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Discussion Paper

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Taiwan and the EU Facing the Challenge of BREXIT

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This paper will discuss the implications of Brexit for the relationships between the United Kingdom (UK), Taiwan, China and the European Union (EU). It should begin by stating that the outcome of the Brexit negotiations between the EU and the UK remains very unclear as of writing. The current UK policy is a 'hard Brexit' on 29 March 2019, leaving the common market and customs union and withdrawing from the European Court of Justice. Since the unexpected results of the UK general election in June 2017, however, there is a growing possibility that Brexit will be so 'soft' that it will have little impact, or that it may not occur at all. While this fluid situation means that it is difficult to make any predictions about the broader impact of Brexit, it also provides opportunities for all concerned parties to shape developments.

The following analysis will proceed by looking first at the impact of Brexit on economic relations, then go on to look at its impact on political and security issues. It will then attempt to show how these are inter-related in ways that mean changes in one will have important implications for the other.

Trade and investment:

China is one of the UK's most important trade and investment partners. The economic relationship between the UK and China was energetically promoted by the UK government of David Cameron in the years before the Brexit referendum to create what both sides called a 'golden decade'. The UK benefitted from Chinese investment in a number of large-scale infrastructure projects and a vast increase in the flow of students and tourists from China. For China, London was viewed as a gateway to the EU services market, making it the location for the issuing of its first overseas sovereign RMB bond. China also viewed the UK as an important source of support for achieving Market Economy Status (MES) with the EU.

A crucial element of the Brexit campaign was based on the proposition that the UK would become a more 'global' economy if it was allowed to sign free trade agreements with markets outside the EU. China, with its massive and growing market, was frequently mentioned as a target. In 2016, the overall volume of trade with China was just over £60 billion and the UK posted a deficit of £19.6 billion in 2015. This makes China the UK's seventh largest export market, with machinery, fuels, metals, transportation services, business services, and travel services the most significant items.

There should be scope for growth because that only accounts for 3.6 percent of UK exports and around one percent of China's total imports.¹ Although there has been a falling off in the volume of trade in the last three years due to the overall global contraction, the long-term trajectory has been steadily rising. Moreover, there is hope that UK exporters can benefit from the transformation of China's economy from heavy manufacturing to services, where the UK has a strong comparative advantage. This is shown by its existing surplus in this sector and the fact that services comprise about 40 percent of the UK's total exports and 24 percent of its imports.

The UK also hopes to benefit from an increasing volume of arrivals of tourists and Chinese students education, which are already significant contributors to its economy. The higher education sector is in some respects dependent on Chinese students, which numbered 91,215 for 2015-16, way above the 17,405 posted by Malaysia in second place and 17,115 by the USA in third place. India, the other big emerging market, was only number four with 16,745 students. Moreover, only the flow of Chinese students is increasing, with recruitment from other non-EU countries stagnant or, in the case of India, falling sharply. Only China is keeping the total high.²

The impact of Brexit on China-UK economic relations so far

Since the Brexit referendum there has seen a dampening of sentiment in UK-China relations, with some even heralding the end of the 'golden decade'. Some of this is due to factors not related to Brexit, such as the review of the Theresa May government of the implications of Chinese investment in the Hinkley Point C nuclear power station for UK national security. More directly related to Brexit is the threat to the UK's position as gateway to the EU market of 500 million, compared to the UK's 65 million. Moreover, the slowdown in the growth of the UK economy since the referendum and expectations by most economists of a future contraction threatens to devalue China's existing investments. There has been some compensation in the form of Chinese tourism and speculative real estate investment spurred by the substantial depreciation of Sterling. However, sluggish growth, the prospect of more barriers between the UK and the EU and attempts by the Chinese government to rein in overseas investments casts a long shadow over the prospects for quality investment in infrastructure.

¹ UK Balance of Payments 2015 Pink Book.

² UK Council for Student Affairs (UKCISA) (2017) 'International Student Statistics: UK Higher Education', <https://institutions.ukcisa.org.uk/Info-for-universities-colleges--schools/Policy-research--statistics/Research--statistics/International-students-in-UK-HE/>.

