



Issue Paper



To Be Prepared in Joining Asia-Pacific Regional Trade and Geopolitical Competition



Facing the Opportunities and Challenges of
Economic Integration in the Asia-Pacific
Region
Pi-Ying Chiu

Recent Political and Economic Development in
the Asia-Pacific
Chung-Min Tsai



Issue Paper

CTPECC holds a number of forums and seminars annually based on current issues in the global political economy. Inspired by these events, the *CTPECC Issue Paper* seeks to address opportunities and challenges in future regional development. *Issue Paper* also provides valuable information and perspectives, delivering the insightful views of experts.

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1.Introduction

Since the Doha Round of world trade negotiations failed to reach a consensus, bilateral, multilateral and regional Free Trade Agreements (FTAs) have sprung up. In 2021, Taiwan officially submit the application to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). However, what should we know regarding the impact on domestic industry of Taiwan and what should have been prepared beforehand? In this issue, Pi-Ying Chiu, deputy secretary general of Chinese National Federation of Industries, is going to offer her observation and comment on the benefits of joining Regional Trade Agreement (RTA), like the CPTPP, and also the suggestion to the government.

In the mean while, we should pay our attention on the countries, which play important roles in the Asia-Pacific region, to consider their concerns when analyzing the implication of political and economic decisions. We have invited Chung-Min Tsai, professor of National Chengchi University, to share his opinion on the current development of regional politics and economy based on the interaction between China-United States, China-South Korea, U.S.-South Korea, China-Japan, and the attitude of the ASEAN.



2-1. Facing the Opportunities and Challenges of Economic Integration in the Asia-Pacific Region

Pi-Ying Chiu

Chinese National Federation of Industries

Over the past two years, the global integration of regional economies has been disturbed by both the pandemic and the change of the course of economic and trade policies of the United States for signing FTAs. The expansion and momentum of FTA signings are far below those around 2010, but because participating countries and other leading countries strongly support the CPTPP and RCEP in the Asia-Pacific region, the United States achieved wonderful results that raised everyone's hopes for the prospect of regional economic integration. Of course, all countries are also paying close attention to the future development of these two mega FTAs and their impact and benefits on the regional economy.

In general, the purposes of signing regional economic agreements or bilateral FTAs are to eliminate intra-regional or bilateral investment, or trade barriers, to expand intra-regional trade flows and trade facilitation, to increase investment opportunities and to create more jobs in the region, to build a deepening of the links between regional industries, industrial settlements or supply chains, then finally to heighten industrial competitiveness and promotion of economic growth in the region. In order to achieve the above goals and to reduce the profit loss mentioned during the Doha Round of world trade negotiations, numerous FTAs/RTAs sprang up.

For the industries, especially the export-focused industry in Taiwan, it is very important to obtain the same market opening conditions as all foreign competitors and thus be able to compete fairly. Therefore, the industries have urged the government many times that it should speed up the signing process of various FTAs to help traders open up their thresholds to the export market, like tariff reduction). However, it cannot be denied that the opening of a market is not a one-way street. For industries focusing



on domestic demand, it will inevitably bring about a period of unforeseen impacts and problems, and even the uncertain risk of being phased out. There are issues and challenges that must be faced seriously when joining an FTA.

The countries involved in the two mega FTAs, CPTPP and RCEP, are essential political and economic partners for Taiwan both geographically and as export markets. Taiwan's industry, especially the manufacturing, is particularly concerned about tariff reductions. That is why we will briefly explain the tariff reductions of the CPTPP and RCEP, as well as the impact they might have on domestic industries.

1. The status of CPTPP tariff reductions

According to the National Statistic Report of the Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan (行政院主計總處國情統計通報), the export value of Taiwan to CPTPP members had an average annual growth rate of 9.3% in the past five years. With US\$94.99 billion, the annual growth rate in 2021 was as high as 33.0%. The main export goods are electronic components, accounting for 43.5%. Base metals and their products as well as communication and audiovisual products accounted for 8.7% and 8.2% each. Even though the economy staggered in 2022, Taiwan's export value of the first three quarters still had an annual increase of 23.8%. As Taiwan has not yet joined the CPTPP, tariffs have to be paid for 13% of the aforementioned exported industrial products, and some of the tariffs are high enough.

