

經濟合作架構協議與台海兩岸經貿關係

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關鍵字：經濟合作架構協議、台灣、大陸、兩岸經貿

中文摘要

儘管台灣在民進黨政府執政的八年（2000-2008）兩岸的政治關係對抗有增無減，且陳水扁政府對大陸經貿多所限制，但是自大陸與台灣（以「台澎金馬個別關稅領域」之名）先後在 2001 年與 2002 年加入世界貿易組織（WTO）之後，由於大陸調降關稅與排除其他障礙，台海兩岸的經貿互動不出意料之外大幅增加。本文主旨在首先檢視兩岸進入 WTO 後經貿互動及其對台商在大陸經營所面臨的正面與負面的衝擊，繼而剖析國民黨馬英九總統就任後的對大陸政策以及兩岸關係發展的現況，終而討論兩岸簽訂經濟合作架構協議（economic cooperation framework agreement, 簡稱 ECFA）的意義。

總之，因為經貿躍升為國際關係的最重要因素、世界經濟塊狀化日益深化、全球資源競爭白熱化。再者，由於世界經濟塊狀化日益深化以及世界金融海嘯方興未艾，這些國際環境皆有利於台海兩岸的經貿互動。值得慶幸的，今年 6 月兩岸簽訂 ECFA，使兩岸經貿互動制度化與長期穩定化。此

項協議的簽署堪稱是兩岸與國際三贏。對台灣而言，穩定地與大陸維持順暢的經貿互動將可使台灣經濟回春，可利用台灣服務業的優勢來獲利以彌補因製造業流失到大陸的虧損、增加台灣產品在大陸市場的佔有率以及躍身成為亞洲經濟整合樞紐。對大陸而言，ECFA 的簽署可凸顯出大陸方面不再在國際上孤立台灣，讓台灣融入亞洲經濟整合的軌道，如此不僅使兩岸關係得以朝長期而正面的發展，還可強化大陸在亞洲經濟整合的領導地位，台資企業亦可協助大陸成功地利用世界金融海嘯與美國經濟式微的契機由世界工廠轉變成世界市場，正式躍升為世界經濟的引擎，更能透過強化中台企業的競爭力，善用台灣企業的全球化經營與營運的優勢，立足亞洲，進軍世界市場。同時，陸資企業亦可利用台灣累積的國際市場的網絡與關係進軍與投資世界市場，台商亦可有協助大陸引進外資與技術的功能。此外，ECFA 亦可有助於加速中韓 FTA、中日 FTA 與東北亞經濟整合的進程，使東亞邁向和平與繁榮的正途，走出戰爭的威脅。

ECFA and Cross-Straits Economic Relations

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Key words: ECFA, China, Taiwan, Cross-Strait economic relations

Abstract

Despite the hostile political situation between China and Taiwan in the past decade, cross-straits economic interactions have grown by leaps and bounds, in particular since their admittance to the WTO in the early 2000s. In addition to growing economic integration, more importantly, the intimate economic relations have dramatically transformed the axis of Taiwan politics from anti-China sentiment to engaging China. The election of Ma Yingjeou as Taiwan's President in March 2008 is the salient example of this transformation. As a result, unlike the previous government, the current Ma Ying-jeou Government regards Mainland China policy as the first priority ahead of overall foreign policy and has actively improved relations with Beijing, economic interactions in particular. Their bilateral economic cooperation reached its climax as they signed the economic cooperation framework agreement (ECFA) in June this year. Hence, it

is worthwhile exploring cross-straits economic interactions in detail, ECFA, and its multi-dimensional implications for Asia.

Introduction

Despite the hostile political situation between China and Taiwan in the past few decades, in particular during the eight years of President Chen Shui-bian from 2000 to 2008 when there were growing anti-China, desinification and pro-independence tendencies, cross-straits economic interactions have grown by leaps and bounds since the late 1980s when Taiwan under President Chiang Ching-kuo for the first time softened its ban on contacting China after Deng Xiaoping had inaugurated economic reform and open door policy in 1979. Then, the second wave of strengthening cross-straits economic interactions came with China and Taiwan's admittance to the World Trade Organization (WTO) in 2001 and 2002 respectively.¹ This is largely due to three reasons, the reduction of tariffs of both sides after their entrance to WTO,² China's robust economy, as well as the global marketing strategy of Taiwanese entrepreneurs.³ Consequently, Taiwan's trade

¹ Taiwan (The Republic of China, ROC) joined the WTO in 2002 in the name of "The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu."

² Chu-Chia Lin, "The Implications of WTO's Admittance for Cross-Straits Economic Relations and Coping Strategy," *National Policy Foundation Report*, December 21, 2001, <http://old.npf.org.tw/PUBLICATION/TE/090/TE-R-090-039.htm>

³ *Shu Ken and Tzeng-Sheng Lin*, "Cross-Straits Relations and the Role of Taiwanese Entrepreneurs under Globalization," *Mainland China Studies*, Vol. 48, No. 1, March 2005, p. 2.

dependence on China has greatly increased since the early 2000s.⁴ In addition to growing economic integration, more importantly, the intimate economic relations have dramatically transformed the axis of Taiwan politics from anti-China sentiment based identity to economics favorable to engaging China.⁵

Against this background, the landslide the Kuomintang (KMT) victory in the election of local county magistrates and city mayors in December 2005 shows that Taiwanese public opinion shifted its attention from ideological confrontation to economic prosperity. Subsequently, KMT candidate Ma Yingjeou easily won the presidential election in March 2008. The pan-blue group led by the KMT stresses the importance of economic cooperation with China. Viewing cross-strait relations as a matter of peace or war and seeking to work out a *modus vivendi* with China. As a result, unlike the previous government, the current Ma Ying-jeou Government regards Mainland China policy as the first priority ahead of overall foreign policy and has actively improved relations with Beijing, economic interactions in particular. Given this new development across the Taiwan Straits, it is worthwhile exploring cross-straits economic interactions in detail.

The purpose of this paper is to explore cross-straits economic interactions since China and Taiwan's

⁴ Peter Chow, Francis Tuan and Zhi Wang, "The Impacts of WTO Membership on Economic/Trade Relations among the Three Chinese Economies: China, Hong Kong and Taiwan," *Pacific Economic Review*, Volume 6, Issue 3, October 2001, pp. 419-444.

⁵ Lowell Dittmer, "Asia in 2005," *Asian Survey*, February 2006, Vol. 46, No. 1: 4.

admittance to the WTO in the early 2000s. It starts with an examination of positive and negative impacts of cross-straits economic relations in the post-WTO admittance period between 2001 and 2009 from Taiwan perspective, then focuses on Ma Ying-jeou Government's approach to engaging China, particularly on the ECFA negotiations and the implications of the conclusion of ECFA for Cross-Strait relations and Northeast Asia.

Taiwan's Economic Ties with China after WTO admittance

Positive implications

Despite the hostile political situation and the absence of direct transportation links, economic ties between the two sides of the Taiwan Straits have grown enormously over the past three decades since China inaugurated its open door policy and economic reforms in 1979. Taiwan first lifted its ban on cross-strait exchanges by the private sector in 1987.⁶ Total indirect trade between the two sides was only US\$3.9 billion in 1989.⁷ However, the value of cross-strait trade amounted to US\$25.8 billion in 1999 and up to US\$37.4 billion in 2002, the year that Taiwan was admitted to WTO, according to the Taiwan's Mainland Affairs Council. More importantly, China, accounted for 25.3% of Taiwan's total exports, and for the first time replaced the United States as Taiwan's largest export market in the year. In 2004, total cross-strait trade was up to US\$62 billion - a 16-fold increase in just a decade and a

⁶ <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/2001/chpt10-2.htm>

⁷ Craig Meer, "The politics of cross-strait business," *Asia Times*, March 9, 2006, <http://www.atimes.com/atimes/China/HC09Ad01.html>

half and then further up to US\$88.1 billion in 2006, with a trade surplus of US\$38.5 billion favorable to Taiwan, more than doubled the amount in 1999 (US\$16.8 billion). Taiwan's export dependency on China has increased from 20.3% in 2001 (27.3 % in 2005), to more than 40% now.

According to the WTO, China serves as an export platform for the rest of Asia, Taiwan especially. China imports massively from the rest of Asia and beyond raw materials and intermediary components, and exports the finished products to the global markets, the US inter alia. Because of this, China suffers huge trade deficits with Asian countries, while maintaining enormous trade surpluses with the US. Taiwan is the biggest beneficiary of this operational mode and that is why Taiwan turns out to be China's largest source of trade deficit, followed by South Korea and Japan.⁸ The three countries export components to China where they are assembled for export. Through investment, manufacturing and export in China, the three countries in fact exported the trade surplus with the US and the European Union (EU) to China.

More specifically, most Taiwanese enterprises favor the operational mode of global division of labor, namely regarding China as their primary production base for its cheap labor and huge market, and Taiwan as a hub for taking orders, advanced research and development (R&D), marketing, financial operation. In 2006, 45% of Taiwanese firms adopted this mode of operation. By sectors, 77% of

⁸ Rasheeda Bhagat, "How Japan has benefited from China's growth," *The Hindu*, July 2, 2006, <http://www.thehindubusinessline.com/2006/07/02/stories/2006070201610600.htm>

information technology (IT) and communication industries are operating in this fashion, followed by electric engineering (57%) and precision machinery (47%).⁹ For example, Taiwan's Chi Mei Electronics Co., Ltd. has an integrated set of division of labor in its factories across the Taiwan Straits. Its Taiwan factories are in charge of producing the former part of panel's LCD, while its factories in Ningbo and Nanhai in China are responsible for Liquid-Crystal Module (LCM), the latter half of TFT-LCD (Thin Film Transistor-Liquid Crystal Display) production process.¹⁰ LCM factories are labor-intensive production process suitable to be in China characterized with cheap labor. This kind of operation can not only reduce production cost, alleviate the problem of insufficient labor and higher labor cost in Taiwan but also meet the demand of production capacity.¹¹

Meanwhile, Taiwan has made a considerable contribution to China's global trade expansion. With a trade surplus of US\$177.4 billion (a rise of 74% from 2005), China's foreign trade volume totaled US\$1.76 trillion in 2006. A combination of Guangdong, Jiangsu and Shanghai accounted for 59% of the total trade volume.

