



China-Taiwan Relations:
Economic Cooperation Framework Agreement Signed

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After six months of arduous negotiations, China and Taiwan signed an Economic Cooperation Framework Agreement (ECFA), including an “early harvest” list of tariff reductions. The agreement, which provides a basis for further integration of the two economies, is a milestone in institutionalizing cross-Straits relations. On Taiwan, opposition politicians continue to criticize the ECFA but months of discussion and debate have led to a gradual increase in public support and acceptance. The issue of US arms sales to Taiwan continues to complicate US-China relations. The Democratic Progressive Party’s consideration of a new 10-year platform has revealed an ongoing internal difference over cross-Straits policy. The coming quarter will see the Legislative Yuan’s review of the ECFA, Taiwan’s quest for free trade agreements with trade partners and jockeying in the run-up to the November municipal elections on Taiwan.

Economic Cooperation Framework Agreement

The ECFA negotiations and the political debate within Taiwan about ECFA have dominated cross-Straits relations this year. Informal negotiations have been underway almost continuously but largely away from public scrutiny, which has fed opposition suspicions. A third formal negotiation was to have been held in May but was postponed. Instead, Beijing’s chief negotiator, Ministry of Commerce Director Tang Wei made an unpublicized visit to Taipei. In late May, Taiwan’s chief negotiator, Board of Foreign Trade Director General Huang Chih-peng, told the press that if an adequate “early harvest” list was not possible there would be no agreement. In Beijing, Chinese officials told the Taiwan press that the world-class competitiveness of some Taiwan industries would have to be taken into account in the agreement. Taipei’s Straits Exchange Foundation (SEF) Chairman Chiang Pin-kung said the negotiations indicated that relations were now in a period when difficult issues had emerged.

By mid-June, however, both sides were speaking more optimistically. The third formal round of negotiations was held in Beijing on June 13. The two negotiators announced that consensus had been reached on the basic agreement and five appendixes, but not yet on the “early harvest” list. On June 24, the fourth and final round reached agreement on the “early harvest” lists and announced plans for the formal signing of the agreement by SEF and Beijing’s Association for Relations Across the Taiwan Strait (ARATS). On June 29, ARATS Chairman Chen Yunlin and SEF Chairman Chiang met in Chongqing for their fifth meeting and signed both the ECFA and an agreement on intellectual property protection. The agreement on double taxation, which was to have been signed at their fourth meeting last December, was not on this meeting’s agenda. Reportedly the divergent interests of various industry groups in Taiwan stymied Taipei’s effort to develop a coordinated position on outstanding tax issues.

The “early harvest” lists detail Beijing’s and Taipei’s commitments to reduce tariffs over the first two years of the agreement. Beijing will reduce and eliminate tariffs on 539 items, which involve 16 percent of Taiwan exports to the mainland valued at \$13.8 billion. For its part, Taipei has agreed to reduce and eliminate tariffs on 268 items, which cover 11 percent of China’s exports valued at \$2.8 billion. In addition, both sides have agreed to liberalize market access in certain service sectors, including banking. The imbalance of tariff reductions is in Taiwan’s favor despite the fact that Taiwan enjoys a large trade surplus with the mainland. This outcome reflects Beijing’s desire to help President Ma Ying-jeou win support for the agreement in Taiwan and its belief that further economic integration will advance its long-term reunification goal.

The conclusion of the ECFA negotiations provides an impressive demonstration of the two sides’ ability to reach meaningful agreements on difficult issues affecting real economic interests. As its name suggests, the ECFA is a framework agreement that, for the first time, provides a legal and institutional framework for the vibrant private cross-Strait economic ties that have developed over the past three decades. The 16-article agreement includes a Cross-Strait Economic Cooperation Committee charged with implementing the agreement and serving as an interim dispute settlement mechanism. While the short-term benefits embodied in the “early harvest” tariff reductions have attracted the most attention, the creation of the new institutional framework should have long-term implications and contribute to stabilizing cross-Strait relations.

In the midst of these negotiations, the two sides announced in early May the reciprocal opening of offices in Beijing and Taipei representing their tourism associations. These quasi-official offices are staffed with seconded government officials and are tasked with promoting tourism and dealing with the practical problems encountered by tourists. The opening of these offices was handled in a low-key manner by both sides. Nevertheless, their opening represents another significant and pragmatic step in the evolving cross-Strait relationship.