In order to further analyze the export impact that CPTPP might have on industrial products after coming into effect, we can observe the Most Favoured Nation (MFN) average tariff of CPTPP's industrial products (Chapter HS25-97) from its tariff reduction schedule, which is the applicable tariff rate of 3.92% of all WTO member states. Since the end of 2018, CPTPP has begun to reduce tariffs in different industries every year. The tariffs of most industries will eventually be eliminated, and a few industries will reduce the tariffs by around 99%. The reduction of the tariff rate for processed foods, which are severely impacted, will stop at 91.59%, with the period of 21 years, and the rest being mostly 11 or 16 years.



Sub-industries	CPTPP MFN average tariff (%)	Distribution of tariff reductions by sub-industry				Duration of tax reductions (year)
		Products with zero tariff rate (%)	Products with zero tariff rate after effective date (%)	Products with zero tariff rate within 5 years (%)	Products that are eventually reduced to zero tariff rate (%)	
Industry total	3.92	55.79	87.55	91.24	99.64	16
Steel and metal	3.22	62.47	88.52	93.28	100.00	11
Machinery	1.77	66.83	92.12	95.26	100.00	11
Transportation vehicles	6.44	52.71	74.00	79.20	96.54	13
Heavy machinery and wires and cables	2.94	51.16	84.74	93.15	100.00	11
Electronic information	1.97	64.71	92.21	96.58	100.00	11
Home appliances	4.81	43.07	77.34	86.68	100.00	11
Petrochemistry, plastic and rubber	3.40	56.37	87.81	91.26	100.00	15
Textile and apparel	6.07	32.73	80.44	83.50	99.96	16
Biotechnology	1.23	73.81	96.51	97.48	100.00	11
General chemistry	2.61	60.37	92.07	95.49	99.98	16
Building materials and miscellaneous	4.59	53.92	88.17	91.52	99.52	16
Processed food	6.77	36.70	69.13	73.08	91.59	21

Table1: the tariff reduction schedule of CPTPP industrial products - by industry

Source: Ying-hua Ku, Status and Development of the global integration of regional economies (Industry Magazine, Issue 622)

Based on the tariff structure and tariff reduction schedule in the above table, one can see products belonging to sensitive industries that were highly protected in previous WTO negotiations, such as processed food, which originally had an average tariff of 6.77%. The percentage of products with zero tariff rate is very low, that is, only 36.7%. While tariffs of many other products are reduced to zero on the effective date, the adjustment for processed food takes 21 years, and the final tariff rate will still not be completely reduced to zero. About 8.5% of the products will still have a certain tariff rate. In addition, the MFN tariff rate for transportation vehicles is also quite high, which is at 6.44%. The original percentage of products with zero tariff rate accounts for about 52.7%. After 13 years of adjustment, 3.5% of the taxes are still remained. The original tariff rate for textiles and apparel is 6.07%. After 16 years of adjustment, it will finally reach a 100% zero tariff rate. The proportion of the plastic and rubber industry,



which is dominated by small and medium-sized enterprises, or Taiwan's highly export-oriented petrochemical industry, will jump from 56% to about 88% after the effective date. This will present a great challenge to these industries because Taiwan still faces an average tariff of 3.4% when exporting to the 15 CPTPP members. Still, about 88% of these countries' products will enjoy the benefit of zero tariffs.

If we take a look at previous trade figures, the industries with the most tariffed products exported by Taiwan to CPTPP countries are textiles and apparel accessories, followed by steel and metals, petrochemicals, plastics and rubber, building materials, and other miscellaneous products. In the CPTPP countries, products produced by industries such as textiles and apparel and processed food with a high tariff of more than 5% account for more than 65% of the industry's export value. However, the main export markets of various industries in the CPTPP are still concentrated in the ASEAN countries, like Vietnam and Malaysia.

