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For enquiries and submitting papers, please contact Ms. Tzuying Chen.
Address: Taiwan Institute of Economic Research, 5F, No.16-8, Dehuei Street, Taipei 10461, Taiwan.

Email: d17699@tier.org.tw

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Table of Contents

Global Value Chains: The quest for integrative capabilities

Hassan Wafai

Introduction

The emerging reality of the global economy has directed attention to the connectivity issues of the increasingly fragmented and geographically dispersed global supply chains (World Trade Report, 2014). While the fragmentation of production across different countries is not a new phenomenon, the dynamics of such fragmentation in terms of scope and scale have posed immense conceptual and empirical challenges (OECD, 2014; Coe at al., 2008).

The Global Value Chain (GVC) approach provides an analytical framework that captures the movements of goods, services, capitals, ideas, knowledge (know-how) within global networks. The GVC approach has gained importance as a means to engage in the discussion of international trade, global-local dynamics, understanding value creation processes and the formation of geographical specialization, and reflecting on regional and national policies (OCED, 2013; OECD, WTO-OMC, & World Bank, 2014).

While GVC's participation is a relevant concept to economies, sectors, and clusters, it actually occurs at the organizational level. If local organizations are not able to plug into GVCs, there would be no sustainable

economic competitive advantages, no matter how open the economy is, or whether it is engaged in regional free trade agreements. For policymakers, the fundamental question therefore would be "how to facilitate value chain's participation of firms and workers to improve their countries' economies and (social) performance" (Kowalsk et al., 2015).

Since not all organizations are equally able to plug into GVCs, even though they operate in a relatively connected and open economy, we argue in this paper that attention should focus on analyzing the process through which firms build the required capabilities, named hereunder as integrative capabilities, to integrate in GVCs.

Integration into GVCs

For an organization to integrate into a GVC, it should possess sufficient integrative capabilities. The term integrative capabilities refers to two distinct types of organizational capabilities: participative and upgrading capabilities. When a firm has sufficient participative capabilities, it can plug into a GVC. Participative capabilities therefore indicate that the firm has sufficient technical and managerial knowledge and skills to produce products and/or services that are valued by GVCs' actors. This echoes the definition proposed by Grant (1996) of organization capabilities that are the "ability to perform repeatedly a productive task which relates either directly or indirectly to a firm's capacity for creating value through effecting the transformation of inputs into outputs" (Grant, 1996).

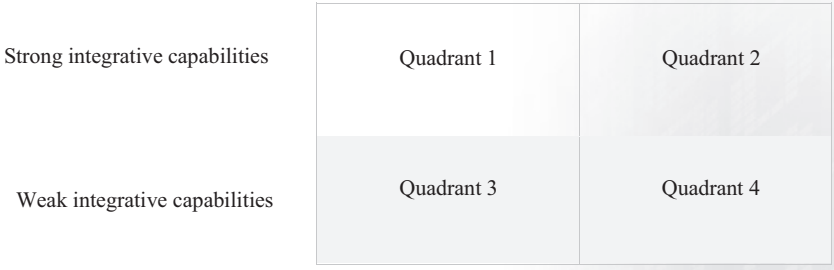
The second type of capabilities is upgrading capabilities, which refers to a firm's ability, once successfully plugged in, to learn, acquire, and develop the knowledge and expertise needed to climb up the value chain to a higher value adding position. In fact, the upgrading capabilities have long been

considered as synonymous with firm level innovative capabilities (Pietrobielli and Rabellotti, 2011; Morrison, et al., 2008), which result from continuous learning and interaction between GVCs' actors (Bessant et al., 2012; Marra et al., 2012). In that sense, upgrading capabilities are associated with firm level absorptive capabilities, which are about acquiring and using new knowledge from outside the firm (Cohen and Levinthal, 1990). The process in which firms builds upgrading or innovation capabilities is also strongly influenced by power asymmetry within GVCs; network flagship organizations have instrumental role to help local firms develop upgrading capabilities (Ernst & Kim, 2002; Bessant al et., 2012). There is also sufficient empirical evidence to support the proposition that foreign direct investments and the intermediate goods and service, imported from industrialized economies, expedite the learning and knowledge transfer, hence the process of building upgrading capabilities (WTO, 2014).

The interactions between GVC's actors and their wider community, whether defined geographically or professionally, have an important impact on accelerating the learning and knowledge transfer in GVC, hence building integrative capabilities (Humphrey and Schmitz, 2002). While the GVC literature tends to emphasize the relationship within GVCs, it did not capture the complex and the multifaceted relationships between GVCs and their wider environments (Parrilli et al. 2012; Coe et al., 2012).

