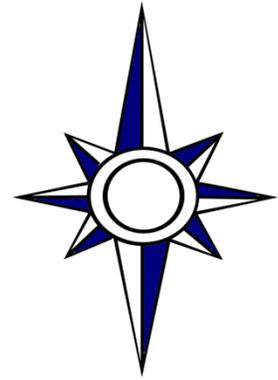


Comparative Connections

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China-Taiwan Relations: ECFA and Domestic Politics

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The interaction between economic negotiations and Taiwan domestic politics will dominate cross-Strait relations this year. Formal negotiation of an Economic Cooperation Framework Agreement (ECFA) began in January and both sides now talk hopefully of completing the negotiations by June. On Taiwan, recent election losses make timely conclusion of the ECFA on terms welcomed by Taiwan voters important for President Ma Ying-jeou and the Kuomintang (KMT) party's political fortunes. The announcement of a US arms sales package in January was welcomed by Ma, but predictably created tensions in US-China relations – tensions that raise the stakes when the Obama administration considers Taiwan's request for *F-16 C/D* aircraft.

ECFA

The informal talks between Beijing and Taipei about an Economic Cooperation Framework Agreement (ECFA), which had been occurring away from public view since last summer, led to the first round of formal negotiations in Beijing on Jan. 26. Officers from the two authorized representative organizations, Beijing's Association for Relations Across the Taiwan Strait (ARATS) and Taipei's Straits Exchange Foundation (SEF), served as titular heads of the delegations. The negotiation teams were led by Tang Wei, director of China's Ministry of Commerce Taiwan, Hong Kong and Macau Department, and Huang Chih-peng, director of Taiwan's Bureau of Foreign Trade. The session produced agreement on the broad outlines and the procedures for conducting the negotiations. The agreement will include market access for goods and services, tariff reductions, early harvest lists, rules of origin, dispute resolution, safeguards measures, investment, economic cooperation, and information exchange.

It has been recognized for months that the negotiations would need to proceed rapidly if the agreement was to be signed at the fifth round of ARATS-SEF talks scheduled to be held in China in late May or June. Even though it was announced in December that ECFA would be on the fifth round agenda and contacts had continued in the interim, two months elapsed before the second round of negotiations was held in Taipei beginning March 31. Beijing negotiator Tang Wei visited Taipei in late March and Vice Minister of Commerce Jiang Zengwei came as the head of a large commercial delegation a week before the negotiations. The second round began the all-important negotiation of the early harvest lists of products and services that will be the first to benefit from tariff reductions. At its conclusion, the negotiators confirmed that further rounds would be needed.

Despite the delay in negotiations, both sides have been increasingly positive in their expectations that the agreement will be completed in time for the fifth round. President Ma, Premier Wu

Den-yih, and many other officials in Taipei have been expressing their hopes or expectations for conclusion of negotiations by June. Beijing leaders have generally been more cautious, stating that the agreement would be concluded this year. ARATS Chairman Chen Yunlin and the Taiwan Affairs Office (TAO) spokesman have expressed hope that the agreement would be concluded in time for the fifth round. Both sides want to sign the agreement then, which will be held in China, because a delay until the sixth meeting means it would be signed in Taiwan and provide the Democratic Progressive Party (DPP) an opportunity to mobilize opposition on the eve of the year-end municipal elections.

The DPP continues to oppose ECFA on substantive, procedural, and sovereignty grounds – a lack of transparency in the negotiations, fears that agricultural and other vulnerable sectors would be hurt by market-opening concessions, the lack of specificity in the government's plans for trade adjustment assistance, lingering concern that the agreement may weaken Taiwan's sovereignty, and opposition to any greater integration with China. President Ma and other senior government and KMT officials have been holding meetings around Taiwan and briefing the Legislative Yuan (LY) to build support. However, as the content of the agreement and the specifics on adjustment assistance are not yet available, the DPP has been able to exploit public fears and suspicions.