2. Tariff reduction status of RCEP

The average market access of industrial products in the RCEP free trade zone is 91.5%. This is due to the fact that 90% of the industrial products were included in four ASEAN+1 FTAs, which had become effective since 2005 to 2010, and 92% of the products were included in China-Korea FTAs that came into effect in 2015 immediately. The tariff reduction schedule for most products exceeds 10 years and goes up to 20 to 25 years, and tariffs of numerous products won't be reduced at all. The Ministry of Economic Affairs (經濟部) is conducting industry evaluations on petrochemicals, plastic products, textiles, steel and metal, screw fasteners, machinery, machine tools and parts, auto parts, and panels. It believes that the chances for further RCEP tariff reductions on the basis of the existing FTA are limited. In addition, China has adopted tariff reductions or prolonged the tariffs reduction period to more than ten years with Japan for the products that Taiwan is concerned with; thus, the short-term impact of these tariff



reductions is limited. Due to the loose RCEP rules of origin, comparing with CPTPP, Taiwan's textile product exports are relatively large, there is only a limited impact on regional supply chains. The existing manufacturing and export trade model will not be changed in the short term, and thus, the RCEP tariff reductions will not affect Taiwan's exports. However, what still needs to be examined is that after the previous 5 ASEAN+1 and the China-Korea FTAs as well as the RCEP took effect, even though the impact on the industry caused by changes in investment or production layout did not cause any major damage, it also did not make the original damage suddenly disappear.

3. Challenges of joining the CPTPP

The Executive Yuan officially submitted its application for joining the "Comprehensive and Progressive Agreement for Trans-Pacific Partnership" (CPTPP) on September 22, 2021. As the CPTPP retains 95% of the original TPP contents, it also covers TPP core issues such as textile products and apparel, investment, trade remedies, trade dispute settlement mechanisms, e-commerce, government-controlled enterprises, the environment, and labor rights. Therefore, it is called a high-standard regional trade agreement. From the perspective of tariff reduction for industrial products, except for Singapore whose average tariff is zero, the average tariffs of the other 10 member states are between 2.5% and 9.3%. The average tariffs are higher in Vietnam, Malaysia, Chile and Peru and the tariffs of these countries are 9.37%, 6.16%, 5.96%, and 4.92%, respectively. If Taiwan can successfully lower the export tariffs with these countries in the future, it will achieve great business opportunities. Especially textiles and apparel accessories are mostly products with high tariffs. In addition, products which might be zero tariff in Taiwan, like iron and steel, petrochemicals, plastics, rubber, building materials, etc., are still have tariffs of 4% to 10% in these countries. Therefore, by joining the CPTPP, Taiwan could definitely expand its exports. However, Taiwan might have to reduce its tariffs for products such as automobiles, heavy machinery, wires and cables, processed food, and large household appliances that are mainly seen in the domestic market in return. These products might even be forced to lower the tariffs for these products to zero, which would present a major challenge for these industries.



Currently, the UK and the CPTPP members have already entered the third stage of negotiations, namely “deep water zone” negotiations which include the review and correction of market access commitments and non-compliance. The UK is required to make market access commitments that are commercially beneficial to all member countries while considering efficiency, competition, and development. It must be able to contribute to regional trade, investment, and economic growth. Therefore, if Taiwan has the opportunity to become a member of the CPTPP in the future, it will definitely face the same big challenges of having to accelerate and deepen its market access. Then, Taiwan would not only have to accept the results (conditions) of giving access to its market to the countries that have previously joined, we would also be expected to face stricter and faster market access conditions than the first round of members. It is possible that industrial products may face a larger tariff reduction scope or a shorter access period. In addition, China has already submitted a request to join the CPTPP ahead of Taiwan. In the future, it will inevitably encounter conflicts between Taiwan and China over the application for CPTPP membership. Taiwan still restricts the import of 2,454 agricultural and industrial products from China. This presents the first problem as these restrictions clearly violate the WTO rules of market openness and non-discriminatory treatment. Therefore, if Taiwan wants to join the CPTPP, it must have great determination to undertake and accept greater challenges.

If we want to prepare for joining the CPTPP, we should not only invest manpower and resources in the training of negotiators, review the gaps in domestic laws and regulations. It is also essential that we understand the concerns of member states on Taiwan’s participation in CPTPP and their positions, especially those related to the promotion of the agricultural sector and the reform of state-owned enterprises, and improve the transparency of administrative procedures. Only then can we meet the challenges of the numerous negotiations waiting for us. Furthermore, we should grasp any opportunity to communicate with China to reduce their pressure that could make them prevent Taiwan from joining the CPTPP.