⁹ "Taking orders in Taiwan, while manufacturing overseas reaches record high of nearly 45%," *China Times*, January 27, 2007, <http://news.chinatimes.com/Chinatimes/newslist/newslist-content/0,3546,110501+112007012700003,00.html>

¹⁰ <http://display.ee.ntu.edu.tw/dtkp/html/modules.php?name=News&file=article&sid=510>

¹¹ "Mainland China approved Chi Mei Electronics Co., Ltd. LCM project in Ningbo," *Economic Daily*, January 29, 2007, <http://udn.com/NEWS/FINANCE/FIN7/3707037.shtml>

The three provinces and cities happen to be the major focuses of the investment of Taiwanese businesses. Moreover, 92 percent of China's exporting notebook computers are produced by Taiwanese enterprises in China.¹²

Total cross-strait trade reached its climax of US\$130.2 billion in 2007, accounting for 27.9% of Taiwan's total trade.¹³ In the year, Taiwan's top ten exports to China, which comprised 87% of Taiwan's total exports to China, were electrical equipment and components, optical instruments and parts, plastics and products thereof, mechanical appliances and parts, organic chemicals, iron and steel, copper and products thereof, synthetic fabrics, miscellaneous chemicals, and mineral fuels, while Taiwan's top ten imports from China were electrical equipment and components; mechanical appliances and parts; iron and steel; optical instruments and parts; mineral fuels; organic chemicals; plastics and products thereof; miscellaneous chemicals; copper and products thereof; stones, lime and cement. Currently, China is Taiwan's largest export market, largest trading partner, and largest source of trade surplus as well as second largest import source only next to Japan, whereas Taiwan is China's fourth largest trading partner and second largest import source only next to Japan. Taiwan's total exports in 2009 amounted to US\$203.7 billion, whilst imports came to US\$174.66 billion, leading to a record trade surplus of US\$29.04 billion. The record surplus is

¹² <http://www.ey.gov.tw/ct.asp?xItem=63890&ctNode=1334&mp=1>

¹³ <http://www.mac.gov.tw/english/english/cc2/ag02b.pdf>

due to the fact that annual imports suffered a record annual drop of 27.4 percent or US\$65.79 billion in 2009, compared to an annual export decline of 20.3 percent. Taiwan's annual exports to China and Hong Kong in 2009 witnessed a year-on-year decline of 15.9 percent.¹⁴

With regard to Taiwanese investment in China, China quickly ascended to the top of the list of major recipients of Taiwan's foreign investment, as investment in China by Taiwanese businesses was legalized in 1992. Between 1991 and 2002, government-approved investments in China totaled US \$27.3 billion, making the area the top choice for investment by Taiwanese companies. Many Taiwanese manufacturers ranging from the labor-intensive to electronics and IT industries have set up factories in China to take advantage of its cheap labor and low overhead costs. Many of these manufacturers received their orders in Taiwan, produce their goods in China, and then ship the finished products directly from their factories in China to overseas buyers. This kind of integrated operational mode of Taiwanese enterprises in China is first called Chaiwan by South Korean newspapers who regard them as a major threat to South Korean counterparts, IT sector in particular.¹⁵

¹⁴ "Exports up 46.9% to 14-month high in Dec.," *The China Post*, January 8, 2010, <http://www.chinapost.com.tw/taiwan/t-business/2010/01/08/239832/Exports-up.htm>

¹⁵ "Rising Cross-Strait IT alliance of Chaiwan enterprises poses a major threat to South Korean counterparts," *Chosun Ilbo*, August 1, 2007, http://chinese.chosun.com/big5/site/data/html_dir/2007/08/01/20070801000022.html

According to Taiwan's Investment Commission, Ministry of Economic Affairs (MOEA), Taiwanese investment in China in 2002, one year after China's accession to the WTO, reached US\$3.85 billion, an increase of 38.60% from the previous year. As a result, China has emerged as the largest destination for Taiwan's outbound investment since then. In 2005, Taiwan's investment in China accounted for 71.4% of its total outbound investment (US\$8.45 billion). The stock of Taiwan's investment in China was doubled (US\$7.6 billion) in 2006, an increase of 27.22% from the previous year, mainly because the Chen Shui-bian Government was forced to lift the ban on Taiwanese investment in high-tech sector in the year. Among the approved cases, the five largest cases were all in high-tech sector, including Powerchip Semiconductor Corp., Promos Technologies, Honghai Precision Machinery, Advanced Semiconductor Engineering Inc., Global Advanced Packaging Technologies and so on.¹⁶ In 2007, 996 cases of Taiwanese investment in China, involving US\$10 billion, were approved.

There are at least three features of cross-strait economic interactions in the past decade. First, Taiwan government's Mainland China policy is characterized by lagging behind the actual trend of its enterprises' interactions with China. This was mainly because the growing trade dependence on China and the mass exodus of Taiwanese businesses to China became major

¹⁶ "US\$7.64 billion: Investment of Taiwanese Enterprises in Mainland China Hit a Record High Last Year," *Economic Daily*, January 20, 2007, <http://udn.com/NEWS/FINANCE/FIN7/3695901.shtml>

concerns of the Taiwan government. Consequently, from time to time Taiwan governments have to adjust their Mainland China policy to reflect the reality under the business sector's lobbying.¹⁷ Wary of mounting economic dependence on China, the KMT government under President Lee Teng-hui adopted the "Go South" Policy (Southbound Policy) in 1994 to encourage Taiwanese enterprises to invest in countries in Southeast Asia with an attempt to reduce Taiwan's economic dependency on China and diversify investment risk,¹⁸ and subsequently announced the "No haste, be patient" policy on China-bound investments in 1996. Nevertheless, this policy was replaced in August 2001 with a more liberalized policy of "Proactive Liberalization with Effective Management" under the Chen Shui-bian Government of Democratic Progressive Party (DPP), which had defeated the KMT in the presidential election in March 2000. With Taiwan further marginalized in the region after China's signing an agreement with ten Southeast Asian nations to pursue a free trade agreement (FTA) as well as deteriorating political and economic atmosphere across the Straits,¹⁹

¹⁷ Tse-Kang Leng, "Dynamics of Taiwan-Mainland China Economic Relations: The Role of Private Firms," *Asian Survey*, Vol. 38, No. 5 (May, 1998), pp. 494-509.

¹⁸ *Taiwan Year Book 2006*, <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/2006/08ForeignRelations.htm>

¹⁹ Chinese authorities indicated in June 2004 that "they do not welcome those Taiwanese enterprises that support the pan-green camp and Taiwan independence to invest in China." They particularly mentioned Hsu Wen-lung, President of Chi Mei Electronics Co., Ltd., "The Impact of Communist China's mentioning Chi Mei, Government will turn to cooperation with Indochina," *The China Times*, June 2, 2004, <http://news.chinatimes.com/Chinatimes/newslist/newslist-content/0,3546,110502+112004060200026,00.html>

President Chen Shui-bian reintroduced the so-called New "Go South" Policy in July 2002 with an aim to urging Taiwanese enterprises to invest in countries in Southeast Asia plus New Zealand, Australia and India other than China and reducing the risk of concentrating too much investment in China. With more than 65 percent of investment going to China in the first quarter of 2004, the second wave of "Go South" policy did not work very well *either*.²⁰ President Chen further shifted his Mainland China investment policy to "Active management and Effective opening" in earlier 2006. The change was aimed at tightening control on Taiwanese investments in China. The policy was obviously against local businesses' calls for further liberalization of government's mainland China policy.

Second, Taiwanese investment in China has gone from traditional labor-intensive industries to technology-intensive industries concentrating on the electronic and electric appliance industries in the last few years, especially after China's entry into the WTO. In early years Taiwan's investment in China focused on the livelihood industries. It has changed to the electronic and electric appliance industries since the early 2000s. As a result, this

²⁰ In 2003, Taiwan's overall investment in Thailand, Malaysia, the Philippines, Indonesia, Singapore, Vietnam and Cambodia reached only US\$937 million, according to ROC's Ministry of Economic Affairs statistics. During the same period, Taiwan's investment in China amounted to US\$7.7 billion, or 53.66 % of total foreign investment. "Go south' strategy threatened, Promotion Needed," *Taipei Times*, September 29, 2004, p. 2, <http://www.taipetitimes.com/News/taiwan/archives/2004/09/29/2003204811>

has led to an increase of the export of upstream electronic parts. The primary locales for investment have also gradually expanded from the Pearl River Delta to the Yangtze Delta, and the scale of investment has moved from small amounts by individuals or small-medium Enterprises (SME) to large amounts by Taiwan stock market listed corporations. For example, 34.4% of Taiwan's total investment in China in 2006 went to electronic component manufacturing such as computers, communication, audio and video equipment manufacturing. Given the mounting competition in China followed by its admittance to the WTO, another major change which has happened in Taiwan's investment in China is the size of investment has been growing and expanding. In August 2007, Honghai Precision Co., Taiwan's largest corporation in the private sector, decided to pour US\$406 million into China. The Longhua factory in Shenzhen is the flagstaff enterprise of the group. Altogether Honghai has 18 factories of more than 350 thousand employees.

According to a survey on investment and risk in China in 2009 by the Taiwan Electrical and Electronic Manufacturer's Association (TEEMA), the *Yangtze River Delta* is the region most favored by Taiwanese investors, followed by *the Bohai Coastal Region*. Among the twenty-two cities on the TEEMA's highly recommended list for investment, fourteen cities are in the *Yangtze River Delta* region, accounting for 63.6%. Those cities comprise Suzhou-Kunshan, Nanjing-Jiangning, Wuxi-Jiangyin, Hongzhou, Ningpo, Zhenjiang, Nanchang, Yangzhou, the Suzhou Industrial zone and so on. Only four cities including Qingdao, Dalian, Tienjin-Binhai and Beijing-Yizhuang in the *Bohai Coastal Region* (18.1%) are highly

recommended. What is worth noting is that the *Pearl River Delta* used to be the region most attractive to Taiwanese investors in the 1990s. But, no cities in the region are *highly recommended* by TEEMA.²¹ Similarly, the TEEMA survey in 2007 also shows that the Shanghai Metropolitan area including Suzhou and Kunshan is viewed by Taiwanese investors as the best place to invest in China. No wonder more than 500,000 Taiwanese immigrants are settled in the Shanghai Metropolitan area. By and large, Taiwanese businesses are mainly clustered in the Yangtze River Delta area in eastern China and the Pearl River Delta region in southern China.

Third, we can also witness changing motivations of Taiwanese business investment in China. In the past, Taiwanese business investment in China was primarily drawn by the cheap and readily available land and labor. Nowadays, investment motivation has changed to the potential of the large Chinese consumer market. In the eyes of Taiwanese investors, China has become the largest market of their products instead of the largest factory of their products. The 2009 TEEMA Survey indicates that the marketing strategy of Taiwanese investors in China has shifted from OEM (Original Equipment Manufacturer) to OBM (Own Branding & Manufacturing) stressing creating their own brands. Another TEEMA-mentioned new trend is that more and more Taiwanese entrepreneurs have paid attention to China market's demands.