The domestic political dimension

The Democratic Progressive Party (DPP) has continued to oppose the ECFA and to criticize the Ma administration’s handling of the negotiations. The administration has responded with its own publicity and with more frequent briefings for the Legislative Yuan (LY). Premier Wu Den-yih and LY Speaker Wang Jin-pyng have agreed that special sessions of the LY will be convened during the summer to review the ECFA. As the DPP proposal for a referendum on the ECFA was rejected by the Executive Yuan’s (EY) Referendum Review Committee (RCC), the small Taiwan Solidarity Union (TSU) party loosely associated with former President Lee Teng-hui proposed an alternative referendum proposal. Although the Central Election Committee gave its approval for the TSU proposal, the EY’s RCC rejected it. On June 30, the TSU submitted yet another referendum proposal.

President Ma agreed to a DPP demand that he debate the ECFA on TV with their chairperson, Tsai Ing-wen. The debate occurred on April 25 and in retrospect marked a turning point. Ma was generally seen as having won the debate and opinion polls registered a marginal increase in support for the ECFA. The DPP has searched for more effective ways to mobilize opposition to

the agreement. A variety of anti-ECFA rallies have been held around the island, including a major one on June 26. But these have not produced the large turnouts or passionate opposition that the sponsors sought. In mid-June, when officials indicated that the “early harvest” lists would likely involve far more items benefiting Taipei than Beijing, DPP Chair Tsai was reduced to expressing concern about Beijing’s motivation in offering such concessions to Taipei.

In the April 25 debate, President Ma asserted that a major goal of the ECFA was to overcome Taiwan’s marginalization in the ongoing process of regional trade liberalization. The ECFA would open the way for Taiwan to conclude free trade agreements (FTAs) with trade partners. Ma said that he would personally lead the administration’s work to conclude such agreements, a step which considerably raises the political salience of the issue and puts pressure on Beijing to respond. Beijing officials have generally avoided commenting on the issue. In May, a Foreign Ministry spokesman’s statement that Beijing opposed its diplomatic allies having official ties with Taiwan was misinterpreted as a significant policy statement on the FTA issue, which it was not. President Ma and others in Taipei later reiterated their view that as a World Trade Organization (WTO) member Taipei is free to enter into FTAs with other WTO members. Beijing leaders recognize the importance of the FTA issue to Ma and Taiwan. After the ECFA was signed, Taiwan Affairs Office (TAO) Minister Wang Yi hinted that Beijing would be flexible saying, according to *Xinhua*, that the ECFA would “help find a way to link the cross-Strait economy to regional economic cooperation and in the process open expansion space for Taiwan’s economy.” Commentators in Taipei interpreted his remarks positively.

Ma administration proposals to allow Chinese students to pursue tertiary education in Taiwan and to recognize degrees earned by Taiwan students at mainland universities have also been sources of contention in Taiwan. The administration’s amendments include so many limitations designed to meet opposition criticisms that Chinese scholars doubt many mainland students will attend Taiwan universities. Nevertheless, the DPP has repeatedly blocked and delayed LY consideration of the proposals. The Kuomintang (KMT) hopes to consider these amendments during the special summer LY sessions planned to consider the ECFA. But it is doubtful they will pass in time for mainland students to enroll for the academic year that begins this fall.

DPP internal debate on China policy

The DPP has begun work on a new 10-year program that will include a section on foreign and cross-Strait issues. Chen Ming-tung, who served as chairman of the Mainland Affairs Council (MAC) under Chen Shui-bian, is leading the drafting of what the DPP continues to call its “China policy.” Tsai Ing-wen has explained at DPP forums held to consider the 10-year program and other occasions that the goal is to emphasize a more pragmatic approach that recognizes the importance of the wide range of cross-Strait relations that have evolved over recent years and China’s changed position in the world. The press has highlighted her openness to talks with China. However, Tsai noted that any talks should be without preconditions – a long held DPP view that Beijing’s TAO spokesman predictably rejected. Tsai has also said that the DPP must not “fall into the trap of “one China” and will not deviate from its traditional pro-independence position. These statements appear designed to appeal to DPP fundamentalists.

The party's 10-year program will not be unveiled until August and will be designed in part to hold the disparate elements of the DPP together on policy matters in the run-up to the municipal elections scheduled to be held in November. That is, the program is likely to be more a political than a policy document. Given what has been said thus far, it appears now that its language will likely not provide a basis that is conducive to maintaining stable cross-Strait relations should the DPP return to government.