2-2.Recent Political and Economic Development in the Asia-Pacific

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Despite China's appearance of reconnecting with the world after the end of its zero-COVID policy and the re-opening of its borders, tensions in the Asia-Pacific region's political and economic sphere have not eased, and may have become even more complicated. Overall, the observation of developments in the Asia-Pacific region requires us to consider the overall picture under the framework of US-China relations. By reviewing the bilateral relations between Asia-Pacific countries and both the US and China from political and economic aspects, we are able to form an overall picture that enables us to understand the network of multilateral relations. In general, a breakthrough was recently achieved in US-China relations. First, US President Joe Biden met with Chinese President Xi Jinping at the G20 Bali summit in November 2022. As for the backdrop of this meeting, Xi Jinping had just been re-elected as General Secretary of the Chinese Communist Party, thus consolidating his core position and his rule in Chinese politics for the next five years. On the other hand, Biden's successful midterm elections had defied expectations of a landslide Republican victory, thereby boosting his confidence, and causing him to state that he was intending to run again. After the meeting, both countries found each other to be straightforward, and planned many issues to discuss in subsequent exchanges, all of which would provide actual benefits in improving relations between the two countries. However, the warming of political relations has not equated to a similar development in economic relations, especially on disputes regarding the core interests of the US and China. For instance, both the US and China have avoided talks on chips, and have different views on the Taiwan issue. A specific attempt by both countries to reach a compromise is US Secretary of State, Antony Blinken's visit to Beijing on February 5, where he'll focus on topics such as the Russia-Ukraine War and high-level talks with China's newly appointed Minister of Foreign Affairs, Qin Gang. In mid-January,



China's Vice Premier Liu He had already met face-to-face with US Secretary of the Treasury, Janet Yellen in Zurich, Switzerland. After former Speaker of the US House of Representatives, Nancy Pelosi's visit to Taiwan in August 2022, China immediately imposed eight countermeasures against the US. Specifically, the cancellation of three military exchanges led to heightened tensions between these two countries. Looking back, both the US and China are seeking a compromise as to further advance political relations. However, economic differences have only become further aggravated. This holds especially true for the semiconductor manufacturing industry, where the US has prohibited the use of Chinese chipmaking equipment, specifically Huawei. In addition, the US has also sought to attract large-scale investment from Taiwan and Korea to bolster the self-sufficiency of its own industry chains, with plans to establish the "Chip 4 Alliance". China has accused the US of abusing export controls and meddling in free international trade, responding by launching a trade dispute at the World Trade Organization.

From a macroscopic perspective, the Northeast Asian countries of South Korea, Japan and Taiwan have responded differently, reflecting the different considerations of their respective governments. For South Korea, aside from being politically close to the US, has also recently imposed tougher measures on China due to the pandemic, suspending short-term visas for Chinese citizens until the end of February. This act has been viewed by China as a discriminatory entry restriction, leading to China retaliating by suspending short-term visas to South Korean citizens visiting China. Nonetheless, in terms of economic relations, South Korea remains hesitant towards the US containment of China. This is due to South Korea's leading semiconductor makers, Samsung and SK Hynix, possessing factories in both the US and China. However, China is particularly important to South Korea in terms of profit and the supplying of parts and materials. Furthermore, South Korea is also wary of human capital flight and domestic economic growth, and has offered preferential policies to semiconductor companies in an attempt to retain them in South Korea. As a result, South Korea is trapped in a tight spot between the US and China, where it



not only has to refrain from aligning with either side, but has to also take its own development into consideration. Moreover, South Korea has also vehemently avoided providing any statements on the issues of Taiwan and the South China Sea, and has long had a strained relationship with Japan. Recently, South Korea has even committed itself towards fostering South Korea-NATO cooperation, establishing a mission to NATO in September 2022. This evidently shows that South Korea seeks to maximize its own economic interests by taking a cautious stance towards politics in the Asia-Pacific region. In comparison, Japan's stance is much clearer, and is politically and economically aligned to the US. Fumio Kishida's administration released three national strategy documents: the National Security Strategy, the National Defense Strategy, and the Defense Force Development Plan in December 2022. These releases evoked a protest from China's ambassador to Japan and the ire of the Chinese government, since the documents stated that China's launch of a ballistic missile in August 2002 had threatened the people of Japan as well as its statements regarding the peace and stability of the Taiwan Strait. From an economic standpoint, Japan stands aligned with the US. Japan has imposed restrictions on semiconductor exports and joined the Netherlands in an agreement with the US on restricting the sale of Applied Material, ASML, and Tokyo Electron chipmaking equipment to China. Consequently, this has resulted in a massive technical blockade on China's primary chipmaking company, SMIC. At the core of this storm, the key reason behind the US and China's struggle to control semiconductors is due to their indispensability in arms development, consequently evolving into another form of an arms race.