²¹ "The 2009 Survey on investment environment and risk in China," September 16, 2009, <http://ggyy.com/read.php?tid=2263>

By the end of June, 2007, Taiwan has invested an accumulative US\$44.6 billion on the mainland, taking a 6.2 percent share in the total investment China received from overseas. In sum, Taiwan's accumulated investment in China grew 3.8 times from 2000 to 2008 and reached the total amount at approximately US\$70 billion, according to government records. However, most observers believe that the official figures drastically understate the actual level of Taiwanese FDI. Due to the sensitive nature of cross-strait investment, Taiwanese companies have invested an estimated US\$150 billion in China in the past 20 years if Taiwan-origin capital channeled through shell companies in ports of convenience such as the Bahamas is included, while Chinese companies have invested US\$38 million in Taiwan since the end of June 2009, according to data from the island's Straits Exchange Foundation.²²

Negative implications

With China's accession to the *WTO* in November 2001, Taiwanese enterprises in China market have met more and more challenges. Given the opening of China's market, reducing tariffs and lifting ban on foreign investment, the market share of Taiwanese enterprises in China's market dropped from 12.5% in 1994 to 11% in 2006, the lowest rate in thirteen years. In the year, the growth rate of China's imports from Taiwan was 16.7%, lower than that of South Korea, the United States and

²² "Trade talks with China to begin Jan.," *The China Post*, January 9, 2010, <http://www.chinapost.com.tw/business/asia/b-taiwan/2010/01/09/240006/Trade-talks.htm>

Germany. As a result, South Korea replaced Taiwan as China's second largest source of imports, while Taiwan was relegated to third place in 2007.²³ According to the Chinese Custom statistics, Taiwan's market share in China's import market further *decreased to* a record low of 8.3% in the first eight months of 2009.²⁴ This trend is partly due to the fact that Taiwanese companies in China have bought more and more raw materials and key components from local suppliers while reducing imports from Taiwan. Taiwan's exports to China are mainly driven by investment of Taiwanese enterprises in China. They import needed raw materials and crucial parts from Taiwan. The declining of the market share of Taiwanese products in China reveals that Taiwanese enterprises in China now tend to get raw materials and key parts from local suppliers rather from Taiwan due to increasing localization of their operation. This includes the large increases of local procurement of raw materials, unfinished products, and machinery and an incremental increase in the hiring of local managers instead of Taiwanese managers. The other reason for the plummeting market share of Taiwan in China market and the widening gap of Taiwanese companies and South Korean counterparts is the fierce competition among Taiwan companies and their Japanese and South Korean counterparts in China market over their

²³ "Bureau of International Trade : our market share in China dropped to recorded low in thirteen years," *The Commercial Times*, February 10, 2007, <http://news.chinatimes.com/2007Cti/2007Cti-News/2007Cti-News-Content/0,4521,120505+122007021000378,00.html>

²⁴ "Taiwan's China market share hits record low," *The Commercial Times*, November 1, 2009, <http://news.chinatimes.com/CMoney/News/News-Page-content/0,4993,11050701+122009110100172,00.html>

overlapping major export products such as integrated circuit and LCD (liquid crystal *device*) and the advantages those Taiwanese products are losing.²⁵

In addition, to accelerate domestic industrial restructuring and upgrade competitiveness, China promulgated a series of new economic policies since 2007, such as cancellation of duty free imports and exports tariff rebate, business income tax law in March 2007 as well as implementation of the new Labor Contract Act that came into effect on January 1, 2008. Those policy changes have added more cost to and growing pressure on Taiwanese enterprises to run businesses in China, in particular those SME, traditional sectors such as textiles, furniture and pollutant industries. The cancellation of duty free imports in 2000 dealt a serious blow to those Taiwanese enterprises heavily dependent on imported equipments.²⁶ The exports tariff rebate measures were used by China to promote exports but were frequently criticized by the US and the European Union for unfair trade practices. Furthermore, because most energy inefficient and highly pollutant sectors were removed from exports tariff rebate measures while offering more exports tariff rebate to high-tech industries, this policy change in fact had a function of achieving the restructuring of China's domestic industries.

²⁵ "Taiwan's China market share plummets," *The Economic Daily*, April 10, 2007, <http://udn.com/NEWS/FINANCE/FIN7/3796252.shtml>

²⁶ "China's cancellation of duty free for imported equipments has a big impact on Taiwanese companies," *The Economic Daily*, February 15, 2007, <http://udn.com/NEWS/FINANCE/FIN7/3730057.shtml>

With the development paradigm shifting from focusing on quantitative expansion to stressing qualitative growth, social equality and sustainability,²⁷ China's 2008 new Labor Contract Act law requires China-based companies to sign labor contracts with their employees. Those that do not will be required to double their employees' monthly wage. In addition, companies need to give laid-off employees one month in severance pay for each year worked, or half-a-month's pay for those having worked six months. Moreover, companies need to cap the standard work week at 40 hours and overtime at 36 hours per month. The new requirements greatly increase personnel cost of Taiwanese firms operating in China because many have traditionally signed one-year contract with their employees and did not offer severance pay if the employee was let go when the contract expired.²⁸

The rapidly changing investment environment in China has posed a difficult *dilemma* for Taiwanese businesses in China. In particular, for Taiwanese investors who have factories of traditional sectors in China, they are now under tremendous pressure either to withdraw or upgrade their production facilities to high-tech level.²⁹ Taiwanese investors in other sectors also have to be sensitive to both changing international environment such

²⁷ Liisi Karindi, "The Making of China's New Labour Contract Law," Sebastian Heilmann (ed.) China Analysis, chinapolitik.org, p. 14, http://www.chinapolitik.de/studien/china_analysis/no_66.pdf

²⁸ Weekly Situational Report, MIDA Taipei, 7 January – 11 January 2008.

²⁹ "Taiwanese SMEs at the crossroad," The United Daily, July 29, 2007, <http://udn.com/NEWS/WORLD/WOR1/3947838.shtml>

as the appreciation of the *renminbi* and China's domestic investment milieu, meanwhile looking for coping strategies to survive.³⁰ In the wake of its accession to the WTO, the number and the scope of trade frictions between China and its trading partners, the U.S. and the EU in particular, are increasing since the early 2000s. As a result, China has emerged as the number one victim of anti-dumping charges.³¹ Furthermore, with its huge trade surpluses with the West, the U.S. and the EU have constantly pressed China to appreciate the *renminbi*. These developments, especially appreciation of the *renminbi*, have brought about negative implications for Taiwan enterprises operating in China. Those Taiwanese companies which are export-oriented processing factories, classified as light industries and electronic sectors have been adversely affected most. Many Taiwanese investors in Guangdong and Fujian who are in the textiles, garment, or footwear sectors suffered from the pinch of appreciation of the *renminbi* due to declining profit and competitiveness and losing orders to their rivals in ASEAN countries such as Vietnam, Thailand and Indonesia. There is no exception for Taiwanese electronic companies in Suzhou. Their profit has become more and more meager in recent years due to

³⁰ "It is about time for Taiwanese traditional sectors to transform," *Economic Daily* · September 15, 2006,

<http://udn.com/NEWS/FINANCE/FINS2/3517299.shtml>

³¹ Yu Min-you, "Compliance with its WTO Commitments: China's Intention, Capacity and Policy," *Taiwanese Journal of WTO Studies*, Vol. III, 2005, p. 113; Zhang Hanlin, "China's New Foreign Trade Strategy and the Improvement of Policy System," *Taiwanese Journal of WTO Studies*, Vol. VIII, 2007, p. 20.

appreciation of the *renminbi*.³² Another challenge is the labor shortage problem as well as ensuing increasing labor costs in China. This is going to drive many small investors from Taiwan to relocate their business operations. In particular, those engaged in traditional manufacturing industries in Dongguan and Shenzhen of southern Guangdong Province, which are most likely to be affected by the labor shortage.³³

Given the worsening investment environment in China, the 2007 TEEMA Survey shows that the investment risk in China had increased in the past two years. As a result, it suggests that for eyeing global strategy, Taiwanese enterprises should not consider China alone but look for other alternatives in order to diversify investment risk. Vietnam is recommended as the best alternative for investment outside China. Its ranking for Taiwanese favored future investment location has upsurged from 15th in the 2007 TEEMA Survey to 5th and 6th in 2008 and 2009 TEEMA Surveys. Among the ten trends of Taiwanese investment in China, the 2009 TEEMA Survey also mentions that Taiwanese entrepreneurs now tends to consider shift their investment

³² "Appreciation of *renminbi* means cheaper NT dollars, Taiwanese businesses in China have become poorer and poorer," *The United Daily*, November 28, 2006, <http://udn.com/NEWS/FINANCE/FINS2/3624004.shtml>

³³ "MOEA aims to woo more investors back from China," *The China Post*, February 25, 2010 <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2010/02/25/245782/MOEA-aims.htm>

to other countries in Southeast Asia and India, particularly Vietnam which is the most favored alternative in the Surveys, given the intensifying Asian regionalism which has resulted from the consolidated network of FTAs.

In addition to new challenges in the wake of WTO admittance, Taiwan continues to face old but ever-increasing challenges, such as the hollowing out of its industries,³⁴ losing markets, jobs and talents to China, given China's cheap labor and huge market. There has been a constant concern that Taiwan's economy is hollowing out as its manufacturing industries increasingly move across the Strait to mainland China for the past decade. For example, Taiwan has been replaced by China as the world's number three personal computer maker.³⁵ Many white collar Taiwanese have been recruited into China such as managers, civil pilots, skilled labor and now even professors. Against this background, now more than one million Taiwanese have migrated into China permanently, most of them are business people, managers, and technical experts and their family members. Metropolitan Shanghai alone has absorbed more than half a million Taiwanese. Furthermore, well over 60 percent of all high-tech exports from China have been manufactured by Taiwanese companies.³⁶

Cross-straits economic relations under Ma Ying-jeou

³⁴ John Berthelsen, "Is Taiwan hollowing out?" *Asia Times*, July 26, 2003, <http://www.atimes.com/atimes/China/EG26Ad02.html>

³⁵ <http://www.ey.gov.tw/ct.asp?xItem=63890&ctNode=1334&mp=1>

³⁶ Chapter 7 Cross-strait Relations, *The Republic of China Yearbook 2008*, <http://www.gio.gov.tw/taiwan-website/5-gp/yearbook/ch7.html>

Ignoring the reality that foreign economic interactions are the axis of international relations in the 21st century, the Chen Shui bian Government insisted on conducting a Mainland China policy characterized by linking anti-China with Taiwan identity and independence under the domestic politics consideration. As a result, the DPP lost its ruling power to its rival the KMT, mainly because the Taiwan's people's welfare was undermined by its politically oriented economic policy and poor economic performance.

Unlike the DPP government, in view of the emerging importance of economic interest in the post-Cold War period and the increasing dependence of Taiwan's economic prosperity on China,³⁷ President Ma Ying-jeou redefines cross-Strait relations from an economic perspective. He is convinced that Mainland affairs and foreign policy cannot be dealt with separately, hence relations with China should be put as the nation's first priority. President Ma proposed diplomatic truce to China,³⁸ pledged not to seek formal Taiwan independence, and to work towards improving ties with former rival China. "At the present stage any radical political choice, whether it be unification or independence, would trigger serious confrontation and turbulence," President Ma reiterated in his 2010 New Year's address. "I insist on maintaining the

³⁷ Nancy Bernkopf Tucker, "If Taiwan Chooses Unification, Should the U.S. Care?" *The Washington Quarterly*, Summer 2002, Vol. 25, No. 3: 18.