Whether the economic relationship will return to a healthy trajectory depends very much on the outcome of the Brexit negotiations. At present, the UK is unable to begin formal trade negotiations with third-party states. This does not stop it from discussing the possibility of agreements with other states, however. China's foreign minister, Wang Yi, sent a positive signal that Brexit would pave a new path for free trade between China and the UK when he met UK Foreign Secretary, Boris Johnson, on the side lines of the G20 foreign-ministers meeting in Bonn in February 2017.³ Li Ruogu, former chairman of the Export-Import Bank of China, explained at the March 2017 Boao Forum that the UK may already be considered to be a more open market than the EU, citing his country's disputes over agricultural policies and steel as examples of EU protectionism. According to this view, China's market reforms and restructuring of State Owned Enterprises (SOEs) will open new opportunities for UK financing. Opinions were also expressed that London could still be attractive as a financial services hub if the UK manages to engineer a soft Brexit. Particularly high expectations were placed on the room for cooperation provided by Xi Jinping's flagship Belt and Road Initiative (BRI), in which the U.K. is participating, with Li expressing his hope that Prime Minister Theresa May would attend the BRI summit to be held in Beijing in May. On New Year's Day, China launched its first freight transport by train from the Chinese city of Yiwu to London.⁴

While the Brexit negotiations are still in progress it is hard to assess the degree to which such hopes will be fulfilled. Against these positive views, however, it is noteworthy that there has been speculation that Brexit has been seen as a source of great disappointment and even embarrassment for President Xi Jinping, due to his high expectations of the 'golden decade'.⁵ Sceptical Brussels-based commentators also warn against high expectations for boosting the UK's trade in services with China when the much more powerful EU has had very limited success in reducing restrictions on gaining access to the Chinese market in the major services sectors of finance, education, culture, healthcare. Moreover, services are only a tiny part of the UK's overall bilateral trade with China, with its services exports accounting for only 2.5 percent of its total services trade surplus, and 0.12 percent of its GDP.⁶

³ 'Britain, China pledge to promote free trade', Reuters <http://uk.reuters.com/article/uk-china-britain-trade/britain-china-pledge-to-promote-free-trade-idUKKBN15W0FN>.

⁴ CNBC (2017) 'Brexit to open new opportunities in China-UK trade, top Chinese banker says', 25 March, online: <https://www.cnbc.com/2017/03/25/uk-china-trade-brexit-li-ruogo-boao-forum.html>.

⁵ James Richards (2017), 'Britain's view of trade with China sounds fanciful', Financial Times, January 3.

⁶ Alicia Garcia-Herrero and Jianwei Xu (2016) 'UK-China agreement on trade in services is no substitute for a UK-EU deal', Bruegel, December 6, http://bruegel.org/2016/12/uk-china-agreement-on-trade-in-services-is-no-substitute-for-a-uk-eu-deal/#_ftn1.

Whether the UK can improve on this will depend on the agreement it reaches with the EU. The EU has made it clear that it will not permit a new relationship in which the UK will be outside the EU but allowed to offer third-party states access to the single market and customs union. This makes it highly likely that the EU will enforce rules of origin to stop Chinese imports entering through the UK. Supporters of Brexit point to the fact that Iceland, Norway Switzerland and Liechtenstein, as members of the EFTA (European Free Trade Association), are allowed to sign bilateral trade agreements with other states while having access to the single market.

There are several reasons for being sceptical about such arrangements for the UK. First is the political objection of David Davies, the Minister for Exiting the EU, who has said a ‘Norway-style’ arrangement as part of the EFTA would be the ‘worst of possible worlds’, even in a transition phase after formal departure in March 2019. This is because it would keep the UK under *acquis* (EU law) and requirements for free movement.⁷ On the EU side, it has been made clear by spokespersons for the Commission and the Parliament that the UK will not be allowed to ‘have its cake and eat it’ by enjoying the benefits of the single market and customs union while also negotiating FTAs with third parties.