As for Southeast Asia, only three international summits were held in November 2022: The East Asia Summit (EAS) held in Cambodia on November 13; The G20 held in Bali from November 15 to 16; and the APEC Economic Leaders' Meeting (AELM) held in Bangkok from November 18 to 19. US President Joe Biden attended the EAS and G20, while Vice President Kamela Harris attended the AELM. Chinese Premier Li Keqiang attended the EAS, while Xi Jinping attended the G20 and AELM. The region is vibrant with economic activity and at a critical geopolitical position, causing the US to attempt to return to Southeast Asia and increase its influence. On the other hand, China



hopes to exert its influence in Southeast Asia as well as expand its international space through the Belt and Road Initiative (BRI). However, the fact that Southeast Asian countries benefit economically from China while also being politically close to the US, coupled with the loose structure of ASEAN organization, makes their responses also critical in determining the development of the Asia-Pacific region. In November 2021, Xi Jinping announced the establishment of the “China-ASEAN Comprehensive Strategic Partnership” during the “Special Summit to Commemorate the 30th Anniversary of China-ASEAN Dialogue Relations”. Prior to this announcement, Biden had expressed at the US-ASEAN Summit in October 2021 that the US would firmly support ASEAN and to promote an international rules-based order in the Indo-Pacific. Diplomatic personnel from both the US and China have been highly active in Southeast Asia in the past two years. Former US President Donald Trump did not attend the US-ASEAN Summit from 2018 to 2022. Thus, the strategic position of ASEAN has become further highlighted as the Biden administration has sought to strengthen ties with its allies. Since some ASEAN member states already have disputes with China (e.g., the South China Sea), if the US were able to join forces with ASEAN, it would be able to exert greater pressure over China in comparison to US economic sanctions alone. However, ASEAN member states are caught in an awkward position between the US and China. China states that it is adamantly against hegemonism and power politics, and that it does not seek hegemony and will not bully its smaller neighbors. While the US asserts that it must work together with its allies and partners to counter any threats to the current world order, and to promote a free and open Indo-Pacific. Thus, despite the US and China not stating their intentions to win over ASEAN to counter the other, their political motives for strengthening ties with ASEAN are evident. Considering geopolitical factors, ASEAN is an ally that both the US and China must seek to gain. However, the integration levels within ASEAN are fairly low, with massive differences in internal political and economic development, making ASEAN an underdeveloped community. This presents a somewhat difficult challenge for the US and China if they wish to transform this relationship into an effective cooperation.



On the contrary, ASEAN member states have a certain level of understanding regarding the US-China rivalry. Indonesia and Singapore have expressed that they will not choose either side and have no desire to be entangled in a US-China rivalry. For them, remaining neutral seems to be the wisest choice, meaning that they will cooperate politically with the US while maintaining a close economic relationship with China. Yet, it is unfortunately not up to ASEAN whether it can choose to remain neutral or not, especially when political considerations extend into the economic realm. They will thus be forced to make a decision, such as when Indonesia purchased large amounts of communication infrastructure made by Huawei. Considering the aforementioned “Chip 4 Alliance”, Indonesia would have difficulties in refusing the US if the latter were to aggressively demand cooperation from ASEAN member states. Moreover, Cambodia, Laos, and Brunei have close ties with China. Philippine President Ferdinand Marcos Jr. visited Beijing on January 5, 2023. After China lifted its Zero-COVID measures, international organizations such as the UN and the World Bank released economic outlook reports that reported positively on China’s economic development, with forecasts of increasing growth. Meanwhile, the revival of China’s manufacturing and service industry has become a driving force for the market, which will undoubtedly lead to closer economic relations between China and ASEAN. Furthermore, China donated self-developed vaccines to ASEAN during the pandemic, allowing many national leaders to be inoculated with Chinese vaccines. Such an act has proved to be beneficial to China’s public image in the eyes of ASEAN states. Due to the US’s long-standing alliances with the Northeast Asian countries of Japan and Korea, it isn’t hard to understand why China is committed towards enhancing its political interaction and economic relationships with ASEAN member states. Most notably, the China-led Regional Comprehensive Economic Partnership (RCEP) will come into effect in 2022. Furthermore, China has long invested in ASEAN member states’ infrastructure through the BRI. Thus, we can foresee China taking a softer stance to win over ASEAN member states, thereby consolidating its plans for multilateralism.