³⁸ "PRC understands 'diplomatic truce,' says KMT chairman," *The China Post*, October 19, 2008, <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2008/10/19/179318/PRC%2Dunderstands.htm>

situation of 'no unification, no independence, no use of force' to promote cross-strait exchanges and cooperation ... for peaceful developments in the Taiwan Strait," he said.³⁹ Since he took office in May 2008, President Ma has actively improved relations with China, economic interactions in particular. He decided to normalize cross-Strait economic relations and to create a win-win economic situation for both sides.⁴⁰

Against this background, the first meeting between Taiwan's Straits Exchange Foundation (SEF) Chairman Chiang Pin-kung and Chen Yunlin, Chairman of China's Association for Relations Across the Taiwan Strait (ARATS) was held in Beijing in June 2008, one month after President Ma's inauguration. This was the first formal discussions between the two sides since 1999 and thus has initiated the institutional negotiations between Taiwan and China. Chairmen Chiang and Chen reached agreements on weekend charter flights and tourism. For facilitating economic interactions, Ma's Government legalized *renminbi* exchanges in Taiwan's banks and lifted the ban on cross-Strait stock investment in June, 2008.⁴¹

In November 2008, ARATS Chairman Chen Yunlin paid a milestone visit to Taiwan. Chen's visit marked the first meeting in Taiwan between leaders of the ARATS and

³⁹ "Taiwan Leader Vows Not To Seek Independence," *China Digital Times*, January 1, 2010, <http://chinadigitaltimes.net/2010/01/taiwan-leader-vows-not-to-seek-independence/>

⁴⁰ <http://520.president.gov.tw/520/520/reform.php?sn=1>

⁴¹ <http://www.mac.gov.tw/ct.asp?xItem=44244&ctNode=5613&mp=1;>
<http://www.mac.gov.tw/ct.asp?xItem=44258&ctNode=5613&mp=1>

the SEF as well as institutionalization of ARATS-SEF consultations. Chiang and Chen signed four agreements on direct air transport, direct sea transport, postal cooperation and food safety, opening a new phase of peaceful development and stable interaction in cross-strait relations. The three links were then inaugurated in the ensuing month.⁴² Direct shipping means that vessels crossing the Taiwan Strait no longer have to make a detour via Ishigaki or Hong Kong as they were, reducing the time of each voyage by 16 to 27 hours, and reducing shipping costs by 1530%. Adding in the saving of third territory visa charges, the cost of each voyage is reduced by US\$9,364 (NT\$300,000), enabling shippers to save around US\$37.4 million (NT\$1.2 billion) a year. The realization of direct cross-strait air and sea transport is a key step forward in promoting the normalization of cross-strait relations. At the same time, it can raise Taiwan's strategic position in the economies of Asia and even the Asia Pacific region, upgrades Taiwan's overall competitiveness, and bolsters connections between Taiwan and international markets. After the implementation of direct air and sea transport, Taiwan will be able to attract more investment by transnational enterprises, and serve as an operations base for access to the markets of Mainland China and Southeast Asia.

Subsequently, in April, 2009, three agreements on opening regular flights, boosting financial and judiciary cooperation which were signed between Chairmen Chiang

⁴² Thomas B. Gold, "Taiwan in 2008: My Kingdom for a Horse," *Asian Survey*, January/February 2009, Vol. 49, No. 1, p. 95.

and Chen in Nanjing, and the consensus on allowing mainland companies to invest in Taiwan, were a major push to the development of cross-Strait ties. Moreover, the Memorandum of Understanding (MOU) on Financial Supervision was sealed in November 2009. The MOU facilitates cross-Strait financial cooperation on the banking, securities and insurance sectors. Under the MOU enacted on January 16, 2010, Taiwan's financial institutions are granted the status of foreign investors and allowed to enter Chinese markets. Taiwan banks are expected to establish more branches and offices on the mainland. Then, the most important on-going event is the signing of the agreement on cross-Strait economic cooperation (ECFA). The first round of ECFA negotiations started in January 2010 and the ECFA was signed in June.

To be more specific, since the inauguration of the Ma Ying-jeou Government, economic interactions across the Taiwan Straits have grown enormously on multi-dimensions, including transportation, tourism, investment, finance, culture, and education. In the sphere of tourism, it is no longer one-way tourism from Taiwan to China, but in both directions. During the period between July 2008, when Taiwan first opened to mainland tourists, and December 31 2009, 26,488 Chinese tourist groups of a total of 646,783 people visited Taiwan, according to the Mainland Affairs Council (MAC). With daily individual spending estimated at US\$250, the tourists have contributed roughly US\$1.13 billion to Taiwan's economy, benefiting local transportation as well as the retail,

entertainment and health industries.⁴³ Combined with mainland business groups, more than 900,000 mainland travelers visited Taiwan in 2009.⁴⁴ As a result, Chinese emerged as the second largest group of foreign visitors to Taiwan in 2009, only next to Japanese, with 972,213 arrivals, including 606,174 tourists.⁴⁵

On the investment side, the investment flows have also shifted from the past one-way movement of investment from Taiwan to China to both ways. The Ma Ying-jeou Government has allowed Chinese investment in Taiwan, meanwhile the Government is going to loosen regulations for Taiwanese investment in China as well. With Taiwan's opening to Chinese investment in July 2008, Minister of Economic Affairs Yiin Chii-ming announced in May 2009, 99 industries and business lines in the manufacturing and service sectors as well as the infrastructure sector are open to Chinese investors in a gradual way, an incremental expansion of the permitted fields for investment. In the initial stage, the liberalization includes 63 industries in the manufacturing sector covering traditional Chinese herbal medicines, automobiles, textiles, and plastic and rubber processing products. Investments in industries like silicon wafers and TFT-LCD flat panels

⁴³ "Taiwan a popular destination to elderly mainland tourists china daily," *China Daily*, January 22, 2010, http://www.chinadaily.com.cn/china/2010-01/22/content_9364770.htm

⁴⁴ "Mainland tourists to Taiwan hit mark," *China Daily*, January 2, 2010, http://www.chinadaily.com.cn/china/2010-01/02/content_9255795.htm

⁴⁵ "MAC highlights growth in Chinese tourist arrivals," *Taipei Times*, February 19, 2010, <http://www.taipeitimes.com/News/taiwan/archives/2010/02/19/2003466179>

will still be prohibited for now. There will be 24 business lines in the services sector, comprising wholesale, retailing, tourism and transport services. In addition, 11 operations in the infrastructure sector are opened to Chinese investments. But contract business is excluded in order to protect local construction contractors. The regulations also include a provision that bans any monopoly or oligopoly investment and firms that have stakes owned by Chinese military units. If a Chinese investor or company acquires a more than 10 percent stake in a local business, it will be regarded as direct investment in Taiwan and subject to strict monitoring and supervision. Business and industry leaders welcome the investment-liberalization measures. They expect the move will help bolster cooperation between enterprises across the Taiwan Strait and beef up their international competitiveness.⁴⁶ So far, mainland investors have funded more than 20 projects in Taiwan, with investment of US\$5 million since the island was open to mainland investment in July 2008.⁴⁷

Alternatively, with steadily improving cross-Straits ties and growing economic cooperation between the two sides, the Ma Ying-jeou Government is going to gradually soften its ban on high-tech investment in Mainland China to help Taiwan companies better benefit from the mainland's cheap labor and maintain their competitiveness

⁴⁶ "Taiwan ready for Chinese investment," *The China Post*, May 13, 2009, <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2009/05/13/207880/Taiwan-ready.htm>

⁴⁷ "Mainland investors encouraged to invest in Taiwan," *China Daily*, December 23, 2009, http://www.chinadaily.com.cn/china/2009-12/23/content_9218935.htm

in China market. Currently, Taiwan bars LCD display makers that produce panels larger than 4 inches from investing in China. It also limits investment in advanced semiconductor manufacturing and production of ethylene. However, Taiwan will soon lift a ban on its LCD and semiconductor companies investing in China so that Taiwan makers of flat panels can set up plants in China before semiconductor manufacturers meet surging demand there as predicted, according to the Ministry of Economic Affairs. Taiwan's LCD companies will be allowed to set up factories in China, provided they still keep their investment and more advanced technology at home. LCD and semiconductor sectors are key parts of Taiwan's world-class technology industry and an important driver of Taiwan's export-reliant economy.⁴⁸ Nevertheless, Taiwan is facing grave challenges from its arch rival, South Korea. In December 2009, the South Korean government decided to allow Samsung and LG Display to build TFT LCD fabs in China, which is the fastest growing LCD TV market. As a consequence, Taiwanese panel makers led by Taiwan Semiconductor Manufacturing Co. and United Microelectronics Corp., the world's largest custom chip makers, had urged government to allow them to invest in more-advanced technology in China.⁴⁹ In fact, production of ethylene, a raw material used to make plastics LCD companies has a greater urgency than chip foundries to go

⁴⁸ "Taiwan to end ban on LCD, chip investment," The China Post, February 11, 2010, <http://www.chinapost.com.tw/business/asia/b-taiwan/2010/02/11/244524/Taiwan-to.htm>

⁴⁹ "Taiwan Government OKs TFT LCD Investment in China," February 11, 2010, <http://www.displaysearchblog.com/2010/02/taiwan-government-oks-tft-lcd-investment-in-china/>

to China because flat panels are a component of consumer- electronics products that need to be assembled and sold within target markets. AUO and Chi Mei are Taiwan's biggest LCD makers. Ethylene plants will remain restricted in the next round of easing.⁵⁰

One of goals for President Ma's efforts to forge closer economic ties with China is to boost Taiwan's sluggish economy. His effort has paid off. According to Chinese officials, Chinese purchasing groups to Taiwan had notched up deals worth about US\$14 billion in the first 11 months of 2009, the amount accounted for about 7.6 percent of Taiwan's total exports, which stood at \$183.64 billion in the same period. The mainland had played a positive role in alleviating Taiwan's declining exports and offset the impact of the global economic downturn. The deals involved products ranging from electronic information equipment, mechanical and petrochemical products, textiles, agricultural products, and processed food. The mainland announced in May it would encourage companies to buy more Taiwan products to enhance cooperation between companies across the Taiwan Strait amid the economic downturn.⁵¹ Against the background, Taiwan's exports hit a 14-month high of US\$20.03 billion in December 2009, representing a sharp annual growth of