Finally, even if a formula is found (or the UK takes the ‘no deal’ route and leaves without an agreement with the EU), it is unclear how the UK will sign a beneficial deal with China. One case that has been used to warn against this is the FTA signed by China and Switzerland in 2013 (which came into force in 2014), which has had little impact on trade in services because more than 75 percent of Swiss exports to China are merchandise goods. Moreover, the provisions covering services in this agreement also give Switzerland little more than what it has under the General Agreement on Trade in Services (GATS). In financial services, for example, the FTA only permits non-life insurers to operate in China with no more than 50 percent ownership. Swiss banks can only provide financial services for foreign currency business.

The only area where China’s trade partners have made real inroads in trade in services with China is in tourism and education. Expanding student numbers, however, is a matter of relaxing visa restrictions rather than signing a trade agreement, which the UK could do without leaving the EU. That this has not happened is due to domestic British politics. The most important message of the Brexit campaign was that leaving the EU would allow the UK to reduce immigration. This issue is especially sensitive for the May administration because she has taken a personal stand on reducing immigration in her position as Home Secretary from 2010 to 2016. She has consistently insisted on including foreign

⁷ ‘Transition deal keeping UK in EEA is worst of all worlds, says David Davies’, The Guardian, 7 September 2017.

students in the immigration statistics because reducing their flow by denying visas allows her to claim some success in reducing the number of people coming to the UK. As initial discussions with the Indian government have shown, her inability to make student visas easier to obtain can create a problematic link between signing trade agreements and generating good will with the newly emerging economies.

In sum, despite there being room for expanding the UK's economic relationship with the UK and positive sentiments expressed by both sides, the political barriers are very high. These are raised by the EU, in domestic British politics and in the shape of China's protectionism, especially in trade in services, which offers most prospects for the UK. It remains unclear how losing its status as a member of the EU will give the UK more leverage for overcoming such barriers, rather than less.

Taiwan

Taiwan has significant trade and investment links with the UK, albeit on a smaller scale than China's. Since 1998, Taiwan has been ranked among the UK's 14 key markets for expanding exports and total bilateral trade stood at £5.3 billion in 2015. This makes Taiwan the UK's 33rd largest trading partner globally. Although Taiwan-UK trade is a small proportion of the US\$48.9 bn. trade volume between the EU and Taiwan, the UK is also the most popular destination in Europe for Taiwanese companies, mainly in ICT, financial services and transportation industries.

For Taiwan, the UK is its third largest trade partner in Europe the second most popular destination for its students after the US. As with Chinese students, this flow is constrained more by visa restrictions than Brexit or the EU. Brexit, however, might make Taiwanese students more valuable to the UK higher education sector if the number of EU students going to the UK falls due to the loss of their equal status with home students. At present the UK higher education sector faces a looming crisis as academics depart due to the consequences of Brexit.

As with China, the global contraction in trade has seen a decline in the volume of trade between the UK and Taiwan since 2014. However, the five-year average of Taiwanese investment in the UK of US\$10 million for 2009-13 was considerably boosted to US\$114.8 million in 2016 due to investments in commercial properties by Taiwan's biggest financial holding groups.⁸ The UK now attracts most of Taiwan's direct investment in the EU, and over 180 Taiwanese companies have operations in the UK. This includes five Taiwanese commercial banks with London branches and Taiwan's SinoPac Securities has set

⁸ British Office Taipei (2017) 'UK-Taiwan Trade and Investment Annual Report', 22 May <http://www.bcctaipei.com/wp-content/uploads/2017/05/2016-UK-Taiwan-Bilateral-Trade-Report.pdf>.

up its European subsidiary in London. Going the other way, about 300 British companies are now operating in Taiwan, including Jardines, GSK, HSBC, Standard Chartered and Barclays. The UK is Taiwan's fifth largest source of foreign direct investment, with cumulative investment reaching over US\$7.6 billion. Taiwan is attractive to UK businesses with a GDP exceeding US\$520 billion in 2015 and being in the process of developing its strengths in outbound investment, high-tech industry clusters, R&D capabilities, competitiveness and innovation.