The domestic political dimension

The KMT, which Ma Ying-jeou now leads as party chairman, has suffered a series of electoral setbacks in county-level and LY by-elections from last December through February. These setbacks come on top of Ma's poor poll numbers, which have been hurt over the past year primarily by Taiwan's globally induced recession and the administration's mishandling of Typhoon *Morakot* and the issue of importing US beef. While the SEF-ARATS agreements have generally gained majority approval, the DPP has continued to attack every aspect of Ma's handling of cross-strait relations. In this domestic context, Ma and the KMT need to sign an ECFA agreement that will be welcomed by the Taiwan public to head into the year-end municipal elections, which involve cities with about 45 percent of Taiwan's population, with a positive record of accomplishment. If the ECFA is not successfully concluded in the summer, the DPP will be able to exploit this issue during the run-up to the elections.

Beijing seems to understand the political stakes involved as officials have been acknowledging this privately for some time. More recently, senior leaders have addressed Taiwan's concerns. On the eve of Chinese New Year, President Hu visited a Taiwan cooperative project in Fujian Province and said that Beijing would take into account the interests of Taiwan, particularly its farmers, and conclude an agreement that would be beneficial to both sides. At the National People's Congress (NPC) in March, Premier Wen Jiabao and Politburo Standing Committee member Jia Qinglin both gave similar assurances. Wen spoke of the need to sacrifice some of Beijing's interests to benefit Taiwan. President Ma welcomed Wen's remarks. So it seems clear that at the leadership and working level there is an understanding that Beijing must restrain its demands and be generous in meeting Taiwan's needs in the negotiations to help Ma. In late March, TAO Minister Wang Yi was more specific, stating that Taiwan would get five benefits under ECFA: reduction of tariffs, benefits for small and medium industries, protections for weak

Taiwan industries, no expansion of Chinese agricultural exports, and no export of Chinese workers to Taiwan.

Politically, Taiwan's desire to avoid being marginalized as regional trade liberalizes in Asia is another key issue related to ECFA. President Ma, Vice President Vincent Siew, and other senior leaders in Taiwan have said repeatedly that concluding the ECFA with China will open the door for Taiwan to participate in regional liberalization, most likely by being able to negotiate free trade agreement (FTA)-like agreements with Asian trade partners. If this occurs, Ma will be able to demonstrate that his policy of reconciliation with Beijing is bringing tangible benefits. Beijing's policy on this remains unclear. Scholars and some working-level officials understand the importance of the FTA issue and at times hint at flexibility. However, senior leaders have not addressed the issue publicly. When asked, TAO Minister Wang has only said that this is an issue that involves international relations. As the ECFA negotiations near conclusion, it is likely that Taipei will press Beijing to address the issue.

Security issues

There is still no indication that the People's Liberation Army (PLA) has changed the continuing deployment of short- and medium-range missiles targeting Taiwan. In addition, Beijing also has approximately 150 long-range *DH-10* Land Attack Cruise Missiles (LACM) deployed within range of Taiwan and US bases in Japan. The press has also reported this year the deployment of *S-300PMU2* air defense missiles at an air base in Fujian that would provide coverage over Taiwan. So despite the reduction of tension, there has been no reduction of the PLA military threat directly targeted at Taiwan.

Press reports in early January that the US had issued contracts to defense firms to provide Taiwan with *PAC-III* batteries and missiles sparked an outpouring of criticism from Beijing about US arms sales. Most commentators either did not understand or chose to ignore that these contracts were to implement sales that had been approved by the Bush administration in late 2008. The Ministry of Defense reserved the right to take unspecified action. Academics urged the government to consider stronger measures, including sanctions against companies supplying the arms. The message was clear that Beijing was sounding increasingly intolerant of arms sales. This was occurring as the Obama administration was finalizing decisions on a new package of arms sales.

On Jan. 29, the Pentagon notified Congress of a \$6.4 billion package of arms, including additional *PAC-III* batteries and missiles, *Blackhawk* helicopters, two *Osprey-class* mine sweepers, *Harpoon* missiles and equipment for the *Po Sheng* C4ISR program. The Ma administration welcomed the decision as a symbol of Washington's continuing commitment to Taiwan's security, noting that this support helps give Taiwan the confidence it needs to negotiate with Beijing. However, the DPP opposition criticized the package as long-delayed and inadequate because it did not include funding for diesel submarines or *F-16 C/D* aircraft.