Security issues

There is still no indication that the People's Liberation Army (PLA) has changed the continuing build-up of short- and medium- range ballistic and cruise missiles targeting Taiwan. After a recent visit to China, Sen. Diane Feinstein commented that Chinese leaders seemed willing to pull back forces targeting Taiwan. However, her staff later clarified that these were previous Chinese offers and no longer on the table. Deputy Secretary of State James Steinberg told Congress in late June that the PLA has not presented any concrete plan for reducing its missiles aimed at Taiwan.

The Obama administration is in the process of considering Taiwan's long-standing request for 66 *F-16 C/D* aircraft, but there is no indication when a decision might be made. Most US-China military-to-military contacts remain suspended by Beijing since Washington's announcement of its latest arms sales package in January. US Pacific Command Commander Adm. Robert Willard and other military officers did participate in the Strategic and Economic Dialogue (S&ED) in Beijing in May. However during the dialogue, PLA Adm. Guan Youfei gave a diatribe against the US focused heavily on arms sales to Taiwan, which Guan said proved that the US treated China as an enemy. US officials later said that Guan's presentation was out of step with the rest of the SED discussions.

In June, the PLA chose not to issue an invitation for Secretary of Defense Robert Gates to visit Beijing as part of a trip through Asia. At the Shangri-La Dialogue in Singapore, Gates accused the PLA of being out of step with China's political leaders and urged the PLA to get over their preoccupation with arms sales, which is an old issue. In response, respected PLA Gen. Ma Xiaotian reiterated Beijing's objections to arms sales and repeated the assertion that arms sales show that the US considers China to be an enemy. Subsequently, Obama administration officials stated that there would be no change in arms sales policy. The decision not to invite Gates reflects the PLA's strengthening opposition to arms sales. Their views resonate with nationalistic opinions expressed in the media and are likely to become an increasingly important domestic political pressure on the leadership to influence US arms sales policy.

President Ma and others in Taipei continue to state that the time is not ripe to pursue political issues including cross-Strait confidence-building measures. Beijing understands the political constraints on Ma and is not pressing Taipei at this time. In this environment, the most that is possible is a few modest contacts between retired officials and military officers. In April, retired Gen. Hsu Li-nung led a delegation of retired officers to Beijing for discussions with counterparts. TAO Minister Wang Yi received the delegation. In May, Taipei held a reunion of alumni of the Whampoa Military Academy that attracted a few civilian figures from the mainland.

International issues

For the second time, “Chinese Taipei” participated in the World Health Assembly (WHA) in May. Health Minister Yaung Chih-liang represented Taipei and addressed the Assembly. Yaung, who has a reputation for public misstatements, told reporters in Geneva that Taipei’s goal was full membership in the World Health Organization (WHO) – a remark that does not accurately reflect Ma administration policy, which seeks observer status. Furthermore, at a time when its attention is focused on the ECFA and the related issue of FTAs, Taipei is not pressing Beijing for progress on international space issues.

In Geneva, Minister Yaung had a meeting with his Chinese counterpart, Health Minister Chen Zhu. Meetings between Cabinet ministers from Taipei and Beijing at international meetings are occurring more regularly – a further sign of the relaxed nature of current cross-Strait relations. Commerce Minister Chen De-ming met his counterpart Minister of Economic Affairs (MOEA) Shih Yen-hsiang on the margins of an Asia Pacific Economic Cooperation (APEC) energy ministerial in Japan in June.

Other economic and trade issues

During the first quarter of 2010, cross-Strait trade recovered from the precipitous decline suffered during the global recession. In the second quarter, trade and particularly Taiwan exports to China grew rapidly surpassing levels that had been achieved before the recession. Taipei’s MAC estimates trade between Taiwan and the mainland, excluding Hong Kong, was \$26.8 billion in the first quarter of 2010, up 69.4 percent from the recession levels a year earlier. Taiwan’s exports were \$19.4 billion, up 73.2 percent and Taiwan’s imports were \$7.5 billion, up 60.2 percent. Taipei’s Ministry of Finance announced that Taiwan’s exports to China, including Hong Kong, reached \$11.2 billion in May 2010, an all-time record sum, which represented 43.8 percent of Taiwan’s worldwide exports.