The future development of this economic relationship will depend on how well the UK economy performs during and after Brexit and whether Taiwanese firms continue to see the UK as a platform for doing business in the EU. Because much of the trade in goods consists of high-tech items that are not subject to tariffs under WTO rules, even a hard Brexit will have a minimal impact on tariffs. Given the importance of the service sector for Taiwanese firms in the UK, however, the fate of the 'passporting' system that allows UK-based financial organisations to operate in the EU under the rules of the common market will be of crucial importance. There is already evidence that other international banks are beginning to hedge their bets by moving staff from London to new subsidiary offices established in EU financial centres such as Frankfurt, Paris and Dublin. Until this situation is clarified, there is a risk that Taiwanese financial institutions will cease seeing London as the gateway to the EU.

Despite these challenges, there is considerable goodwill on both sides to make the partnership work. During a recent visit to Taiwan, Greg Hands, the UK Minister of State for International Trade, described the UK as 'a hub of creativity and innovation' that was open for business and would 'continue to be a reliable ally and trusted partner' for Taiwan'. He promised that the UK will '...seize the opportunities open to us and will push for the strongest possible economic links with all important partners around the world, including with Taiwan.'⁹

Taiwan's government has expressed its hope that Brexit will not derail its long-standing efforts to develop economic relations with both the UK and the EU. Although an FTA with the EU has been a long-standing hope for Taiwan, in an article and speech delivered at Chatham House in January 2017, Taiwan's 'Representative' to the UK, David Lin, explained that his country's strategy for dealing with Brexit has three objectives: enhancing trade and investment relations, including the signing of a trade agreement; expanding substantive cooperation in specific areas; developing a new sustainable strategy for the UK towards Asia.

The political obstacles imposed by the PRC on Taiwan signing FTAs are well known and will not be restated here. There can be little doubt that signing an FTA would be Taiwan's optimal outcome, as expressed by President Tsai Ing-wen

⁹ 'President talks up Taiwan-UK free trade deal', Focus Taiwan, 13 April 2017 <http://focustaiwan.tw/news/aip/201704130021.aspx>.

during a meeting a delegation of UK parliamentarians in April 2017.¹⁰ Lin was careful, however, to emphasise flexibility by suggesting exploration of the flexible format of a bilateral investment agreement, starting with a joint feasibility study or the establishment of ‘any other workable mechanism’, including a bilateral working group, for preliminary exchanges between the two sides.¹¹

The proposal to expand ‘substantive’ cooperation in specific areas is also carefully worded to comply with the status quo between the PRC and Taiwan, in which all sides have benefitted by allowing cooperation with third parties on practical matters while avoiding sensitive political issues. This can build on the regular dialogues and consultations that already take place between Taiwan and the UK on areas of mutual interest, such as the annual consultation on economics and trade, the renewable energy roundtable and the railway industry forum. Other areas with significant potential for greater cooperation include projects such as offshore wind power, digital communications, smart cities, biotechnology and the cultural and innovative industry. In proposing that Brexit is an opportunity for the UK to develop its own sustainable strategy towards Asia, Lin is also stressing the need for the UK to be more pro-active in working with its major trading partners in the Asia Pacific region. This means helping and encouraging the UK to identify priorities for substantive cooperation based on mutual interest that can be the foundation for trade deals and economic cooperation agreements.

In sum, both the UK and Taiwan have expressed goodwill in making Brexit into an economic opportunity for both sides. Despite Taiwan’s economy being smaller than China’s, it is seen as a valuable trade partner, and this value is likely to grow as the UK government comes under domestic political pressure to show that it can benefit from being outside the EU by making trade deals with third parties. How trade and investment patterns develop, however, will ultimately be shaped by the arrangements that are put in place between the UK and the EU. At present, this could be anything from reversion to WTO rules to maintaining access to the single market through membership of European Economic Area (EEA), European Free Trade Association (EFTA), or a new bespoke arrangement.