Beijing responded promptly. The Foreign Ministry described the action as a serious violation of the three US-China Joint Communiqués, particularly the 1982 Arms Sales Communiqué, and said US-China cooperation on certain international issues could be affected. The Ministry of

Defense announced that some military-to-military exchanges would be postponed, and the Foreign Ministry added that China would impose sanctions on US firms engaged in arms sales. Considerable anger was voiced on blogs and there was much speculation about which firms might be sanctioned as the atmosphere of US-China relations deteriorated. The fact that most of the weapons systems involved had been approved in 2001 by the Bush administration, with notification delayed in part out of consideration for Chinese views and that the item of greatest concern to most in Beijing, the *F-16 C/D* aircraft, was not included gained Washington almost no credit. It should be noted that none of Beijing's criticism of the arms sales package was aimed at the Ma administration.

Assessing Beijing's response two months after the announcement, it appears that Beijing is determined to find more effective ways to influence US decisions regarding arms sales to Taiwan and to sound tougher to the domestic audience, but without damaging overall US-China relations. When National Security Council Senior Director for Asian Affairs Jeffrey Bader and Deputy Secretary of State James Steinberg visited Beijing in late February, Beijing spoke positively about the importance of US-China relations while placing the blame for deterioration on the US. It was up to the US to make things right. To what extent the arms notification is influencing Beijing's handling of the Iranian sanctions issue remains unclear. Beijing has contacted US firms urging them not to be involved in sales, but it is unlikely to take specific actions against them until it sees whether its warnings have been heeded. So it will be some time before it is known what sanctions are imposed. Furthermore, Beijing must proceed carefully on sanctions because it could undermine the support of the US business community for US-China relations.

In late March, Deputy Minister of National Defense Andrew Yang confirmed that Taiwan is developing a surface-to-surface missile with a range of 1,200 km. and a cruise missile with the range of 800 km. Yang commented that the development of these systems was consistent with Taipei's doctrine of "peace through strength."

Diplomatic and international issues

The diplomatic and international space issues have not been sources of cross-Strait dissention recently. The uncertainty about whether Taipei would be invited to participate as an observer at the World Health Assembly (WHA) in May was removed when Taipei announced that its invitation had been received. During the announcement, Taipei stated that since its inclusion in the World Health Organization's International Health Regulations in 2009, it has had "smooth" communications with the WHO and that this has helped it deal with the H1N1 pandemic.

Meanwhile, Taipei has indicated that it wishes to become an observer in both the UN Framework Convention on Climate Change (UNFCCC) and the International Civil Aviation Organization (ICAO). However, as the Ma administration's priority is on reaching agreement on the ECFA, those two objectives are not being actively pursued at this time. The de facto "diplomatic truce" that has put on hold competition for diplomatic recognition is also holding.

Other economic and trade issues

Taipei and Beijing have taken the steps necessary to begin implementing agreements concluded late last year. Both sides announced that the Financial Sector Memorandums of Understanding (MOUs) had come into effect in January. This cleared the way to begin liberalizing reciprocal portfolio investments in each other's stock markets and both sides are taking steps to prepare for opening their banking, securities, and insurance markets to firms from the other side. The process of reciprocal opening will be an issue in the ECFA negotiations. In March, both sides announced that the agricultural products, industrial standards, and fishing crew agreements reached at the fourth SEF-ARATS talks had come into effect. With the number of Chinese tourist arrivals increasing, Taipei raised the daily limit on PRC tourists to 6,000 to accommodate the growth. Taipei and Beijing are reportedly continuing to consult about the reciprocal opening of tourism offices – an action that had been expected in February.

Although trade between Taiwan and China, including Hong Kong, declined substantially during 2009, reflecting the global recession, statistics for the first two months of 2010 indicate that it is recovering to pre-recession levels. According to Taiwan Customs statistics, total trade between Taiwan and China, including Hong Kong, was \$109.3 billion in 2009, down 17.5 percent from 2008. Taiwan's exports to China were down 16 percent and its imports from China were down 22 percent. According to Chinese Customs data, imports from Taiwan accounted for 8.5 percent of China's total imports in 2009, down from 9.1 percent in 2008. Consequently, the long-term decline in Taiwan's share of China's imports continued through the global recession. The decline in Taiwan exports came in tandem with a 38 percent decline in Taiwan investments in China in 2009, as reflected in investment approvals recorded by Taiwan's Ministry of Finance.