The concept of innovation system (IS) covers these complex and multifaceted relationships. While it is somewhat broad, the innovation system concept has evolved around the intricate and dynamic networks of actors, organizations and institutions that systemically contribute to innovation processes at different levels and in various capacities.

Figure 1. the relationship between integrative capabilities and Innovation system



Source: ???

The relationship between IS and integrative capabilities

The relationship between IS and integrative capabilities is complex and mutually affecting. To a large extent, these relationships determine a firm's ability to integrate into GVCs (i.e. to participate, and then to upgrade). IS and integrative capabilities could offer a useful two by two matrix, as shown in Figure 1, which helps to conceptualize some of the dynamics surrounding GVCs integration, the formation of clusters, and learning processes.

In Quadrant 2, a strong innovation system is characterised by well established, locally, and internationally recognized institutions; effective and efficient infrastructure and procedures; and coordinated policies, among others. Under such systems, firms that have strong integrative capabilities would be able to plug into GVCs and upgrade in both directions, upstream and downstream, investing in knowledge based capital (KBC) (OECD, 2013). The relational type of governance (Gereffe et al., 2005) would most likely evolve promoting learning networks and clusters (Tsekouras & Papaioannou,

2002).

Quadrant 3 represents situations where IS is characterized by weak institutions and infrastructures, an absence of policies, bureaucratic procedures, and pervasive corruption. Firms operating under such systems with weak integrative capabilities would less likely be able to participate or upgrade in GVCs. Captive and hierarchical types of governance would evolve, reflecting high level of power asymmetry in GVCs and the tendency of lead firms to adopt vertical integration strategy. Accordingly, clusters are less likely to emerge in such situations.

In Quadrant 1, under a relatively weak IS, firms with strong integrative capabilities can still engage with GVCs. While such firms would have the capabilities to plug into GVCs, upgrading might be challenging. Accordingly, modular chains (Gereffe et al., 2005) would most likely prevail. The competitive advantages of firms operating in modular chains stem from their ability to invest in production capacity and confine to the specifications set by lead firms.

Finally, quadrant 4 reflects situations found in emerging economies where firms have weak integrative capabilities and operate under a relatively strong IS. In the short term, captive and hierarchical governances (Gereffe et al., 2005) are most likely to emerge where lead firms would have a considerable power over local firms, that would struggle to plug into GVCs. However, the strong IS could help reduce the cost of technology and learning related transactions, hence firms would be able to gradually build capabilities which would push GVC away from hierarchical and captive structure toward more modular and relationship structures (Pietrobellie and Rabellottie, 2011). It is important to note also that the role of lead firms is very important to help local firms improve their capabilities (Ernst & Kim, 2002; Bessant al et., 2012).

Conclusions

Successful integration into GVCs results in considerable gains in productivity and competitiveness. While the GVC literature has focused on the integration into GVCs from a national and macro level perspective, few studies have examined how a firm could build sufficient capabilities to integrate in GVCs.

We argued that there are two sets of factors that influence a firm's ability to integrate into GVCs: firstly, the extent to which the firm has built integrative capabilities to integrate into GVCs, and secondly, the information system (IS) in which the firm operates.

To a large extent, the relationship between IS and integrative capabilities is complex and mutually affecting. To a large extent, this relationship determines a firm's ability to integrate into GVCs.

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Economic Impacts of Service Trade Liberalization under Free Trade Agreements in East Asia

Hikari Ishido

While so many research reports feature positive impacts of FTAs on liberalization in the services sector, there seems to be no detailed quantitative analysis focusing exclusively on the liberalization of trade in services under FTAs in ASEAN. This paper addresses the impact of service trade liberalization under free trade agreements (FTAs), with a focus on "connectivity" and "inclusivity".

Day-to-day observations suggest that domestic reforms have been done as positive impacts of forming FTAs, yet there appears to be no existing literature directly and quantitatively estimating the positive impact of reforms in the services sector driven by FTAs on productivity in the manufacturing sector. This short paper refers to a few preliminary analyses to fill this gap.

Survey-based analysis 1: Japanese governmental survey

The survey-based analyses for this paper have revealed that service firms' major expectations of FTAs include service sector deregulation/liberalization and that the presence of service-covering FTAs significantly promote trade in services in terms of the number of new investment by foreign service suppliers.