⁵⁰ "Taiwan's LCD investments in China a priority, policy unit says," *The China Post*, January 19, 2010, <http://www.chinapost.com.tw/business/asia/b-taiwan/2010/01/19/241431/Taiwans-LCD.htm>

⁵¹ "Mainland procurement of Taiwan products reaches \$14 billion," *China Daily*, December 30, 2009, http://www.chinadaily.com.cn/bizchina/2009-12/30/content_9248172.htm

46.9 percent, the highest year-on-year increase seen since 1991.⁵²

In the educational sphere, the Ma Ying-jeou administration wants to broaden exchanges between students of Taiwan and China. President Ma said that his government will definitely take steps to allow Chinese college students to study in Taiwan and to recognize diplomas issued by some of China's elite higher education institutions. Ma listed three reasons for his decision to implement the policy. First, the policy forms part of the government's China policy and the goal of forging friendly ties with other countries around the world, including China. Secondly, the youths of Taiwan and China should learn from each other and sharpen their competitiveness. Thirdly, Chinese students could help to boost dwindling registrations in Taiwan's colleges due to a falling birth rate in Taiwan. However, the main aim of the policy is to allow for deeper interaction between young people on both sides of the strait and to create greater possibilities in bilateral exchanges.⁵³ Initially, only 2,000 mainland Chinese students will be admitted to colleges and universities in Taiwan for diploma and graduate programs each year, accounting for about 1 percent of total annual enrollments. National universities can only accept mainland students for graduate programs, while private institutions can accept

⁵² "Exports up 46.9% to 14-month high in Dec. ," *The China Post*, January 8, 2010, <http://www.chinapost.com.tw/taiwan/t-business/2010/01/08/239832/Exports-up.htm>

⁵³ "Ma touts policy to broaden cross-strait student exchanges," *The China Post*, February 3, 2010, <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2010/02/03/243408/Ma-touts.htm>

them for any of their programs. So far, many Taiwan students who have chosen to study in China have been denied equal opportunity for employment in Taiwan. Given that Taiwan's Education Ministry is about to initially recognize the degrees from 41 Chinese universities,⁵⁴ Taiwanese with degrees from those Chinese universities will benefit from the policy. In the more than a decade from Taiwan's opening travel to Mainland China in 1987 to 2000, around 3,800 Taiwanese students studied in mainland China. Since 2000, according to the Chinese education authorities, between 1,000 to 2,000 Taiwanese students have entered higher education institutions there annually. At present, there are about 11,000 Taiwanese students studying in mainland China, excluding those in short-term programs.⁵⁵

ECFA

The most significant event for cross-Straits economic interactions is the conclusion of ECFA. For Taiwan, ECFA is not merely a channel by which Taipei can expand lucrative cross-Straits business opportunities through this long-term mechanism but also a hope to have more opportunities to participate in Asian economic affairs, namely to end the marginalization and isolation from Asian economic integration. President Ma specifies that signing ECFA with China is aimed at helping Taiwanese do

⁵⁴ "Taiwan in right direction in accepting Chinese students," Editorial, *The China Post*, November 21, 2009, <http://www.chinapost.com.tw/editorial/taiwan-issues/2009/11/21/233594/Taiwan-in.htm>

⁵⁵ "Where Inquiring Minds Meet," December 1, 2009, <http://taiwanreview.nat.gov.tw/fp.asp?xItem=77349&ctNode=1344>

business and upgrade Taiwan's competitiveness. The negotiations focus on reducing tariffs, protecting Taiwan enterprises' investment in China and their intellectual property rights. With respect to the reduction of tariffs, he said that Taiwan exported about US\$100 billion of goods to China in 2008 and paid an average tariff of 9 percent to the mainland, while China's shipments to Taiwan were worth about US\$30 billion in the same period, taxed at an average of 4 percent. If no tariffs, Taiwan could have saved US\$9 billion, while China US\$1.3 billion. In addition, zero tariffs across the Straits can not only bring more inbound investment from abroad but also create more than 262,000 jobs for Taiwan.⁵⁶ Taiwan estimates the accord may bolster exports and boost economic growth by between 1.65 percent and 1.72 percent annually.⁵⁷ In addition, ECFA could also serve as a basis by which Taiwan can negotiate and establish free trade arrangements with other nations. In 2008, Taiwan's exports to China were at US\$99.5 billion(39% of its total exports), to ASEAN at US\$ 38.9 billion(15.2%), to Japan at US\$17.5 billion(6.9%)and to South Korea US\$8.7 billion(3.5%). Altogether almost 65% of Taiwan's exports went to East Asia.⁵⁸ In 2009, Taiwan's exports to China were at US\$83.6 billion(41.1% of its total exports), to

⁵⁶ "President reiterates ECFA is beneficial to Taiwan and will protect labor rights," *The China Times*, Mach 1, 2010, <http://news.chinatimes.com/2007Cti/2007Cti-News/2007Cti-News-Content/0,4521,50502914+132010030100924,00.html>

⁵⁷ "Trade talks with China to begin Jan.," *The China Post*, January 9, 2010, 20. <http://www.chinapost.com.tw/business/asia/b-taiwan/2010/01/09/240006/Trade-talks.htm>

⁵⁸ *International Trade Trend Analysis*, October 2009, <http://cweb.trade.gov.tw/kmi.asp?xdurl=kmiif.asp&cat=CAT319>

ASEAN at US\$ 30.1 billion(14.8%), to Japan at US\$14.5 billion(7.1%)and to South Korea US\$7.3 billion(-16.1% from the previous year). "During an era in which economic and trade exchanges are increasingly conducted through groupings, if Taipei fails to find a way in, it will find itself with less and less room to maneuver."⁵⁹

Of course, ECFA negotiation is no easy task and in fact is a complex and difficult process, given the atmosphere is full of variables in both Taiwan's domestic and international environment. As one of Taiwan's leading economists Sheng-Cheng Hu, Academician of Academia Sinica, mentioned, that while signing ECFA can increase Taiwan's advantage in China's market, it will render Taiwan more dependent on China. Over dependence on China is something worth worrying about.⁶⁰ In addition, inside Taiwan, the traditional, agricultural and labor sectors are three sectors that are expected to suffer most by the signing of the ECFA with China. In particular, the agricultural sector is widely regarded as the major stumbling block in ECFA negotiations with China. Farmers are concerned about flooding imports of China's cheap agricultural products after the materialization of ECFA. Taiwanese laborers are afraid that opening the market to Chinese labor will undermine their job opportunities,

⁵⁹ "From Cross-Strait Negotiations to Regional and International Economic and Trade Negotiations," editorial, *The China Times*, November 17, 2009, <http://dateline.taipei.blogspot.com/2009/11/from-cross-strait-negotiations-to.html>

⁶⁰ "Taiwan's market share in China hits record low," *The Commercial Times*, November 1, 2009, <http://news.chinatimes.com/CMoney/News/News-Page-content/0,4993,11050701+122009110100172,00.html>

especially workers in the traditional sector. That is why President Ma promised that the pact would not further liberalize agricultural imports or allow the entry of Chinese workers.⁶¹

But Taiwan has to respond to the changing international milieu in a realistic and practical fashion and put its economic survival in the first place. With the advent of the 21st Century, there are four major characteristics which have emerged in the international environment. International relations and foreign policy behaviour of all the countries are thus conditioned by these four major characteristics. They are in particular remarkable in the international relations of Asia Pacific. The first characteristic is that the battlefield of ideological confrontation has shifted from the international arena to the domestic stage in the post Cold War era. This phenomenon can be easily identified in politics of Northeast Asian democratic countries such as Taiwan between the pan-green camp led by the DPP and the pan-blue group by the KMT,⁶² South Korea between liberalists under Kim Dae-jung and Roh Moo-hyun and conservatives under Lee Myung-bak, and Japan between rightist Liberal Democratic Party and leftist Democratic Party.

⁶¹ "Ma needs education on Taiwan-PRC pact," Editorial, Taiwan News, February 10, 2010, p. 6, http://etaiwannews.com/etn/news_content.php?id=1176983&lang=eng_news&cate_img=46.jpg&cate_rss=news_Editorial

⁶² To-hai Liou, 2009, "A Taiwanese Perspective on the DPRK's Nuclear Test," The Icfai University Journal of International Relations, January, Vol. III, No.1, pp.48-64. <http://www.iupindia.org/109/ijir.asp>

The second major characteristic of contemporary international relations is that economic interest tops a country's national interest vis-à-vis political and strategic interests. This owes largely to the acceleration of globalization since the inauguration of Soviet Union's economic reform dubbed glasnost (openness) and perestroika (reform) in 1985. With the Soviet's decision to borrow capitalist mechanism after China, it signified that the market economy prevailed over the command economy and the global economy has become one characterized by the market economy. Globalization thus has been in the full swing. The growing importance of economic affairs in international relations has changed patterns of international interactions. Major powers tend to pursue engagement policy directly and preventive diplomacy (hedging strategy) indirectly at the same time.⁶³ During the Cold War era, there was virtually no economic interdependence between arch rivals, the two superpowers of the United States and the Soviet Union. Unlike the Cold War period, there is strong and ever-increasing economic interdependence between major political powers.

The traditional realist view emphasizing the 'high' politics of diplomacy and the use of force, while downplaying the 'low' politics of economic affairs contradicts the current reality in which economic

⁶³ The best example is Nye Initiative in 1994, named after former Assistant Secretary of Defense Joseph S. Nye, Jr., officially known as the US Security Strategy for East Asia in 1995. The security strategy stresses constructive engagement with China, while enhancing US-Japan alliance simultaneously as a counterweight against an assertive China, in case.

interdependence is heavily influencing international politics.⁶⁴ According to the liberal perspective, because there is high potential for profits, states would rather trade than invade because all of them can benefit from international trade. Due primarily to the increasing economic interdependence, no country in Asia Pacific can afford to wage a trade war or trigger a military conflict. This is particularly true in relations among major powers. Due to strong economic interdependence, China and the US have showed a great deal of restraint when bilateral political frictions occur. Their bilateral relations are further complicated by the coexistence of strategic, political competition and *economic* interdependence. In the Cold War period, national interest of most countries was monolith, namely economic interest and security interest were identical for giving first priority to strategic consideration. However, this is no longer the case in international relations in the post-Cold war era. Nowadays, it is common that a country's economic interest conflicts with its security interest. Japan's relations with China and Taiwan's relations with China are salient examples.

The third major characteristic of the current international milieu is the regionalization of the world economy. The European Community's 1986 Single European Act resulted in the emergence of a European bloc of economies in the world economy in the late 1980s. In response, the U.S. and Canada signed CUSFTA in 1987 which took effect in 1988 and with Mexico to form the

⁶⁴ Aharon Barth, "Econo-Realism: Putting Economics at Center Stage. How Does, and Should, IR Research React to Expanding Economic Interdependence?," International Studies Association 41st Annual Convention Los Angeles, March 14-18, 2000, p. 1.