Arrangements for the free movement of people after Brexit not have a direct impact on individuals from Taiwan (or China) because the UK is not in the Schengen agreement. However, in September 2017, British businesses warned that leaked proposals drawn up by the Home Office to end the free movement of EU citizens to the UK would have a serious negative impact on economic growth and performance. If this kind of immigration policy is implemented it may negatively

¹⁰ ‘President talks up Taiwan-UK free trade deal’, Focus Taiwan, 13 April 2017 <http://focustaiwan.tw/news/aip/201704130021.aspx>.

¹¹ ‘Forging a New Relationship Post-Brexit: Taiwan’s Perspective’, The Diplomat, 30 January 2017 <http://www.diplomatmagazine.com/forging-a-new-relationship-post-brexit/>.

affect the performance of Chinese and Taiwanese investments in the UK due to barriers to the recruitment of high quality personnel from the EU. It may also restrict the ability of UK-based staff from Taiwan and the PRC to move freely within the EU.

It is possible that these problems will be resolved in the on-going negotiations, most likely through the mechanism of a ‘transition period’ in which nothing much will change. That still leaves the problem of what kind of trade agreement between the UK and Taiwan would be acceptable to China. This in turn depends more on the state of cross-Strait relations than developments in the EU or the UK.

Brexit and cross-Strait relations

Another important dimension for the relationship of the UK to China and Taiwan after Brexit is the health of cross-Strait relations. The most beneficial economic outcome would be for both China and Taiwan to press ahead with negotiating and signing trade agreements with the UK. An FTA between Taiwan and the UK would also have political significance in showing the ability of these two island economies to forge their own relationships outside the bigger markets into which they are integrated. However, Beijing’s insistence on upholding its ‘one-China principle’ will undoubtedly raise political obstacles linked to cross-Strait relations.

If China follows past practice, established by accepting Taiwan’s membership of the WTO, it is likely that it will only allow a significant agreement between the UK and Taiwan after it has signed its own agreement with the UK. As noted above, however, Taiwan is already searching for a formula that can minimise this risk, presenting a range of options, from feasibility studies on a BIA to the optimal outcome of an FTA. As with WTO accession, this means it should be possible for all sides to begin feasibility studies so that agreements can be signed when all sides are ready.

What kind of UK-Taiwan agreement will be acceptable to China may depend on the condition of cross-Strait relations. During the ‘diplomatic truce’ between Taiwan and China under the Ma administration in Taiwan, China was prepared to allow Taiwan to start signing FTAs, with Singapore and New Zealand. Although it might not want to allow a UK-Taiwan FTA at present, this should not rule out feasibility talks and an agreement that might fall somewhat short of a full-fledged FTA.

It should be born in mind that movement towards a Taiwan-UK FTA, in tandem with a China-UK FTA could have the advantage for China of putting pressure on the EU to start its own FTA negotiations with China. Moreover, since 2015 both the European Commission and the European Parliament have voiced support for investigations in to the feasibility for a trade and investment agreement with Taiwan. If the right format and order of procedure can be find it may still be

possible to come up with a win-win formula for all four parties. This will require considerable ‘creativity and imagination’, to coin a phrase used by David Davies when addressing the European Commission Brexit negotiators.

Any developments in the relationship between the UK and the EU will not only have a direct impact on relations of both entities with Taiwan and the EU. They will also have complex indirect implications for the broader issues of promoting regional security and political norms in the Asia-Pacific.

Broader Implications for Foreign and Security Policy

The EU and UK play relatively minor roles in regional security. Their diplomatic power thus depends to a large extent on their ability to leverage economic power described above. As a member of the EU, the UK’s existing policy towards Taiwan and China is to enhance commercial relations and promote democracy and human rights without breaching the one-China policy.