The expectation of FTA-EPA expressed by Japanese foreign affiliates

(headquartered in Japan) is shown in Table 1, with the following survey items (multiple choices):

Item 1. Reduction/Removal of tariffs
Item 2. Service sector deregulation/liberalization
Item 3. Deregulation/liberalization of investment, provision of investment rules
Item 4. Deregulation/liberalization of movement of people
Item 5. Provision of regulation on intellectual property rights
Item 6. Provision and transparency of business-related laws
Item 7. Mutual recognition of standards and conformances
Item 8. Facilitation/Simplification of custom procedures
Item 9. Improvement in the market access of government procurement
Item 10. Conflict resolution
Item 11. Deregulation/liberalization of money transmission and financial/foreign exchange transactions including cash management systems
Item 12. Simplification/harmonization of rules of origin (to gain preferential treatments)
Item 13. Elimination of disadvantageous competitive conditions arising from other countries' FTAs
Item 14. Others (not listed in the table above for lack of space)

The Table reveals that the manufacturing industry and the nonmanufacturing industry both value "Reduction/Removal of tariffs" (item 1), and "Facilitation/Simplification of custom procedures" (Item 8). However, for the nonmanufacturing (including service) firms, the degree of high evaluation is relatively low, with the response rate to the item 1 (Reduction/Removal of tariffs) and the item 8 (Facilitation/Simplification of custom procedures) being lower than in the case of the manufacturing firms,

Table 1. Expectations of FTAs expressed by Japanese firms (Total)

	Total responses		Item 1		Item 2	
	No. of responses	Share (%)	No.	Share (%)	No. of responses	Share (%)
Total	3,297	100.0	1,896	57.5	458	13.9
Manufacturing (reference)	2,192	100.0	1,407	64.2	226	10.3
Non-manufacturing (including service)	1,105	100.0	489	44.3	232	21.0
Agriculture, forestry And fishery(reference)	6	100.0	3	50.0	-	-
Mining	18	100.0	5	27.8	1	5.6
Construction	90	100.0	35	38.9	14	15.6
Information and communication	148	100.0	30	20.3	36	24.3
Transportation	126	100.0	37	29.4	31	24.6
Wholesale	478	100.0	302	63.2	86	18.0
Retailing	86	100.0	38	44.2	22	25.6
Other services	91	100.0	23	25.3	26	28.6
Other non-manufacturing	62	100.0	16	25.8	16	25.8

Source: Japanese Ministry of Economy, Trade and Industry, "The 2008 (38th) Survey of Overseas Business Activities".

and instead the response rate to the item 2 "Service sector deregulation/ liberalization" is clearly higher (at 21.0 percent in the Table) for the non-manufacturing firms than for the manufacturing firms (at 10.3 percent). That is, in the service industries, domestic (or behind-the-border) deregulation is more important for FTAs to achieve.

Further break-down of Table 1 according to the size of respondent companies reveals an important general observation that the smaller the firm size is, the higher the expectation of the Item 1 (Reduction/Removal of tariffs) and the Item 8 (Facilitation/Simplification of custom procedures) becomes.

Figure 1 and Figure 2 show the result of a standard "correspondence analysis" (the method to summarize the "closeness" of different categories by

(Units: number, %)

Item 3		Item 4		Item 5		Item 6	
No. of responses	Share (%)	No. of responses	Share (%)	No. of responses	Share (%)	No. of responses	Share (%)
951	28.8	627	19.0	687	20.8	886	26.9
633	28.9	410	18.7	514	23.4	583	26.6
318	28.8	217	19.6	173	15.7	303	27.4
1	16.7	1	16.7	2	33.3	2	33.3
8	44.4	2	11.1	1	5.6	7	38.9
28	31.1	28	31.1	9	10.0	34	37.8
38	25.7	38	25.7	51	34.5	41	27.7
40	31.7	19	15.1	5	4.0	34	27.0
133	27.8	68	14.2	63	13.2	118	24.7
20	23.3	15	17.4	17	19.8	17	19.8
25	27.5	28	30.8	19	20.9	26	28.6
25	40.3	18	29.0	6	9.7	24	38.7

mapping along a few meaningful axes) applied to Table 1 (Expectations of FTAs expressed by Japanese firms (Total)). Judging from a separate analysis (not covered in this paper) which points to the high statistical significance of the correspondence analysis, there seem to be three meaningful factors (i.e., 1st, 2nd and the 3rd axes) along which different service sectors can be mapped.