The growth of Taiwan’s exports has been driven by the recovery of the global IT sector and the growing sales of consumer electronics and appliances in the domestic China market. For its part, Beijing has sent a series of high-level provincial delegations to Taiwan during the quarter. Typically, these delegations were led by a provincial party secretary or governor, included several hundred business representatives and reported signing large contracts. In addition, the ARATS-SEF agreements continue to provide a framework for visits by senior economic officials. PRC Vice Minister of Agriculture Wei Chaoan visited Taiwan in May, and MOEA Vice Minister Hwang Jung-chiou visited Beijing in June.

In this same period, the wave of worker strikes against foreign and domestic companies in China, which began in May, involved a number of Taiwan Invested Enterprises (TIEs). Terry Gou, the chairman of Hon Hai Precision Instruments, one of Taiwan’s largest investors in China, has said that rising wage rates in China are a reality that firms must adjust to. Foxconn, a Hon Hai subsidiary, raised worker salaries 30 percent after a string of suicides at their complex in Guangdong. The growing shortage of workers and the 2008 Labor Law are among the factors giving mainland workers new leverage. These changing labor conditions will have important

implications for TIEs. There is anecdotal evidence of TIEs responding to these pressures by moving their operations to lower-wage areas in third countries or inland in China.

Looking ahead

The conclusion of the ECFA marks a significant milestone in cross-Strait relations. However, signing the agreement and agreeing on “early harvest” lists only launch a decade-long process of implementing the economic framework that the ECFA establishes. Talks in the months ahead will include discussions on investment protection and dispute resolution. Within Taiwan, the summer will see special LY sessions to review the ECFA and in the fall the LY will pass amendments to four laws needed to implement the agreement’s initial provisions and adopt a budget for trade adjustment assistance to affected industries. The DPP failed to block the ECFA, but it will play a role in these LY actions. Every trade agreement involves some losers, and the opposition will exploit dissatisfaction with the ECFA for their benefit in the November municipal elections.

President Ma has said that Taiwan must now plot its global economic strategy for the “post-ECFA” era. A speech is scheduled for July 1. One element of this strategy will be seeking FTA-like agreements with Taiwan’s trade partners. Ma’s efforts will force the Beijing leadership to confront this issue at a time when the DPP will be looking for evidence that the ECFA is not bringing the results Ma envisaged.

Chronology of China-Taiwan Relations

April - June 2010

April 4, 2010: Former Japanese Prime Minister Aso Taro makes a private visit to Taipei.

April 5, 2010: First TV debate between the Kuomintang (KMT) and Democratic Progressive Party (DPP) on the Economic Cooperation Framework Agreement (ECFA).

April 6, 2010: Shanghai Mayor Han Zheng leads a delegation to Taipei.

April 6, 2010: Retired Gen. Hsu Li-nung leads a delegation to Beijing.

April 7, 2010: Member of the Standing Committee of the Political Bureau of the CPC Central Committee Jia Qinglin receives Gen. Hsu’s delegation of retired military officers.

April 10, 2010: Vice President Xi Jinping receives Taiwan delegation to Boao Forum.

April 12, 2010: Presidents Barack Obama and Hu Jintao meet at the Nuclear Security Summit in Washington.

April 13, 2010: Ten-ship flotilla of Chinese Navy ships pass through Miyako Strait.

April 13, 2010: Premier Wu reiterates time is not ripe for political talks.

April 15, 2010: American Chamber of Commerce of Kaohsiung white paper mentions benefits of ECFA.

April 19, 2010: Taiwan university presidents support amendments allowing Chinese students to enroll in Taiwan universities.

April 21, 2010: DPP legislators provoke confrontation in Legislative Yuan (LY) over enrolling Chinese students.

April 23, 2010: Taiwan Solidarity Union (TSU) meets signature threshold for its anti-ECFA referendum proposal,

April 25, 2010: President Ma and DPP Chair Tsai hold TV debate on the ECFA.

April 27, 2010: President Ma says Taiwan will move quickly on FTAs to avoid isolation.

April 29, 2010: General Secretary Hu Jintao meets Wu Poh-Hsiung in Shanghai.

April 30, 2010: American Chamber of Commerce of Taipei editorial endorses the ECFA.

May 4, 2010: Taiwan opens quasi-official tourism office in Beijing.