The EU appears to be aware that Brexit could pose a threat to this common mission. Clause 18 of the European Council’s guidelines for the Brexit negotiations thus express the expectation that the UK will engage in a constructive dialogue on a common approach to third country partners, international organisations and conventions with which it has made commitments in the context of its EU membership.¹²

How far the UK will satisfy this expectation remains unclear. One reason given by PM Cameron for holding the Brexit referendum, despite his determination to keep the UK in the EU, was to encourage reforms that would put the EU at the forefront of collective action to gain more power and influence over issues such as sanctions against Iran or Syria, or promoting democracy in Burma. Even advocates of Brexit can understand that alignment with the EU enhances the power of the UK to shape its relations with powerful actors such as China.

However, some of the most ardent and influential supporters of Brexit also have high hopes that the freedom to engage economically with China outside the EU will allow the UK to become a ‘global economy’. It is, therefore, notable that Foreign Secretary and strong Brexit advocate, Boris Johnson, said that Britain will strengthen strategic cooperation with China on international affairs as well as

¹² European Commission COM(2017) 218 final ‘Annex to the Recommendation for a Council Decision Authorising the opening of the negotiations for an agreement with the United Kingdom of Great Britain and Northern Ireland setting out the arrangements for its withdrawal from the European Union’, 3 May 2017 https://ec.europa.eu/info/sites/info/files/annex-recommendation-uk-eu-negotiations_3-may-2017_en.pdf

promising progress on trade liberalisation when he met Chinese Foreign Minister, Wang Yi in February 2017.¹³

Potential division between the EU and the UK could thus already be seen when the EU refused to endorse Xi Jinping's flagship Belt and Road Initiative at the conference held by the PRC on the subject in May 2017. This was due to concerns over labour and environmental standards. Yet the UK sent the Chancellor of the Exchequer, Phillip Hammond, to take part and voice its full support for China's project. This division should not be exaggerated at present though. As noted above, China had invited Theresa May to attend the BRI conference in Beijing and this was linked to the promise of discussions on a trade agreement. Her failure to attend while her Chancellor spoke so positively about the project may thus indicate an attempt by the UK to 'have one's cake and eat it', that is aligning with the EU while also making separate overtures to China.

Whether the UK prioritises its common political front with the EU or its own economic relationship with China will have important implications for Taiwan. This is because the UK has played a leading role in granting concessions for upgrading Taiwan's diplomatic representation, such as changing the name of its representative office and introducing a visa waiver scheme.

The UK also faces an intensification of its dilemma over how to live up to its commitments to maintaining Hong Kong's autonomy under the 'one country, two systems formula'. When Beijing appeared to be departing from the formula and during the run-up to the twentieth anniversary of the transfer of Hong Kong in June 2017 and issued an offensive denial of the UK's obligations, harsh criticism was voiced by senior political figures. This included former HK governor and Conservative Party Chairman, Lord Christopher Patten, who proposed that Brexit will only enhance what he described as London's increasingly deferential stance. If the UK is to play any role in upholding the commitments it made to the people of Hong Kong in 1997, it will need the support of the EU. However, the UK will be pushed in the opposite direction by the need to enhance its existing double tax treaty with Hong Kong in the financial services sector.

There is a danger, however, that the opposite could happen if the UK puts its economic relations with China ahead of normative issues, encouraging the tendency for the EU to soften its own position on normative issues. It has always been difficult for the EU to maintain a united front in its relationship with China over a range of issues, from economic to political. This was demonstrated quite clearly when Greece vetoed the EU's condemnation of China's human rights record at the UN in June 2017, marking the first time it failed to make such a

¹³ 'Britain, China pledge to promote free trade', Reuters <http://uk.reuters.com/article/uk-china-britain-trade/britain-china-pledge-to-promote-free-trade-idUKKBN15W0FN>.

statement and attributed to the huge investments being made by China in Greece's ailing economy.¹⁴ There is a good deal of ambiguity in the slogan of 'principled pragmatism' that is central to the EU Global Strategy, which was released on 28 June 2016, just after the BREXIT referendum.¹⁵ There has been little discussion in the UK during the Brexit campaign or since the referendum, however, of the need to align with the EU to promote the principles of 'peace and security, prosperity, democracy and a rules-based global order'.