While the characterization of these statistically meaningful axes is not easy, a suggested naming of the three factors is as follows:

1st Axis (or Factor): measurement of "tangible trade – intangible trade";

2nd Axis (or Factor): measurement of "agglomeration (or scale economy)-network"; and

3rd Axis (or Factor): measurement of "trade liberalization-trade facilitation".

What can be stated at least is that the three (and only three) factors

Table 1. Expectations of FTAs expressed by Japanese firms (Total) (Cont.)

	Item 7		Item 8		Item 9	
	No. of responses	Share (%)	No.	Share (%)	No. of responses	Share (%)
Total	381	11.6	1,598	48.5	57	1.7
Manufacturing (reference)	269	12.3	1,154	52.6	35	1.6
Non-manufacturing (including service)	112	10.1	444	40.2	22	2.0
Agriculture, forestry And fishery(reference)	1	16.7	3	50.0	-	-
Mining	1	5.6	5	27.8	-	-
Construction	16	17.8	28	31.1	3	3.3
Information and communication	16	10.8	22	14.9	3	2.0
Transportation	11	8.7	55	43.7	2	1.6
Wholesale	51	10.7	264	55.2	7	1.5
Retailing	6	7.0	33	38.4	1	1.2
Other services	5	5.5	22	24.2	4	4.4
Other non-manufacturing	5	8.1	12	19.4	2	3.2

Source: Japanese Ministry of Economy, Trade and Industry, "The 2008 (38th) Survey of Overseas Business Activities".

dominate the variety of expectations of FTAs held and expressed by Japanese business firms. Trade liberalization through FTAs seem to: facilitate business firms' tangible (in the case of manufacturing industry) or intangible trade (in the case of service industry); influence their choice of agglomeration or networking; and promote trade liberalization (through direct trade policy including tariff reduction and removal of service restrictions) or trade facilitation (through indirect impacts including the enhanced level of policy transparency). This survey also reveals that service firms' size matters for different priorities or expectations of FTAs.

Survey-based analysis 2: Toyokeizai Shimposha's data

The second analysis for this paper concerns the correlation between

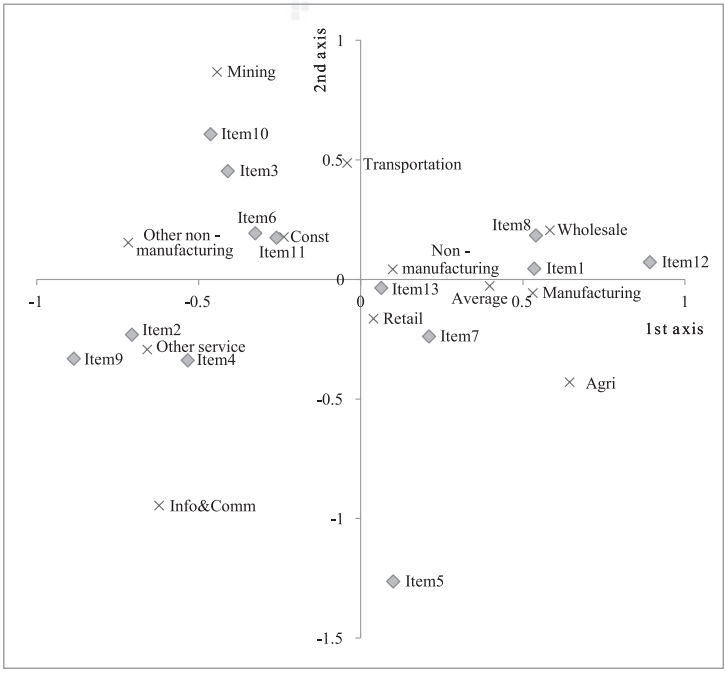
(Units: number, %)

Item 10		Item 11		Item 12		Item 13	
No. of responses	Share (%)	No. of responses	Share (%)	No. of responses	Share (%)	No. of responses	Share (%)
110	3.3	967	29.3	590	17.9	213	6.5
65	3.0	645	29.4	418	19.1	149	6.8
45	4.1	322	29.1	172	15.6	64	5.8
-	-	2	33.3	1	16.7	-	-
1	5.6	7	38.9	-	-	-	-
8	8.9	27	30.0	10	11.1	4	4.4
3	2.0	37	25.0	5	3.4	4	2.7
5	4.0	41	32.5	21	16.7	3	2.4
17	3.6	129	27.0	118	24.7	41	8.6
5	5.8	23	26.7	8	9.3	3	3.5
5	5.5	35	38.5	5	5.5	5	5.5
1	1.6	21	33.9	4	6.5	4	6.5

manufacturing and service investments, with a focus on Japanese firms' foreign direct investments in some FTA partner countries in East Asia, using database released by Toyokeizzai Shimposha (a Japanese publisher). Table 2 overall reveals that there is a positive correlation between manufacturing and service investments, the latter (service investments) presumably supporting manufacturing investments.