North American Free Trade Agreement in 1994. The Single European Act and CUSFTA alarmed countries in Asia Pacific. In particular, the US at the time was the largest export market of almost all the East Asian countries. A discriminated US market would deal a heavy blow to all of them. The blocization of the world economy means that a single country is no longer the basic unit of competition in the global economy. Against this background, when Australian Prime Minister Bob Hawke and South Korean President Roh Tae-woo proposed to set up an economic forum in Asia Pacific in 1989, their proposal was immediately accepted. The Asia Pacific Economic Cooperation Forum (APEC) was thus established. Both Taiwan and China were admitted to the APEC in 1991. Given the global financial tsunami since 2008, minor economies exemplified by the Iceland crisis in 2009 and the on-going Greek financial crisis can hardly survive by themselves. For national survival, they have to rely on regional support. With economic regionalization and globalization, "Taiwan risks being marginalized if it cannot participate. This is why the signing of an ECFA with China is so urgent at this moment, since it will allow Taiwan to compete with other countries on an equal footing," as Mainland Affairs Council Deputy Minister Fu Don-cheng pointed out.⁶⁵

⁶⁵ "Both Sides Win from Cross-strait Economic Links," Executive Yuan, April 13, 2009, <http://www.ey.gov.tw/ct.asp?xItem=53194&ctNode=1334&mp=1>

The fourth major characteristic of today's international environment is the rise of China.⁶⁶ China has been the fastest growing major economy for the past thirty years at an annual growth rate of about 9%. As a consequence, China is now the second largest economy in the world only after the U.S. China's per capita income has increased 10 times since 1978. In 2003, China's GDP per capital broke US\$1,000 and increased up to US\$3,259 in 2008.⁶⁷ In just five years, it more than tripled. China's total foreign trade has boomed from US\$20 billion to more than US\$1.76 trillion in 2006 and its ranking in global trade has shot up from 32nd in 1979 to the first in 2010. China also has the largest foreign reserves of more than US\$2.2 trillion and attracts largest amount of foreign direct investment (FDI) in the world.

A minor economy like Taiwan is very vulnerable to the changing international environment. As the above analysis has shown, the four key characteristics of contemporary international relations in Asia Pacific are all strongly linked to cross-Straits economic relations and Taiwan's policy options. Economicization of international relations demonstrates that politicizing Taiwan's economic relations with Mainland China during the eight years under President Chen did not do anything good to the economy but only undermined Taiwan's own international

⁶⁶ To-hai Liou, 2007, " Asia's Response to China's FTA Strategy: Implications for Asian Economic Integration," *Journal of East Asian Affairs*, Spring/Summer, pp. 195-232.
http://www.inss.re.kr/app/board/view.act;jsessionid=049CCDBFDE9AA68D5E193D4FE2EC1D47?metaCode=en_m_pub&boardId=82ac7629036b792536928154

⁶⁷ <http://www.dfat.gov.au/geo/fs/chin.pdf>

competitiveness due to the clashes of interest between the government and the business sector. With the crisis awareness, the current Ma Government has decided to put economic survival as the first priority of its Mainland China policy and foreign relations.

In addition, the accelerating regionalization of the world economy reminds Taiwan of its vulnerability in the unpredictable and ever-changing international milieu. The on-going global financial tsunami since 2008 further highlighted the importance of regional trade groups and vulnerability of minor economies. Against the background, Taiwan has to emancipate itself from marginalization as soon as possible, given the realization of the ASEAN-China Free Trade Agreement (ACFTA) since January 1, 2010 and the rapidly expediting Asian economic integration without including Taiwan. In other words, Taiwan has been disadvantaged by being left out. With the awareness of Taiwan's marginalization in East Asia by ACFTA, nevertheless the Chen Shui-bian Government, blaming Beijing for isolating Taiwan, instead rushed to sign FTAs with five Latin American countries primarily on political reasons (for domestic political consumption) rather than under economic consideration.⁶⁸ Unlike his predecessor, the Ma Ying-jeou Government regards Mainland China as a key to solving the marginalization crisis. As President Ma indicates, "the planned ECFA was

⁶⁸ Johanna Mendelson Forman and Susana Moreira, "Taiwan-China Balancing Act in Latin America," ARI 154/2008 - 26/11/2008, http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/latin+america/ari154-2008

not an attempt to lean toward China, but a necessity for the development of Taiwan. Taiwan so far has signed FTAs with five of its diplomatic allies, ” but the trade volume with those countries combined make up less than 1 percent of Taiwan’s total trade. “We must sign FTAs with our major trading partners.”⁶⁹ According to Huang Chao-Jen, the real GDP of other East Asian nations (Taiwan, South Korea, and Japan) will decrease by fractions of a percent (average of 0.0143%) due to the Sino-ASEAN FTA. Taiwan will be affected the most and Japan the least. Investment in these nations will also decrease by close to 0.4%. Japan, Taiwan, South Korea will see a 0.2% decrease in exports and a 0.72% decrease in imports.⁷⁰ In practical terms, the deal obligates China to cut import tariffs on more than 500 products and services worth nearly \$14 billion in trade. For its part, Taiwan is obliged to make tariff cuts of just \$3 billion. The deal could create 260,000 jobs and add 1.7 percent to Taiwan’s economic growth. Economists anticipate that the ECFA could add 5.3 percent to Taiwan’s economy by 2020. Just as important are the secondary benefits of the agreement.

Conclusion

As a minor economy with limited resources, it is not wise for Taiwan to confront a powerful China as it did

⁶⁹ “ECFA will reduce chance of war: Ma,” The Taipei Times, November 20, 2009, p. 3. <http://www.taipeitimes.com/News/taiwan/archives/2009/11/20/2003458946>

⁷⁰ Collin A. Spears, “Free Trade in the Shadow of the Dragon,” July 12, 2009, <http://southeastasia.foreignpolicyblogs.com/2009/07/12/free-trade-in-the-shadow-of-the-dragon/>

under President Chen. Instead, Taiwan should pragmatically take advantage of China's soft diplomacy and build a Cross-Straits peaceful coexistence mechanism through economic interactions. President Ma Ying-jeou's Mainland China policy emphasizing engaging China through accelerating cross-Straits economic relations is no doubt a rational choice, given the characteristics of contemporary international relations in the Asia Pacific, Taiwan's enormous size difference with China and the highly asymmetrical economic dependence on China. With the enormous power disparity, Taiwanese governments had been very wary of its economic interactions with China. As a result, they used to take a conservative, defensive and passive economic policy toward China. However, the changing international and domestic environment, the former in particular, has forced the Taiwan government to shift its Mainland China policy to a positive and realistic one.

To meet the rapidly changing international environment and the myriad challenges of the 21st century, a minor economy like Taiwan needs to act swiftly, decisively and strategically in order to grasp strategic advantage on the right occasion. In addition, the consistency of the government's and the business sector's interests is also essential for a minor economy to maintain its international competitiveness. The rise of South Korea in the post-Asian financial crisis in 1998 is the best example. As mentioned before, one of the features of Taiwan's Mainland China policy is that government policy is always behind the cross-Straits business operations of

Taiwanese enterprises.⁷¹ The business sector has been the driving force behind the cross-Straits economic interactions and economic integration since the late 1980s. One of the reasons why the DPP lost its ruling power is the clashes of interests between the government and the business sector. The Chen Shui-bian Government made its Mainland China policy primarily based on political and security consideration which was against the Mainland China-based global operations of Taiwanese enterprises. Alternatively, President Ma's Mainland China policy is a policy with identical government and business interests and a realization of two-way cross-Strait economic flows from the traditional one-way fashion for the first time in Taiwan history. To be more specific, previous Taiwan governments did not help Taiwan companies in business operations in China. The Ma Ying-jeou Government is the first Taiwan government creating a favorable international environment for Taiwan companies, starting from the realization of the three links to signing the ECFA.

The Ma administration's approach to Mainland China stresses the concept of "first economics, then politics". Such a strategy ensures that Taiwan is unable to declare independence, and that Beijing is unable to compel reunification for the time being. The rapid institutionalization of cross-Strait economic and trade exchanges over the past twenty-six-months is a positive development in accord with President Ma's hope to turn cross-Strait hostility into a win-win scenario of peaceful

⁷¹ Seanon S. Wong, "Economic Statecraft across the Strait: Business Influence in Taiwan's Mainland Policy," *Asia Perspective*, Vol. 29, No. 2, 2005, p. 70.

coexistence. ECFA is economic in nature, but it is essentially a political decision and will have a profound political impact. Because of ECFA, the two sides will have a better framework for win/win, mutually beneficial peaceful development.⁷²

President Ma 's assertion to sign the ECFA with China is definitely a correct decision based on Taiwan's survival and long term economic interest, however he failed to move decisively and strategically. As a result, he missed the best timing, the latter half of 2009, to sign ECFA with China, partly because he was concerned too much about domestic opposition led by the DPP, partly because Ma insisted on domestic consensus-building on the issue, more than 60 percent of public support. The best timing to conclude ECFA was before the materialization of the ASEAN-China FTA (ACFTA) on January 1, 2010. According to Chung-Hua Institution for Economic Research (CIER), a Taiwan-based economic think tank, Taiwan is estimated to suffer a drop in industrial production value by US\$2.46 billion once the ACFTA is materialized. The agreement poses a threat to major Taiwan industries, notably petrochemicals, with the expansion of tariff free treatment to 90 percent of goods traded between ASEAN and China. The FTA could hurt Taiwanese exports to the area, though those Taiwanese companies that have operations in both China and

⁷² "Editorial: Good Cross-Strait Economic Relations Equals Good Cross-Strait Political Relations," *The United Daily*, May 12, 2009, <http://datelinetaipei.blogspot.com/2009/05/good-cross-strait-economic-relations.html>

Southeast Asia could benefit from the tariff reductions. What is even worse, the realization of ASEAN plus three to come into effect in 2012 will hurt Taiwan's industrial production value at US\$9.99 billion, the CIER estimates.⁷³ Fortunately, the Ma Ying-jeou Government caught the second best chance to conclude ECFA with China in June this year.

Another reason for Taiwan to sign ECFA with China as soon as possible is that the Ma Government must ink ECFA with China before Beijing starts FTA negotiations with South Korea and Japan. Taiwan must know that China's motivation to sign ECFA is primarily political. That motivation might be distracted by much more economic gains by signing FTAs with bigger economies than Taiwan such as South Korea and Japan. South Korea, viewing *Chaiwan* enterprises as its major trade competitor in the global market, has been very concerned about rapidly enhanced Cross-Straits economic cooperation and ECFA negotiations across the Taiwan Straits in particular. Against this background, in October 2009, South Korea dramatically changed its long-held opposition to a FTA with China and agreed to accelerate Sino-Korea FTA negotiations. Previously Seoul was worried that the bilateral FTA would bring about a flood of imported cheap agricultural products from China, hurting the nation's already fragile agricultural sector.⁷⁴ "As some South

⁷³ "ASEAN free trade zone brings new chances and challenges," Editorial, *The China Post*, February 13, 2010, p. 4.