Taiwan's exports to China surged 54 percent in January-February 2010, reaching \$38.4 billion. Ministry of Finance officials commented that both imports from and exports to China, including Hong Kong, were close to the peaks achieved in the same period of 2008, suggesting that cross-strait trade had recovered to its pre-recession level.

Looking ahead

The coming months will test the ability of the two sides to reach agreements on issues that affect fundamental economic interests. Experience indicates this usually takes longer than anticipated. Consequently, it is possible that negotiations on ECFA will continue beyond June and the fifth round of the ARATS-SEF talks may be postponed until later in the summer. Timing is not so important. What will be important is the ability of both sides to reach a mutually beneficial agreement. The double taxation agreement, an agreement on Intellectual Property Rights (IPR), and the reciprocal opening of tourism offices are other pending issues that will be litmus tests of the two sides' ability to deal with sensitive issues. Reaching agreement on these should help build trust between the two sides.

Some US officials recently made remarks indicating that Taiwan's air defenses will need to be upgraded to meet the growing threat from China. However, there is no indication that the Obama administration will address Taipei's request for *F-16 C/D* aircraft in the coming months.

Chronology of China-Taiwan Relations

January - March 2010

Dec. 31, 2009: In an interview, President Ma Ying-jeou says that a peace agreement with China is not possible with 1,300 missiles aimed at Taiwan.

Jan. 1, 2010: President Hu Jintao briefly mentions promoting peaceful development of cross-Strait relations.

Jan. 4, 2010: US media reports that Raytheon has won a contract to upgrade Taiwan's *Patriot* missiles.

Jan. 5, 2010: Chinese Ministry of Foreign Affairs spokesman calls for an end to US arms sales to Taiwan.

Jan. 6, 2010: President Ma says the Taiwan government will refer to the Economic Cooperation Framework Agreement (ECFA) publicly in Chinese as *liangan chingji shiehyi*.

Jan. 6, 2010: The US Department of Defense announces the award of a \$968 million contract to Lockheed Martin for the sale of 253 *PAC-3* missiles and related hardware to Taiwan.

Jan. 8, 2010: Chinese Ministry of Defense opposes US arms sales to Taiwan and says it reserves right to take action.

Jan. 8, 2010: Premier Wu Den-yih says Taiwan's aim is to sign the ECFA in May.

Jan. 9 2010: Kuomintang (KMT) loses three Legislative Yuan (LY) by-elections.

Jan. 9, 2010: Chinese Vice Minister of Foreign Affairs He Yafei criticizes US arms sales to Taiwan.

Jan. 11, 2010: President Ma tells KMT legislators that Taiwan will be able to sign free trade agreements (FTAs) after the ECFA is completed.

Jan. 11, 2010: Vice President Vincent Siew says the ECFA is the key to concluding FTAs.

Jan. 11, 2010: China conducts an anti-ballistic missile test.

Jan. 11, 2010: Secretary of State Hillary Clinton says US will continue to sell arms to Taiwan.

Jan. 12, 2010: Mainland Affairs Council (MAC) says US arms sales give Taiwan confidence to negotiate with Beijing.

Jan. 15, 2010: US approves the first Taiwan military *C-130* aircraft to transit through the US en route to Haiti with relief goods.

Jan. 16, 2010: Cross-Strait Financial Memorandums of Understanding (MOUs) take effect.

Jan. 18, 2010: Mainland qualified direct institutional investors (QDIIs) become eligible to invest in the Taiwan Stock Exchange.

Jan. 19, 2010: Chinese Vice Minister of Health Huang Jiefu visits Taipei for talks.

Jan 20, 2010: MAC's Lai Shin-yuan and Minister of Economic Affairs (MOEA) Shih brief LY Speaker Wang Jin-pyng on the ECFA.

Jan. 20, 2010: Taiwan and Mainland think tanks release a joint report that provides a positive assessment of the ECFA.

Jan. 22, 2010: TAO Minister Wang Yi says FTAs involve international affairs issues.

Jan. 22, 2010: MAC Chair Lai states that he believes the ECFA will lead to FTAs.

Jan. 25, 2010: President Ma transits San Francisco en route to Honduras.

Jan. 25, 2010: Canadian think tank reports the deployment of the *DH-10* Land Attack Cruise Missile (LACM) in Guangxi Province.