Next, the binary logistic regression analysis using the same database and conducted for this paper reveals the following three points for the wholesale sector (which relates closely to connectivity): the presence of an already effective FTA with a service sector commitment makes the likelihood (or the "odds ratio" statistically speaking) of new service firms' investment in the ASEAN country with the FTA 4.0329 times higher than would have been

Figure 1. Correspondence analysis of Table 1 (1st axis×2nd axis)

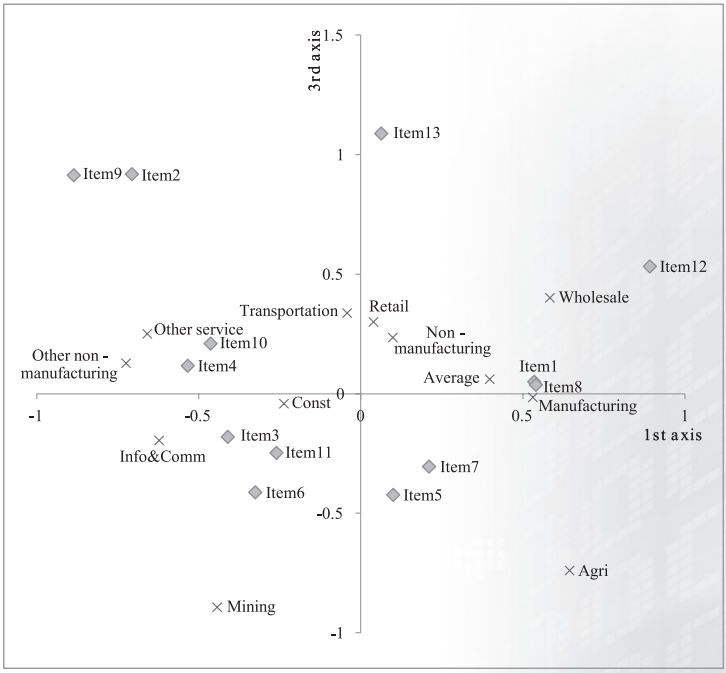


Source: Made from Table 1.

the case without such a service-covering FTA; the presence of an already effective FTA with a service sector commitment makes the size –in terms of the number of workers of the newly established firm a little smaller (0.9862 times bigger—actually "smaller"—); and the presence of an already effective FTA with a service sector commitment makes the level of the parent firm's equity participation a little smaller (0.9762 times bigger—actually smaller—).

Thus, this short paper concludes that FTAs enhance connectivity across partner countries and across different industries, and that FTAs also seem to

Figure 2. Correspondence analysis of Table 1 (1st axis×3rd axis)



Source: Made from Table 1.

Table 2. Correlation coefficients between the manufacturing investments and the service investments (both in number)

Japan's FTA partner	Correlation coefficients
Indonesia	0.72
Malaysia	-0.62
Philippines	0.23
Singapore	0.14
Thailand	0.50
Vietnam	0.27
Average	0.21

Source: Toyokeizai Shimposha (2012).

secure inclusive growth through encouraging smaller-sized firms to invest in the FTA partner country. More work along this line is needed through our connected and value-creating efforts.

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Political Implications of Leadership in Multilateral FTA Negotiations

Darson Chiu

Table 1 is the most updated tariff profiles retrieved from the WTO website. They are "simple average most favored nation applied tariffs" of members associated with the Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), and Transatlantic Trade and Investment Partnership (TTIP). The table will explains a lot regarding what has been going on among members of those mega FTAs.

This is also one way to show how protected a particular country can be. Of course, we know that protection can come from the tariff and non-tariff dimensions. And most of the time, non-tariff barriers could be a much larger obstacle for trade liberalization. Many studies show that more benefits can be acquired by reducing non-tariff than tariff barriers. However, it is more complicated and more difficult to actually quantify non-tariff measures. And it is sensible that when a particular country has a high tariff protection tends to also have heavier non-tariff measures. Therefore, it is assumed that for all countries listed on the slide, their levels of tariff protection and NTM are consistent in a way. The intention is to rule out the unlikely case that one nation has high tariff protection and low NTMs or the other way around.