⁷⁴ "Korea-China FTA returns to agenda," *The Korea Herald*, October 12, 2009, http://www.bilaterals.org/article.php3?id_article=16050&lang=en

Korean analysts explained, this surprising turnaround was prompted by the threat a cross-strait ECFA poses to South Korean exports to China, such as LCD display panels.⁷⁵ The market share of Taiwan-made products in China fell from 12.9% in 2002 to a record low of 8.5% in 2009, and that of South Korea-made products went up to 10.2% from 9.7% in the same period, according to Taiwan's Bureau of Foreign Trade.⁷⁶ The Taiwan Synthetic Resins Manufacturers Association (TSRMA) Chairman F.Y. Hong was concerned about the progress of signing the ECFA. "If Korea and Japan -- Taiwan's two biggest competitors -- sign free trade agreements with China ahead of us, China will no longer need to place their orders in Taiwan, so there will be no room for us to survive," Hong said in an interview in February 2010. Currently, Taiwan's petrochemical exports to China are subject to a 6.5 percent import duty -- already higher than the 5.5 percent import duty for South Korea and Japan. However, the latter two will be granted zero-duty treatment from 2012. "If we cannot grab the moment to secure the market, we are sending ourselves to the mortuary," said Hong.⁷⁷ Now 88 petrochemical items are included on the ECFA early

⁷⁵ Chao Wen-heng, "ECFA talks must focus on FTAs," *Taipei Times*, January 7, 2010, p. 8, <http://www.taipeitimes.com/News/editorials/archives/2010/01/07/2003462836>

⁷⁶ "Taiwan's Share of China's Import Market Hit Record Low of 8.5% in 2009," February 8, 2010, http://www.cens.com/cens/html/en/news/news_inner_31179.html

⁷⁷ "Taiwan petrochemicals need China trade pact to survive its economy," *The China Post*, February 1, 2010, <http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2010/02/01/243116/Taiwan-petrochemicals.htm>

harvest list. The result partially relieves the pressure on Taiwan's petrochemical companies.

The latest development in Japan was also worthy of Taiwan's attention. With the Democratic Party of Japan's Yukio Hatoyama becoming Prime Minister in August 2009, Sino-Japanese relations have greatly improved and the signing of a bilateral FTA has gained momentum. Taiwan was also alert to the growing possibility of a Northeast Asia FTA including China, South Korea and Japan. On the occasion of the tenth anniversary of their trilateral cooperation in Beijing in October 2009, Japanese Prime Minister Hatoyama in a press conference jointly held with South Korean President Lee Myung-bak and Chinese Premier Wen Jiabao expressed his hope that a trilateral FTA involving South Korea, China and Japan would make progress. He said that prior to the pact, the three countries would need to sign an agreement promoting investment as early as possible in 2010. In February 2010, South Korea announced the launch of a joint research project this year with China and Japan to study the possibility of a three-way FTA between the Northeast Asian nations.⁷⁸ Furthermore, Finance ministers from South Korea, Japan and China agreed in May 2006 to make efforts on introducing a common currency to be used in the Asian region as part of efforts to create a pan-Asian economic block.⁷⁹

⁷⁸ "Seoul to launch joint study on FTA with China," *The Korea Herald*, February 17, 2010, http://www.koreaherald.co.kr/NEWKHSITE/data/html_dir/2010/02/17/201002170077.asp

⁷⁹ "S Korea, Japan and China Agree on Common Currency," *The Hankyoreh*, May 8, 2006, http://english.hani.co.kr/arti/english_edition/e_international/121604.html

For China, expediting the conclusion of ECFA with Taiwan was also in her interest. Through Beijing's economic concessions, Taiwan people could substantially feel China's sincerity and good will as well as in turn change their negative impressions of Mainland China shaped by the previous government and pave the way for further cross-Straits integration in the future. A generous acceptance of Taiwan's proposed early harvest list, naming items that could be first to benefit from the ECFA, is essential. In fact, Beijing's economic concessions in the early harvest list have already brought about positive response from the Taiwan people. A poll released one week after the signing of the ECFA by the Taiwan's Mainland Affairs Council showed that 61 percent of respondents were satisfied with the results of the ECFA negotiations.⁸⁰ At the same time, President Ma's approval rating also reached 46.8 percent⁸¹, up from 27 percent in March 2010.⁸²

According to the ECFA, Taiwan's early harvest list ended up containing 539 items — double the number of China's items — with total exports worth around US\$13.83 billion, nearly 4.8 times that of China's list (US\$600 million). The economic cooperation framework agreement heavily favors Taiwan's companies, cutting tariffs on 539 Taiwan

⁸⁰ "Poll: 61 percent of Taiwan's people support ECFA," <http://www.taiwanembassy.org/ct.asp?xItem=150346&ctNode=2237&mp=2>

⁸¹ "Ma's approval rating reaches 46.8 percent," Taiwan Today, 07/12/2010, <http://www.taiwantoday.tw/ct.asp?xItem=110232&CtNode=436>

⁸² "President Ma's approval rating at all-time personal low," FTV, March 19, 2010, <http://englishnews.ftv.com.tw/read.aspx?sno=CEA9EE00FC5F5B81A59D2BCD3AC6714B>

export items to China, including 88 petrochemical, 136 textile, 107 machinery, 50 transportation equipment, 18 agricultural and 140 other items, as opposed to 267 items, comprising 69 machinery, 42 petrochemical, 22 textile, 17 transportation equipment, and 117 other items (The Chinese negotiators initially brought up over 700 items that they hoped could enter the Taiwanese market.) exported in the other direction.⁸³ Seventeen of Taiwan's weaker industries were included on the early harvest list. Eighteen of Taiwan's agricultural and fishing products were included on the early harvest list. With China's understanding, the ECFA also responds to two things that concerns Taiwan society most - further opening Taiwan's market to Mainland agricultural products and Mainland workers entering Taiwan. Neither will Mainland agricultural products be sold in Taiwan, nor will Mainland workers enter Taiwan. Moreover, China and Taiwan will open parts of their service sectors to investment by each other under the ECFA that could give a major boost to around US\$100 billion in annual two-way trade. China agrees to open 11 areas in its service sector to Taiwanese firms, such as banking, insurance, stocks, accounting, movies, and so on, while Taiwan agrees to open nine sectors to mainland investors. Taiwanese banks operating in China will be allowed to conduct business in China's *renminbi* currency a year earlier than current rules allow, while Chinese banks will be able to convert their representative offices in

⁸³ Early Harvest List for Trade in Goods and Tariff Reduction Arrangements, Industrial Development Bureau, Ministry of Economic Affairs, July 5, 2010, <http://www.mac.gov.tw/ct.asp?xItem=85851&ctNode=5921&mp=3>

Taiwan into branches after one year. Chinese institutional investors will also be able to invest in derivatives in Taiwan.

Another possible major concession is Beijing's giving the green light to Taiwan to sign free trade arrangements with other economies in the world. During the ECFA negotiations, President Ma attempted to allay public concern over the agreement by "emphasizing that an ECFA would be a crucial lever that would allow Taiwan to sign free-trade agreements with other countries."⁸⁴ MAC Chairwoman Lai Shin-yuan also strongly suggests that Beijing would not obstruct Taiwan from signing FTAs with other countries.⁸⁵ In addition, Chao Wen-heng, associate research fellow at the Taiwan Institute of Economic Research, argued that the key point of the ECFA is "to include in the pact a guarantee of Taiwan's right to sign FTAs. Only if that is done will the ECFA be of benefit to Taiwan's economic development."⁸⁶ However, the Beijing authorities have been very cautious about the demand for fear that giving the green light to Taiwan's signing FTAs with other countries would have serious political consequences, e.g., legitimizing Taiwan's international aspirations. What is even more fearful for Beijing is that successive Taiwan governments might use this privilege to promote Taiwan independence, say if the DPP won the

⁸⁴ "Interview: ECFA will help Taiwan catch up with Asia: Ma," Taipei Times, January 23, 2010, p. 3, <http://www.taipeitimes.com/News/taiwan/archives/2010/01/23/2003464220>

⁸⁵ "China will not block FTAs: MAC chair," Taipei Times, January 23, 2010, p. 1, <http://www.taipeitimes.com/News/front/archives/2010/01/23/2003464214>

⁸⁶ Chao Wen-heng, "ECFA talks must focus on FTAs," Taipei Times, January 7, 2010, p. 8, <http://www.taipeitimes.com/News/editorials/archives/2010/01/07/2003462836>

2012 presidential election. Hence, it has to be operated in a tacit understanding (just as the diplomatic truce) rather than a concrete agreement. Alternatively, Taiwan needs to note that Beijing is not likely to allow Taiwan to sign ECFA with countries which do not have FTAs with China.

Moreover, signing the ECFA can demonstrate that China is no longer interested in isolating Taiwan from the international community and opposing Taiwan's joining Asian economic integration. In doing so, not only cross-Straits relations will thus move toward a positive development in the long run, but also China's leadership in Asian economic integration will be consolidated. In fact, a coalition of Cross-Straits enterprises promoting economic cooperation and integration is the best way to weaken the anti-China sentiment and pro-independence movement in Taiwan.