May 4, 2010: Central Election Committee approves TSU's ECFA referendum proposal.

May 5, 2010: Fujian Governor Huang Xiaojing leads a delegation to Taiwan.

May 7, 2010: Beijing opens quasi-official tourism office in Taipei.

May 10, 2010: Ex-Premier Liu Chao-shiuan visits Shanghai for the World Expo opening.

May 10, 2010: Whampoa Military Academy alumni attend forum in Taipei.

May 10, 2010: Deputy Secretary of State James Steinberg applauds cross-Strait engagement.

May 11, 2010: Kuomintang reports ECFA negotiations on "early harvest" have hit a snag.

May 11, 2010: US-Taiwan Business Council releases report on air power in the Taiwan Strait.

May 12, 2010: Taiwan Affairs Office (TAO) reiterates that the 1992 consensus and opposition to independence are the basis for cross-Strait relations.

May 12, 2010: 136 members of US Congress sign a letter to President Obama calling for the sale of *F-16C/Ds* to Taiwan.

May 14, 2010: Jia Qinglin meets delegates to annual meeting of Taiwan Invested Enterprises (TIE) Associations in Beijing.

May 15, 2010: DPP Chair Tsai calls for pragmatic China policy and talks without preconditions.

May 17, 2010: People's Republic of China (PRC) Commerce Ministry Director Tang Wei leads team to Taipei for three-day ECFA discussions.

May 17, 2010: Taiwan Minister of Health Yaung Chih-liang leads a delegation to the World Health Assembly; PRC Health Minister Chen Zhu and Yaung hold a meeting at the WHA.

May 19, 2010: PRC Vice Minister of Agriculture Wei Chaoan leads a delegation to Taipei.

May 20, 2010: Three-day DPP sit-in calling for an ECFA referendum begins.

May 23, 2010: Tsai Ing-wen is re-elected DPP chairperson.

May 24, 2010: US-China Strategic and Economic Dialogue (S&ED) is held in Beijing.

May 24, 2010: Sichuan Party Secretary Liu Qibao leads a delegation to Taiwan.

May 28, 2010: Taipei opposes expanding Japan's ADIZ over Yonaguni Island.

June 1, 2010: University presidents appeal for passage of PRC student amendments.

June 3, 2010: President Ma says Taiwan is entitled to sign FTAs with WTO members,

June 3, 2010: EY Referendum Review Committee rejects TSU ECFA referendum.

June 3, 2010: MAC Chair Lai Shin-yuan visits Hong Kong.

June 4, 2010: President Ma receives American Institute in Taiwan Chairman Ray Burghardt.

June 5, 2010: Sen. Diane Feinstein leads a delegation to Taipei.

June 5, 2010: PRC Commerce Minister Chen and Taiwan MOEA Minister Shih meet on margins of APEC meeting in Sapporo.

June 7, 2010: National Security Council Asia Director Jeffrey Bader says US policy on arms sales to Taiwan will not change.

June 9, 2010: Zhejiang Gov. Lu Zushan leads delegation to Taiwan.

June 9, 2010: MOEA Vice Minister Hwang attends a telecom conference in Beijing.

June 13, 2010: Third round of ECFA consultations are held in Beijing.

June 16, 2010: Sen. Feinstein says China plans to pull back military forces opposite Taiwan.

June 16, 2010: DPP Tainan County Magistrate Su Huan-chih visits Beijing to promote local mangoes and advocates pragmatic policies after his return.

June 17, 2010: Deputy Secretary Steinberg says PLA has not presented missile withdrawal plan.

June 20, 2010: Jia Qinglin opens second Straits Forum in Xiamen.

June 21, 2010: China and Taiwan conduct large joint anti-fraud operation.

June 24, 2010: SEF and ARATS vice chairmen finalize “early harvest” lists in Taipei.

June 24, 2010: Yangzijiang Shipbuilding becomes the first Chinese company to apply for listing on the Taiwan Stock Exchange.

June 25, 2010: President Ma calls for an economic strategy for the “post ECFA” era.

June 25, 2010: Japan announces extension of its ADIZ over Yonaguni Island.

June 26, 2010: DPP holds anti-ECFA rally.

June 29, 2010: Fifth ARATS-SEF Meeting held in Chongqing where the ECFA and Intellectual Property Rights Agreement are signed.

June 30, 2010: TSU submits a new ECFA referendum proposal.