Jan. 26, 2010: The first round of ECFA negotiations are held in Beijing.

Jan. 28, 2010: President Ma attends Honduran President Porfirio Lobo's inauguration.

Jan. 29, 2010: President Ma delivers relief supplies for Haiti in Dominican Republic.

Jan. 29, 2010: The Pentagon notifies Congress of a \$6.4 billion arms package for Taiwan.

Jan. 30, 2010: Chinese Ministry of Foreign Affairs announces temporary suspension of military exchanges with the US. Vice Minister He Yafei says US arms companies will be sanctioned.

Jan. 30, 2010: Democratic Progressive Party (DPP) notes that the US did not approve submarines or *F-16s* as part of the arms package and characterizes it as minimal action.

Feb. 1, 2010: US Department of Defense releases its Quadrennial Defense Review.

Feb. 2, 2010: China Ministry of Foreign Affairs spokesman says US companies who ignore objections will face sanctions.

Feb. 7, 2010: Premier Wu calls for the removal of Chinese missiles from Fujian in an interview.

Feb. 9, 2010: President Ma holds a press conference to report on ECFA progress.

Feb. 10, 2010: Executive Yuan Appeals Committee turns down a DPP appeal for a referendum on the ECFA.

Feb. 11, 2010: Taiwan's National Security Council Secretary General Su Chi resigns and later replaced by Victor Hu Wei-jen.

Feb. 17, 2010: President Ma says US arms sales to Taiwan contribute to cross-Strait progress.

Feb. 23, 2010: Taiwan Solidarity Union (TSU) announces plans for a referendum on the ECFA.

Feb. 27, 2010: DPP wins three LY by-elections; KMT wins one.

March 1, 2010: US National Security Council Director Jeffrey Bader and Deputy Secretary of State James Steinberg visit Beijing.

March 4, 2010: ARATS Chairman Chen Yunlin says the ECFA will likely be signed in May or June.

March 4, 2010: National People's Congress spokesman announces 7.5 percent increase in China's 2010 defense budget.

March 6, 2010: President Ma conducts a grass-roots forum on the ECFA.

March 8, 2010: Taiwan's Ministry of National Defense report says that the *F-16 A/B* aircraft are the aircraft in Taiwan's inventory that are better than China's aircraft.

March 9, 2010: Chinese Ministry of Foreign Affairs warns US about future arms sales to Taiwan.

March 11, 2010: Premier Wu approves regulations for cross-Strait banking, finance, and investment.

March 14, 2010: TSU launches a new ECFA referendum signature drive.

March 15, 2010: Taipei increases daily quota of Chinese tourists to 6,000.

March 16, 2010: Vice President Siew says the ECFA will pave way for FTAs.

March 16, 2010: Taiwan's Financial Supervisory Commission (FSC) issues regulations on cross-Strait banking, brokerage, and insurance.

March 17, 2010: Qinghai Vice Governor Wang Lingjun leads a delegation to Taiwan.

March 17, 2010: Taipei reports the deployment of *S300PMU2* air defense missiles in Fujian.

March 21, 2010: Agricultural products, standards, and fishing crew agreements take effect.

March 21-27, 2010: President Ma visits six South Pacific countries.

March 22, 2010: Ministry of Commerce Director Tang Wei visits Taipei for talks.

March 22, 2010: World Health Organization Secretary General Chan invites Taiwan to participate at the World Health Assembly as an observer.

March 25, 2010: Vice Minister of Commerce Jiang Zengwei begins five-day visit to Taiwan.

March 25, 2010: Commander of US Pacific Command Adm. Robert Willard says Taiwan needs to upgrade its air force.

March 25, 2010: Taiwan Affairs Office Minister Wang Yi in *Yazhou Zhoukan* confirms there is no timetable for political talks.

March 26, 2010: American Institute in Taiwan (AIT) Director William Stanton expresses support for cross-Strait confidence-building measures.

March 26, 2010: AIT Chairman Raymond Burghardt greets President Ma during Guam transit.

March 29, 2010: Deputy Minister of National Defense Andrew Yang confirms Taiwan's missile development plans.

March 31, 2010: Second Round of ECFA negotiations begin in Taoyuan; focus is on "early harvest" lists.