What is more, with the signing of the ECFA, China can further take advantage of Taiwan enterprise's managerial and marketing skills as well as worldwide supply chain in order to not only consolidate its position in Asia but also to advance its position in the global market and expand their operations beyond the physical borders through strengthening the competitiveness of *Chaiwan* enterprises, introducing more Taiwanese talents into Chinese companies and outsourcing jobs to Taiwan companies. With its strong connection with the West and familiarity with Western customs and ways of doing business, Taiwan companies can also help China to get more FDI and technologies from the West. Taiwan enterprises may also assist in China's overseas investment in the West as well as domestic economic structural adjustments. A major overhaul and upgrading is

badly needed for China to sustain its spectacular growth recorded in the past decade. For instance, Taiwan can help with China's high-tech industry development. China has relied heavily on foreign provision of core technology in high-tech production, but with its higher level of industrial know-how, Taiwan can cooperate with China in developing new technologies or operating systems and create new styles of high-tech industries with "cross-strait characteristics." On China's current endeavor to expand its domestic demand and private consumption, Taiwanese companies, while gearing up to penetrate deeper into the vast Chinese market, can give a hand in upgrading the quality and functions of various consumer products. Taiwanese companies can also help with the introduction of a modernized marketing and creative and efficient distribution mechanism in China to enhance operational efficiency.⁸⁷

Internationally, signing the ECFA with Taiwan will stimulate Seoul and Tokyo to accelerate their FTA negotiations with China, South Korea in particular. Chinese leaders have actively promoted the signing of FTAs with South Korea and Japan on several occasions. In December, 2009, Chinese Vice President Xi Jinping mentioned that he would like to see a FTA between his country and South Korea in the near future.⁸⁸ As for Sino-

⁸⁷ "Commercial Times: Speed up cross-strait ECFA signing," Taiwan News, February 28, 2010, http://www.taiwannews.com.tw/etn/news_content.php?id=1191518&lang=eng_news&cate_img=35.jpg&cate_rss=news_Business

⁸⁸ "Chinese VP hopes to see S. Korea-China FTA," Yonhap, December 12, 2009, http://www.bilaterals.org/article.php3?id_article=16485&lang=en

Japan FTA, Wang Yi, China's Ambassador to Japan, urged Japan to launch FTA negotiations with China in February, 2005.⁸⁹

All in all, with the signing of the ECFA, Taiwan has acquired a better position to get integrated into Asian economic integration. Nevertheless, it remains up to the legislature to ratify the ECFA. Signing the ECFA is in the long term interest of not only both sides of Taiwan Straits but also the people of Asia, who can benefit from peaceful and prosperous cross-Straits interactions. Soon, Taiwan and China will enter the second stage of ECFA talks targeted at signing more agreements on cargo trade, service trade, investment protection and dispute settlement. To keep its political gains from making economic concessions in the early harvest list, Beijing is highly suggested to give the green light to Taiwan to sign FTAs or quasi-ECFAs with other economies in the world or at least in the region. The implementation of the ECFA will normalize cross Straits economic relations and inevitably pave a way for future bilateral political reconciliation and security confidence-building measures and mechanism. However, what China should avoid doing in the forthcoming two or three years is not to press Taiwan to talk about cross-political and security matters. Just let the two sides focus on deepening economic integration for a couple of years, then move to political agenda in due course.

⁸⁹ "Envoy calls for China-Japan FTA," *The Japan Times*, February 4, 2005, <http://search.japantimes.co.jp/cgi-bin/nb20050204a6.html>

Implication for Asia

First, the signing of the ECFA accelerates economic integration in Northeast Asia. With the closer economic integration across the Taiwan Straits in the post-ECFA period, both Japan and South Korea are under pressure to change their economic strategies toward China, from a cautious engagement to an active engagement.⁹⁰ South Korea is likely to be the country which suffers most from the signing of the ECFA, because Taiwan companies competing with South Korea in petrochemical, textiles, machinery, transportation equipment are set to enjoy zero tariffs in two years via the ECFA's early harvest list, though their major competing sectors such as semiconductors, mobile phones and digital TVs are not yet on the early harvest list. According to the Korea International Trade Association (KITA) and the Korea Institute International Economic Policy (KIEP), 60 percent of South Korean exports to China will be affected, with 14 key ROK-made items competing against those of Taiwanese origin in the Chinese market. Those items include semiconductors, parts and components for their manufacture, LCD panels and petrochemicals. As a result, most South Korea media suggest that the most effective way to counterbalance increasing Taiwanese exports to China would be to

⁹⁰ "China-Taiwan Trade Liberalization, A Stimulus to Further Asian Economic Cooperation," Editorial, *The Yomiuri Shimbun*, July 3, 2010, <http://www.yomiuri.co.jp/editorial/news/20100703-OYT1T00094.htm>

conclude a Korean-China FTA at an early date.⁹¹ ROK President Lee Myung-bak already proposed in April this year that Korea needs to seriously consider a FTA with China. However, President Lee's hands are tied because the issues of a China-Korea FTA and the US-Korean FTA are related. The stumbling block to Sino-ROK FTA is now the stalemate of ratifying Korea-U.S. FTA in the US Congress, over sensitive issues in the auto sector. Given that the feasibility study was completed almost four years ago (2006), it will not take too much time for South Korea to conclude a FTA with China, but the dilemma for President Lee is he does not intend to jeopardize his country's strategically vital relations with the US by implementing the Korean-China FTA ahead of the Korea-U.S. FTA. Others assert that South Korea should sign a FTA with Japan before inking the Korea-China FTA, believing that this will enable Seoul to have more leverage in negotiating with Beijing over their FTA. However, the main obstacle to a Japan-Korea FTA is South Korea's huge trade deficit of US\$32.1 billion with Japan. South Koreans fear that once an FTA is inked, Japanese cars, home appliances and steel products will flood into their market. Another possible way to neutralize the negative impact of the ECFA is to accelerate a trilateral FTA of China, Korea and Japan and to turn the three Northeast

⁹¹ "Cross-Straits ECFA Signed, Prospects for Korean Exports are not Optimistic," *The Chosun Ilbo*, 2010.06.30 http://chn.chosun.com/site/data/html_dir/2010/06/30/20100630000006.html; China-Taiwan Pragmatic ECFA Korea Must Learn Quickly," Editorial, *The Hankyoreh*, June 29, 2010, <http://www.hani.co.kr/arti/opinion/editorial/428108.html>

Asian nations into a regional free-trade zone.⁹² However, a trilateral FTA has remote prospects as well, given the clashes of interests of China and South Korea over current joint military exercises in the West Sea by South Korea and the United States.

For Japan, unlike South Korea, their concern about the conclusion of the ECFA is more strategic than economic because of Sino-Japanese strategic competition. Economically, the perception of Japanese companies over the conclusion of the ECFA across the Taiwan Straits is *ambivalent*. There are a number of ways Japanese companies could take advantage of Taiwan's new position under the ECFA. Traditionally, Japan's electronics industry has crafted close links with consortiums of Chinese and Taiwan companies by commissioning them to manufacture their products. If Taiwan products become more price-competitive in China--and therefore sell better--Japanese parts makers could reap the windfall. For example, the Japanese information technology (IT) sector could benefit from the ECFA for computers produced in Taiwan using many components made in Japan. Other Japanese companies in different sectors such as semiconductors, optoelectronics, solar cells, machine tools, comics and e-books have reportedly been seeking to get a foothold in Taiwan with the objective of getting easier access to the China market. Additionally, the establishment of joint ventures with Taiwan companies is another viable option

⁹² "Chiwan threat, " Editorial, *The Korea Herald*, June 30, 2010, <http://www.koreaherald.com/opinion/Detail.jsp?newsMLId=20100630000488>

for China-oriented Japanese companies.⁹³ Alternatively, the ECFA will force many Japanese companies to rethink their strategies for the China market--one that could evolve into a powerful economic rival. A broader partnership between Chinese and Taiwan firms will be a threat to Japanese companies on the global market. The ECFA has made some Japanese industries wary of a possible rivalry with the *Chaiwan* alliance, the petrochemical industry in particular, followed by automakers and electronics makers. Intensified price competition might not be the only headache for Japanese makers. The strong partnership between China, which has a huge market, and Taiwan, which has advanced technology, would be a formidable competitor. The Japanese petrochemical industry has been competing with Taiwan companies for customers in China. Once tariffs between China and Taiwan are eliminated, Taiwan companies would be able to offer their products at more competitive prices than their Japanese counterparts. However, the impact on the Japanese petrochemical industry is limited because China's refusal to allow first-wave tariff exemptions on too many petrochemical products from Taiwan, as China is working to boost its three major state-owned oil, natural gas and petrochemical companies.⁹⁴ Moreover, the ECFA will slash tariffs on auto parts, fueling concern among Japanese automakers that are planning to ramp up

⁹³ Jens Kastner, "Taiwan challenge to Korea, Japan," *Asia Times*, July 22, 2010, http://www.atimes.com/atimes/China_Business/LG22Cb01.html

⁹⁴ "Taiwan not weaker side in ECFA talks: officials," *The China Post*, July 4, 2010, <http://www.chinapost.com.tw/taiwan/national/national-news/2010/07/04/263228/Taiwan-not.htm>

production at their China plants. The Japan government is now thinking of expediting the joint study of a FTA between Japan, China and South Korea, and of resuming talks on an economic partnership agreement (EPA) with South Korea as soon as possible.⁹⁵ A Sino-Japan FTA is another viable option for Japan. Japanese Prime Minister Naoto Kan's handpicking Uichiro Niwa, a respected business leader, to serve as Japanese ambassador to China is a function of this policy. Niwa has already said signing a FTA with China as soon as possible is one of his three wishes in his capacity as the top Japanese diplomat in China.⁹⁶

Strategically, Japan is worried that cross-straits economic integration will lead to rapid political reunification which will endanger Japan's security. An editorial of *the Asahi Shimbun* indicates that if China and Taiwan made a progress in trust, military tension across the Taiwan Straits would be eased. In that case, Japan would be compelled to review its strategy for national security. Japan and the US should not only strengthen their alliance but also pay attention to the development of cross-Straits relations.⁹⁷ To prevent Taiwan from economic overdependence on China as well as the transformation from economic integration to political unification, a conservative Japanese newspaper

⁹⁵ "China-Taiwan deal gives Japan firms pause," *The Yomiuri Shimbun*, July 1, 2010, <http://www.yomiuri.co.jp/dy/business/T100630004001.htm>

⁹⁶ <http://world.people.com.cn/GB/1029/42354/12241001.html>;
<http://www.asahi.com/world/china/news/TKY201007230620.html>

⁹⁷ "ECFA: Northeast Asia's Stability loomed large," Editorial, *The Yomiuri Shimbun*, <http://www.asahi.com/paper/editorial.html>

suggests Japan and the United State should sign FTAs with Taiwan as soon as possible.⁹⁸ Similarly, a *Nihonkeizai Shimbun* editorial also asserts that Japan should not only seriously consider signing a FTA with China, given the growing importance of the China market, but also ink quasi-FTA with Taiwan so that Japanese enterprises can take advantage of the ECFA. In conclusion, it mentions that Japan's security is closely linked to Taiwan's development.⁹⁹

Second, while the economic integration in Northeast Asia is looming large, this could pose a threat to ASEAN's driver's seat position in Asian economic integration. Given the historical animosity, territorial disputes and leadership competition, economic integration in Northeast Asia has been slow and fragmented until now. It is against this background that ASEAN has been able to be the hub of Asian economic integration. However, once Northeast Asia becomes one huge market under China leadership, it remains to be seen if Beijing will continue to be modest in leadership. ASEAN's latest decision to bring the US and Russia into the East Asian Summit (EAS). could be viewed as a response to the consolidated China's influence in Asian economic integration via the ECFA.

⁹⁸ "ECFA, the US and Japan should Prevent Taiwan from Dependence on China," Editorial, *Sankei Shimbun*, June 30, 2010, <http://sankei.jp.msn.com/economy/finance/100630/fnc1006300341000-n1.htm>

⁹⁹ "Questions on ECFA," *Nihonkeizai Shimbun*, July 4, 2010, <http://www.nikkei.com/news/editorial/article/g=96958A96889DE3E2E6E1E6EBE2E2E2E6E2E5E0E2E3E28297EAE2E2E2;n=96948D819A938D96E38D8D8D8D8D>

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