On the subject of TPP, negotiations of the first round members were concluded in early October this year. And also there're many studies and reports stressing that the US has been leading the TPP. As the US President

Table1. Tariff Profiles-Members of TPP, RCEP, & TTIP %

RCEP				TPP			
Members	Total	Ag	Non-Ag	Members	Total	Ag	Non-Ag
Australia	2.7	1.2	3.0	Australia	2.7	1.2	3.0
New Zealand	2.0	1.4	2.2	New Zealand	2.0	1.4	2.2
Japan	4.9	19.0	2.6	Japan	4.9	19.0	2.6
Brunei	2.5	0.1	2.9	Brunei	2.5	0.1	2.9
Malaysia	6.0	8.9	5.5	Malaysia	6.0	8.9	5.5
Singapore	0.2	1.4	0.0	Singapore	0.2	1.4	0.0
Vietnam	9.5	16.2	8.3	Vietnam	9.5	16.2	8.3
China	9.9	15.6	9.0	USA	3.4	5.3	3.1
India	13.5	33.5	10.2	Peru	3.4	4.0	3.3
Korea	13.3	52.7	6.8	Canada	4.2	15.9	2.3
Indonesia	6.9	7.5	6.7	Chile	6.0	6.0	6.0
Philippines	6.3	9.9	5.7	Mexico	7.9	19.7	5.9
Thailand	11.4	29.9	8.3	TTIP			
Laos	18.7	19.2	18.7	Members	Total	Ag	Non-Ag
Myanmar	5.6	8.6	5.1	USA	3.4	5.3	3.1
Cambodia	10.9	15.2	10.3	EU	5.5	13.2	4.2
				Taiwan	6.0	16.0	4.5

Source: WTO Tariff Profiles 2014.

Barrack Obama mentioned that the US intends to set the trade rules in the region. However, if one country wants to be the leader of a trading bloc pursuing the goal of liberalization, that specific country must fully embrace liberalization itself besides its economic size. And it is very obvious that Australia, New Zealand, Brunei, and Singapore are more liberalized or less protected than the US (see table 1). Actually, 3 out of the original P4 members are less protected than the US economy. However, as we have all witnessed that the US has been dominating the TPP negotiations. Therefore, may we conclude that political power has been dominating economic liberalization in the case of multilateral FTA negotiation?

Many stressed that Taiwan's participation to the TPP would be a must. And Taiwan's government officials have approached the US counterparts

many times seeking the opportunities of joining TPP as a member. The response from the US side would always be that they're not sure if Taiwan's ready. Question from the US counterpart: Is Taiwan ready for the TPP? And they urged Taiwan to get ready despite the fact that TPP announced that it would welcome all APEC members. And Taiwan is an APEC member with the title, "Chinese Taipei".

After the final text of TPP released on November 5th, the Taiwanese government stressed that it would start to improve relevant regulations and other measures and make them more TPP standard consistent. However, both Vietnam and Mexico have higher tariff protection than Taiwan, and Chile and Taiwan have the same level of overall tariffs on average. Also, the Japanese agricultural sector is obviously more protected compared with Taiwan's; however, Japan was formally invited by the US to join TPP negotiation in 2012 and finally decided to join in the year after. Again, we may conclude that this would be the other evidence proving that political power has been dominating economic liberalization in the TPP.

So far we cannot be certain if it's a right decision for Taiwan's government to work on deregulation and liberalization with respect to TPP benchmarks before the entrance application being approved. After all, it's actually not about whether or not Taiwan is ready. Otherwise, certain countries shouldn't have been there. If the US intends to set the trade rules, it is more interested in adopting the rules to regulate bigger guys like China instead of Taiwan. That means we cannot be certain that the US will actually receive Taiwan in the second round negotiations before receiving China.

As for RCEP, RCEP is a combination of 5 ASEAN-plus-one FTAs, which are: ASEAN plus China, ASEAN plus Japan, ASEAN plus Korea, ASEAN plus Australia and New Zealand, and ASEAN plus India. None of those 5 sets of ASEAN plus one FTA can be considered as a high quality

FTA. Therefore, how can we expect a combination of them be a high quality one? Second, the RCEP region is by comparison more protected compared with the TPP region in general (see table 1). That means it will be more difficult to go rigid.