The Global Strategy's call for these principles to be implemented in the light of a 'realistic assessment of the current strategic environment' leaves plenty of scope for ambiguity. It is important, therefore, for the UK to understand that it is in its own interests to support and encourage the Strategy's call to work with like-minded countries and regional groupings, as well as forming partnerships with civil society and the private sector in a networked world. This makes it particularly important for civil society actors in the EU, UK and Taiwan to ensure that the call for policy in Asia to be 'driven by specific goals' is not at the expense of what the Strategy dismisses as 'idealistic aspirations'.

Scope for such cooperation between the UK and EU can also be based on pragmatism, given that the Strategy rightly emphasises the connection between European prosperity and Asian security. This is particularly true when dealing with China's growing maritime assertiveness, given that the Strategy is committed to engaging China based on respect for rule of law, both domestic and international. Much the same can be said of the need for the UK to cooperate with the EU to avoid reaching a situation of over-dependence on China. This can only be done by strengthening trade and security links with other states in the region, especially Japan, the Republic of Korea and Indonesia, as well as promoting non-proliferation in the Korean peninsula, upholding freedom of navigation, standing firm on respect for international law, and encouraging the peaceful settlement of maritime disputes. Given that the UK has the most significant armed forces in Europe, alongside France, more work will need to be done on the feasibility and desirability of working with the EU in furthering the Strategy's goal of scaling up Europe's security role in Asia.

Much of the pro-Brexit rhetoric in the UK was premised on the belief that the EU was in the process of fragmentation, the recent elections in Austria, the Netherlands and France have changed the context within which the UK needs to assess its strategy towards the Asia-Pacific. As High Representative Federica Mogherini explains, progress in such areas reflects recognition that 'in a world of giants and global challenges, we can only make a difference if we stand together

¹⁴ Reuters, 'Greece blocks EU's statement on China human rights at UN', 18 June 2017.

¹⁵ European Commission (2016) 'Shared Vision, Common Action: A Stronger Europe: A Global Strategy for the European Union's Foreign and Security Policy' http://europa.eu/globalstrategy/sites/globalstrategy/files/pages/files/eugs_review_web_13.pdf

as a Union'. It is important, therefore, to carry out research into the role of the UK in the progress of 'Permanent Structured Cooperation' between Member States, which is already developing with the establishment of the EU command centre for military training and advisory missions and the European Defence Fund.

While the UK will not be part of the Union, Brexit should not stand in the way of cooperation on issues such as management of military and civilian crisis, given that Canada, Norway and the US all have framework agreements that allow them to participate in such EU operations. Moreover, despite the aspiration of the EU to build its defence capabilities and achieve 'strategic autonomy', the UK will continue to be a leading player in global security, given its military capabilities and defence spending. It may be able to enter bilateral security arrangements with France and will continue to be a leading member of NATO. The UK also has a special role in the Asia-Pacific region due to its ties with the Commonwealth countries of the region, and its special responsibility for Hong Kong. It should be noted that for these same reasons, the departure of the UK could weaken EU foreign policy.

The role of the UK after Brexit will also have a significant impact on the EU's cooperation with the US in the Asia-Pacific. US President Obama was clearly opposed to Brexit, reflecting the reservation of previous administrations concerning the implications of a more independent role for the UK. For Washington, it was better to have the UK inside the EU, blocking initiatives to create a more independent EU military. The UK thus played a key role in helping the US strike a balance between a Europe that takes more responsibility for its defence but does not become a rival force on the world stage. The US also saw the UK as important for enlargement of the EU, especially drawing in Turkey. Leading policy-makers in the EU were also concerned that Brexit would weaken Nat and mean the loss of a strong partner for Atlantic cooperation.

The election of Donald Trump as President has overturned many of these assumptions. On the one hand, Trump was supportive of Brexit during his campaign and met UK PM Theresa May before any other European leader after his election victory. Yet Trump has also signalled a new attitude towards NATO and is encouraging European allies to take on a great role for their own security. This has been music to the ears of Brexit advocates, who believe that the UK should strengthen its special relationship with the US, as part of an Anglosphere committed to liberal-democracy, free trade and globalization.

