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Economic Cooperation Framework Agreement between China and Taiwan

by Justyna Szczudlik-Tatar

On 29 June 2010, China and Taiwan signed the Economic Cooperation Framework Agreement. The PRC is counting on this pact, which is comparable to a free trade agreement (FTA), to bring about economic dependence of the island, thus preparing the ground for unification in the future. For Taiwan, the deal with China is a chance to avert economic marginalization, particularly now that the ASEAN-China free trade agreement has been in effect since January. The diverging expectations of China and Taiwan notwithstanding, the ECFA seems to have a potential for contributing to the stabilization of the region, because, by reducing the likelihood of a conflict in the Taiwan Strait, it makes possible further economic integration of the region.

During the fifth round of talks between the China's Association for Relations Across the Taiwan Strait (ARATS) foundation and the Taiwan's Straits Exchange Foundation (SEF), China and Taiwan signed a framework cooperation agreement, the first in the history of their bilateral relations. The agreement provides for the enhancement of trade and investment cooperation through the lifting of tariff and non-tariff barriers on a growing number of products and services and through investment promotion and protection, these to be followed by further measures facilitating trade and investment contacts between the two parties. The decision to sign the pact was in line with the policy China and Taiwan had been pursuing in the past two years,¹ one targeted at deepening cooperation predominately on the basis of economic relations and without addressing the markedly more difficult political issues.

Liberalization of Trade and Services. The central part of the document, one over which a major dispute was waged, is a list of products to be covered by tariff exemptions or tariff reliefs. It covers 539 Taiwanese products worth some \$13bn (i.e. close to 16% of Taiwan's exports to the PRC) and 267 mainland Chinese products valued at \$3bn (about 10% of Chinese exports to the island). These are mainly petrochemicals, textiles, car industry products (car parts), machinery and equipment, as well as Taiwanese agricultural products. The agreement provides for the lifting, already in the first year of its life, of tariff on products which carry the lowest tariff rates (of 5% on Taiwanese goods and 2.5% on Chinese goods). The remaining tariff rates are to be phased out within three years. These preferential terms will be in effect starting from the next half a year following the agreement's coming into force.

Moreover, the document includes a list of services for which the parties will open their markets. Taiwan undertook to open its market for non-financial services, such as research in natural and technical sciences and humanities, business consulting, and sport and recreational services. It also agreed to consider Chinese banks with representative offices maintained in the island for no less than a year eligible to open bank branches. The Chinese side also opened its market for non-financial services, such as experimental-development research in natural and technical sciences, accounting, and medical services, while imposing more restrictive conditions on financial services, insurance and banking. An insurer eligible to enter the Chinese market must have assets in excess of \$5bn, an over 30-year record of operation in Taiwan, and must have maintained a representative office in the PRC for at least two years. For a Taiwanese bank to open a branch in mainland China, it must have had a representative office in China for no less than one year—but only after the branch has operated on the Chinese market for two years showing profit at least in one year will it be allowed to provide services in the Chinese currency.

¹ See. J. Szczudlik-Tatar, "Prospects for normalization of China-Taiwan Relations", *Bulletin*, PISM, No. 64 (64), November 26, 2009.

Aims of China and Taiwan. The principal aim of the PRC's policy towards Taiwan is to create conditions for unification in the future. Making the island economically dependent through increasing its own share in the Taiwanese economy, so as to gain an instrument of pressure to be used in the future in relations with the island, is a means to this end. At present the aggregate value of Taiwanese investment in the mainland stands at over \$83bn, to China's merely \$68 million investment in Taiwan. Moreover, with exports to and imports from the mainland at some \$80bn and \$30bn respectively, Taiwan has a trade surplus with the PRC. China, which has been able to directly invest in the island only since June 2009, counts on the agreement to increase its presence in Taiwan and to level out the surplus of Taiwanese investment in the mainland.

Responding to Taiwanese opposition's allegations that the ECFA will foster the island's economic dependence on the PRC, the Chinese side has highlighted the benefits the agreement brings to Taiwan: more Taiwanese than Chinese products are covered by preferential tariff rates; no preferences are accorded to agricultural products from China (a prospect that was viewed with grave apprehension in Taiwan). The fact that the balance of advantages is in favor of Taiwan can be seen as the PRC's political gesture towards the island aimed at helping the ruling Kuomintang (KMT) and President Ma Ying-jeou to remain in power and at lessening the unwillingness of a part of the Taiwanese society for closer economic cooperation with China.

For Taiwan, the agreement is a mean to avert economic marginalization in the region. The ECFA is comparable to a free trade agreement. Having entered into this agreement with China, Taiwan will find it easier to sign FTAs with other states. To date it has FTA-type agreements only with Panama, Nicaragua, Guatemala, Salvador and Honduras, but the matter has become particularly important after the free trade agreement between China and six ASEAN states came into effect in January this year, to be acceded to by 2015 by the remaining members of the Association. With the ECFA signed, China is unlikely to demonstrate its displeasure with Taiwan's plans to enter into similar agreements with other states.

ECFA Ratification Prospects and Consequences. The economic cooperation framework agreement will enter into force on its ratification by China and Taiwan. The opposition in Taiwan could delay this process by calling for a referendum, or by insisting on debate and vote on the different provisions of the agreement. Even so, ratification is very probable—both because the ruling KMT has a majority in parliament and because of likely consequences of the souring of relations with China should the pact be rejected. Opponents of the agreement, for their part, criticize the authorities on the grounds that the ECFA is a means of making Taiwan dependent on China and is in fact a political deal. They also point out that a likely influx of cheap Chinese products to the island will hurt the Taiwanese economy. The Taiwanese authorities will make efforts to establish the positive effects of the agreement. Forecasts imply that owing to the ECFA employment will rise by about 260,000 and Taiwan's annual economic growth rate will increase 1.7 percentage points.

The ECFA, while ensuring preferential terms to less than 20% of goods exported by the parties, has significant consequences for the region nevertheless. This is because it opens up possibilities of further economic integration in Asia and of the enhancement of Taiwan's role in this process. Once the agreement is ratified, Taiwan will most likely seek FTAs with other states, first of all ASEAN members and the U.S., to reduce the scope for the island's economic dependence on China. Also, successive arrangements facilitating Taiwan's economic dealings with China can be expected. This is evidenced by an announcement that the list of goods and services covered by preferences will gradually be expanded and that a China-Taiwan Committee for Economic Cooperation will be established pursuant to the ECFA. What's more, the parties agreed to launch, no later than six months of the ECFA's coming into force, consultations on further reduction and elimination of trade and non-trade barriers and on investment guarantee mechanisms.

The agreement reflects an improvement in the relations of Taiwan and the PRC and its signing stabilizes the situation in the region by lessening the probability of a conflict in the Taiwan Strait. Yet it cannot be ruled out that its entry into force will bring in its wake temporary negative social and economic consequences that will add to the Taiwanese society's discontent and lead to Ma Ying-jeou's defeat in the next presidential election in 2012, in which case the island's relations with the mainland are likely to suffer a setback.