And also we have heard a lot or read even more from all kinds of studies or reports claiming that China has been leading RCEP. However, such statement has always been denied by scholars or experts from Southeast Asia. They argued that RCEP would be more of ASEAN centered, and RCEP was not led by China.

First, we can see that China is still a highly protected market. How can a highly protected country lead a bloc that is pursuing trade liberalization? Second, RCEP is a combination of 5 ASEAN-plus-one FTAs, and all 5 of them are associated with ASEAN.

For people who believe that China is leading RCEP must try to apply the model of TPP on RCEP. Because the US is not the most liberalized economy, it's leading TPP with its political influence. By the same token, they assume that China must be leading RCEP, since China is supposed to have more political power and influences than others in this region.

ASEAN experts believe that ASEAN 10 members are jointly leading RCEP, because ASEAN appears 5 times and China only appears once among those 5 sets of FTA. How can we make China appear more than once? If RCEP can be a combination of 5 ASEAN-plus-one FTAs and cross-strait ECFA, that will do. Anyway, because China is not leading RCEP, concluding ECFA or a good trust-building between both sides of Taiwan Strait is only one of the many sufficient conditions for Taiwan to be included in RCEP.

As for TTIP, Taiwan has no role whatsoever. It's difficult to conclude, because striking a deal between the most advanced economy and the most integrated region is not supposed to be easy. And high standard with the TPP

as a benchmark can be expected. Nevertheless, the European Union (EU) already concluded a FTA with South Korea and recently wrapped up another treaty with Vietnam. If tariff barriers are an issue, it is easier for EU and Taiwan to strike a deal (see table 1 again). However, we simply cannot rule out the China factor; the political matter matters.

A Brief Look at the Taiwanese Film and Television Industry as a Part of the Digital World

Andrea Jao

Rapid globalization and digitalization have brought about a new set of exciting opportunities and challenges for the audiovisual content industry in Asia, Taiwan included. While China, Japan, and Korea have each embarked on its own path to make their own competitive and authentic audiovisual content, Taiwan faces several challenges due to its small market size, limited resources, and other entrenched factors within the industry. In its recent efforts to upgrade and boost the television and filming industry in the country, the Bureau of Audiovisual and Music Industry Development of Taiwan's Ministry of Culture has set up a series of international symposiums under the overall theme of developing the audiovisual content industry, for the public to learn from the experiences of other major Asian countries. The symposiums focus on both the technical side, such as the technological development and application, as well as the business side, the possibility for cross-industrial cooperation. This essay largely draws upon and essentially culminates the lessons learned from the symposiums to reflect on the Taiwanese content development. In other words, it is my goal here to delve into an overview analysis of Taiwan's own predicament in developing audiovisual contents for the television and film sector for the 21st Century and the overall environment, in order to evaluate possible paths for the future.

The Overall Picture:

Television and film industry plays a vital role in the Taiwanese digital content industry, which in turn contributes greatly to the economy. The Taiwanese demand for digital content is growing, particularly for the sub-field of audiovisual content. According to the 2014 report on the Digital Content Industry in Taiwan, published by Taiwan's Ministry of Economic Affairs, the country's digital content industry annual production value amounts to 858.2 billion NTD. That is a growth of 17.49% compared to 2013. To further dissect this industrial expansion to show the importance of audiovisual content, a look at the data published by the same industry report would reveal that the audiovisual industry grew from 86.1 billion NTD in 2013 to 141 billion NTD in 2014, achieving a growth of 63.76%, and making it the fastest growing digital content sub-field. The major factors that lie behind this impressive increase in values include the increasing accessibility of and the improving speed of wireless internet, digitalization of traditional television programs, and convenience provided by smart mobile devices. What we can conclude from these numbers is that the television and film industry in Taiwan is standing at a crossroad, a point where the traditional consumption of audiovisual contents is giving way to a much more digitalized and mobile experience. Although audiovisual contents include more than just television and film products, the potential that television and film producers face in the age of internet and smart phones is undeniable.

