – for Switzerland's existence as open economy in the process of globalization, namely, trade policy fairness (defined as equality of chances for non-discriminatory market access around the globe). In the gloomy world of "mega-regionals," this will become even more important.

18 "Taiwan determined to join TPP, Department of Information Services", *Executive Yuan*, 27 October 2015; "President Tsai urges U.S. support for Taiwan's TPP bid", Central News Agency, 22 May 2016; "Premier Lin reaffirms government's commitment to joining TPP", *Taiwan Today*, 22 June 2017; "Japan welcomes Taiwan and other countries to join TPP", *Focus Taiwan*, 26 June 2017.

19 Confirmed by interview with partners in the Office of Trade Negotiations in the Ministry of Economic Affairs (MOEA), Taipei, 15 July 2016.

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