Despite this vision, the political situation is changing in fast and unpredictable ways in the UK and the US. The planned state visit of Donald Trump to the UK in autumn 2017 has been postponed since the unexpected outcome of the June 2017 general election, which led to a hung parliament. Moreover, the Labour Party performed surprisingly well on a manifesto that includes putting human rights at the heart of foreign policy and an emphasis on diplomatic and legal solutions to

the world's problems, including multilateral dialogue for resolving the South China Sea disputes, respect for human rights and the rule of law in China. It also stated a Labour government would 'not be afraid to disagree' with the Trump administration when it ignores shared values. It is impossible to know whether this commitment to a more ethical foreign policy will meet the same rapid demise as its forerunner in the late 1990s. However, more research needs to be done to inform the British public on how role of the UK on the trans-Atlantic relationship could have implications for its presence in other regions of the world, especially the Asia-Pacific.

Conclusion:

The final shape of Brexit remains unclear, subject to the EU-UK negotiations and changes in an increasingly volatile political landscape in the UK. At present, it looks increasingly likely that the Labour Party will form the next UK government. Elections have to be held by 2022, but the loss of the Conservative Party's parliamentary majority in the 2017 general election and the division in its ranks over Brexit means that a change of government could come much sooner.

Any changes to the relationship of the UK with the EU will be relatively minor if the Labour Party forms the next government and maintains its current position of advocating a 'transition period' to Brexit during which the UK will stay in the common market and customs union for 'as long as necessary' to ensure that there are no adverse consequences for the UK economy. In this situation, which could last indefinitely, the UK will not be able to sign trade agreements with third party states and there will be little incentive to break ranks with the EU over political issues. A Labour government coming to power, therefore, is likely to change the relationship between the UK and the EU with countries in the Asia-Pacific in ways not directly linked to Brexit, especially if it maintains its commitment to put respect for human rights and the rule of law in China, as well as addressing the South China Sea tensions, at the heart of foreign policy. This could be particularly important for the UK's commitment to upholding the autonomy of Hong Kong under the 'one country, two systems' formula. It may also create some space for further improvements of the UK's diplomatic relationship with Taiwan. If the UK does adopt such a foreign policy stance, it will need more support from the EU, rather than less.

It is also worth noting some of the much broader political dynamics that Brexit has revealed. The first of these is the rise of anti-globalization in domestic politics around the world, which could lead to a strengthening of protectionism that would damage all trading economies, but especially China. This, however, appears to be related to generation change. As voting patterns in the Brexit referendum indicate, and the 2017 UK general election confirmed, anti-globalization sentiment appears

to be strongest in the older generation and among the less-well educated members of the population. There also appears to be emerging a counter movement driven by a newly motivated young generation, who are mainly pro-EU, less concerned about immigration issues and more concerned about a broad range of social justice issues.

It should also be stressed that these broader dynamics are not exclusive to the UK. One reason to hold the Brexit referendum was the belief by some pro-EU politicians in the UK that the EU needs to undertake serious political reforms to make it more accountable to its citizens.

The need to reform has now been taken on board by other political leaders in the EU. President Macron of France taking a lead in driving forward a reform agenda and Chancellor Merkel of Germany will need to take a clearer stance after the German elections. In this respect, the UK has once again acted as a catalyst for re-shaping the EU, just as it did with its project to drive forward the single market and expanding it into the services and digital sectors. It should also be remembered that the UK has been the biggest champion in the EU for driving FTAs, especially the one with Japan.

As stated at the start of this paper, it is not possible to do much more than speculate as to how these issues will evolve in future years. However, to end on a positive note, it could be said that it is better to face key issues of public concern in the open. Although the current debate is likely to get heated, the lack of clear plans does provide opportunities to influence the Brexit process. Much of the debate in the UK has become too focused on the specific institutional arrangements with the EU and the pursuit of narrow economic goals, rather than the broader vision of how the UK can work with the EU on the global stage. There remains much scope for shaping the debate by looking at the impact of BREXIT on regions like the Asia-Pacific, which will have important implications for Taiwan.