A Shifting Market:

With digitalization and other Asian country's television and film content on the rise, Taiwanese audience is exhibiting a clear shift in viewing

behaviors, and one of the key strategies that the Taiwanese government wishes to take upon is the cross-industrial cooperation between players along the audiovisual value chain. When talking about the audiovisual value chain, there are usual a few varying numbers of links involved, depending on how detailed one wishes to define each level. In this particular analysis, the chain is broken down into 4 links, with "content producers" being at the top of the chain, followed by the "content aggregator," the "host platform," and finally "consumer device manufacturer." The traditional content producers are the ones who produce television and film contents, such as Gin Star Entertainment, Jason's Entertainment Company, and other production companies. The traditional content aggregators put together the produced programs, and they include everyday cable television networks such as Sanlih Entertainment, Gala Television, Eastern Broadcasting, etc. The host platform is the medium through which the programs are delivered to the audience, including, most prominently, the Chunghwa Telecom MOD, LINE Television, Coture.com. Finally the consumer devices are the hardware products such as the smart phones in our pocket or the television box we use at home. The idea is that the integration of some of the players among the Taiwanese audiovisual content industry, can perhaps replicate the success of the likes of Amazon Prime Videos, Netflix, or Hulu or maybe push the Taiwanese film and television production onto the global market like the Korean have done with Korean dramas. While these are promising goals, the very environment in which the Taiwanese film and television industry makes a living poses several big challenges.

One of the major challenges that the Taiwanese television and film content industry faces is the difficulty in competing with foreign television series. The Taiwanese television industry is dominated by the traditional cable networks, which are broadcasting more and more foreign shows for

profit reasons, making it difficult for the Taiwanese contents to flourish in the market (Ministry of Economic Affairs, 2014). This, combined with the limited market and finance options that Taiwanese production companies have when producing a television series, make self-made Taiwanese content extremely difficult. At the same time, recent Chinese dramas see an increase in big-budget productions, which they export more and more, cheaply too. The extremely large-scale and well-received series such as Empresses in the Palace and the new The Journey of the Flower often make them more profitable and popular among Taiwanese cable networks. It is the same Korean drama series, which are immensely popular among Taiwanese youth, and are easier for the networks than having to produce native contents. The dominance of the cable television networks and the difficulty in producing self-made contents are at the root of two other challenges facing the Taiwanese audiovisual content industry as it seeks to revolutionize through cross-industrial cooperation for the 21st century.

Without a steady flow of quality original contents, Taiwanese online streaming websites cannot rival the foreign streaming giants as they begin to enter the Taiwanese market. On a global scale, the growing popularity of streaming websites is changing the game for television companies, as the websites not only aggregate but also create self-made contents tailored to their audience. Although the Taiwanese market is a few steps behind, it is undeniably a growing momentum as well. In recent years there have been efforts by Taiwanese companies to create their own streaming platform in order to capture the attention of younger Taiwanese audience. Most of these streaming websites offer their members mostly foreign contents, without much individuality or marketable uniqueness. However, the fast expanding streaming websites are proving that it is necessary to rely on original contents, such as Netflix's House of Cards, in order to capture the hearts

of the audience. The Taiwanese streaming websites have been rather slow to adopting, which undoubtedly and partially as a result of the difficulty in creating authentically Taiwanese yet internationally marketable content. The few that have embarked on road of original content creation include Coture.com and Fanily, which still focus on small-scale and closer-to-life productions.

The push for digital television over traditional analogue television has also been hindered by the environment that we just described that faces the Taiwanese television and film industry. The Chunghwa MOD digital television has been a leader in the Taiwanese digital television market, appealing to consumers by offering multiple channels and instant access. It would have been a wonderful opportunity for Taiwanese original contents to reach even greater audience, but the established TELEVISION networks make it difficult for the two to cooperate (Ministry of Economic Affairs, 2014). With a lack of content, Chunghwa MOD had to turn to live streaming concerts, sports, and game competitions to garner users, though making a niche for itself, but still puts it at a disadvantage compared to devices such as Google Chrome.

Conclusion:

There are many opportunities for Taiwanese television and film content producers to gain a greater audience beyond traditional cable network television, by placing their contents on streaming website or digital television. It would then take considerable effort by the industry and government to push for the change, rather than allowing the dominance of cable network television dictate the future of the Taiwanese film and television. Changes need to be made so that Taiwanese native streaming

websites and Taiwanese digital television can have easier access to original contents, rather than allowing them to become another video library. Ultimately, the content industry itself needs to be revitalized and needs much more external support. The fact is that the Taiwanese market alone is not big enough, for films or television series to make enough money off box office alone or make commercial sponsorship profitable for the corporate sponsors. In order to create a phenomenon such as the Korean pop culture or the fast-generating Chinese dramas, the government has to take up a more engaging role in funding and helping the Taiwanese film and television industry to map out a future course of development.

Reference

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