Finally, regarding the dynamic development of Taiwan and cross-strait relations, The Economist once declared Taiwan as “the most dangerous place on Earth”. Such a declaration is based on international relations theory’s realism school of thought, and focuses on a single statement: the rise of China will challenge America’s existing hegemony and that a final battle is itself inevitable. The US military has also assessed that an imminent war will most likely be in Taiwan. This is due to Xi Jinping’s refusal to renounce the use of force against Taiwan. Since 2020, Chinese warplane incursions have increased rapidly, rising from 380 to 960 sorties in 2021, and reaching 1727 sorties in 2022. Nonetheless, from a neoliberalism standpoint, economic exchange data revealed that the US has a trade deficit of US\$350 billion in 2021, which is US\$45 billion more than 2020. China remains the third largest trading partner of the US. As for Taiwan and China, China has long been Taiwan’s largest trading partner. Exports to China amount to 40% of Taiwan’s total exports, and Taiwanese businesses have continued to invest in China. China’s refusal to renounce the use of force has led it to increase its efforts in “unification work”. Xi Jinping has often said “We are a family whose blood is thicker than water...We will expand cross-strait economic and cultural exchanges...Taiwan is part of China, and the Taiwan issue is China’s domestic affair and must be resolved by the Chinese themselves”. The newly appointed director of Taiwan Affairs Office, Song Tao, also stressed peace and his support for Taiwan compatriots in his 2023 New Year’s message. However, such constructive statements meant to foster identity from China are one-sided, and have failed to win strong recognition and responses from Taiwan.

Biden has recently mentioned that he does not believe that China has any imminent plans to invade Taiwan, yet China has indeed stepped up its aggressive actions. Tsai Ing-wen responded to Xi Jinping’s New Year’s message by stating that war is never an option for solving a problem, and that both sides across the strait should work together to maintain regional stability and development. In addition, Tsai offered assistance to China in tackling COVID. Therefore, cross-strain tensions seemed to have gradually eased, and war seems unlikely in the short term. However, if Chinese warplane incursions were to become “normalized”, the relations between China and Taiwan



would become a dynamic equilibrium, making any forecasts for the future even more challenging. In addition, regarding Taiwan's 2024 presidential election, under the circumstances that Xi Jinping remains in power, the successive leaders of both the US and Taiwan and their respective strategies will also become new variables that need to be considered.

Overall, Asia-Pacific development is heavily influenced by changes in the US-China relationship as well as the bilateral relations between countries, resulting in a complicated multilateral relations network. Influenced by the political economy, and both foreign and domestic axes, the individual actions of each country will lead to changes on the whole. Thus, it is only through careful observation that we can achieve an in-depth understanding and avert one-sided thinking.



3. Conclusion

In the post-pandemic era, the global supply chain is still facing challenges stemmed from the Russia-Ukraine war and geopolitical contention, etc. Taiwan is an export-oriented country and plays a significant part in supply chain. Hence, it is necessary to build close connections with other countries. Based on the idea of Pi-Ying Chiu, joining the FTAs will improve the accessibility of Taiwan's domestic industry in other markets and strengthen competitiveness by the tariff reduction and the promotion of reforms to public and private sectors, and regulations as well.

To achieve this goal, we should take the development of geopolitics in Asia-Pacific region into account. In the view of Chung-Min Tsai, neither South Korea nor the ASEAN would like to choose a side in the U.S.-China competition. International politics is ever changing. We should follow up carefully and continuously beyond prejudice while analyzing.