

CHEN-YUAN TUNG AND JASON YEH

## **Development of a Cross-Strait Economic Cooperation Framework Agreement**

### **Strategy, Review, and Outlook**

*Abstract: President Ma Ying-Jeou's strategy to engage Taiwan in regional market integration calls for the use of the cross-strait Economic Cooperation Framework Agreement (ECFA) with China as a pathway to join the East Asian economic integration. This article reviews the ECFA and discusses its potential outlook. Some enhancements are proposed that may help Taiwan strategize its foreign negotiations.*

In the past thirty years, cross-strait economic relations have gradually opened up from prohibition to close economic exchanges. To date China has been Taiwan's largest trading and investment partner, and Taiwan has been one of China's five largest trading and investment partners. Cross-strait economic and trade exchanges, however, are mostly driven by unilateral opening-up policies and market forces rather than by coordination and cooperation between the two governments, because as yet cross-strait economic relations lack institutional interactions and a cooperation framework. Although China and Taiwan are both members of the World Trade Organization (WTO), the Chinese government is unwilling to undertake cross-strait interactions and cooperation in the realm of international economics.

While trade negotiations within the Doha round of the WTO officially collapsed in July 2008, regional economic integration agreements (EIAs) have gained momentum. Effective EIAs registered by various economies at the WTO numbered

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155 in 1999. The figure rose to 199 in 2007 and even up to 319 in early 2012. Thus an average of 5.5 EIAs became effective each year under the auspices of the Democratic Progressive Party, and in the four years President Ma Ying-Jeou has been in office resulted in 30 EIAs effective each year. In particular, the East Asian economic integration regime has seen swift development. In East Asian regions, effective EIAs numbered 24 in 1999, increasing to 70 in 2007 and 103 by the end of 2012. An average of 5.8 EIAs in East Asia became effective each year under the governance of the Democratic Progressive Party, rising to 6.6 EIAs in East Asia per year under the governance of President Ma.

Though regional economic integration was rapid, Taiwan was excluded from this wave of East Asian economic integration agreements because of Chinese political obstruction. By the end of 2012, Taiwan had only entered into free trade agreements (FTAs) with Panama, Guatemala, Nicaragua, El Salvador, and Honduras. However, trading amounts between these countries and Taiwan only accounted for 0.2 percent of the total trade volume of Taiwan in 2010. Hence entering those FTAs did little to improve the overall interest of Taiwan's economy.

In this context, at his first international press conference after assuming office in May 2008, President Ma Ying-Jeou pointed out that Taiwan's economy would be marginalized if it could not join the East Asian economic integration agreements. In February 2009, President Ma proposed a Cross-Strait Economic Cooperation Framework Agreement (ECFA). Since the ECFA could be used as a pathway to join East Asian economic integration, it would prevent Taiwan's economy from being marginalized. After a year of negotiation, the ECFA was signed on June 29, 2010. Negotiations for four follow-up agreements, begun in early 2011, included trade in goods, trade in services, investment, and dispute settlement.

### **Economic Cooperation Framework Agreement**

The Economic Cooperation Framework Agreement (ECFA) has three aspects: an early harvest program, future subjects for negotiation, and a mechanism for bilateral cooperation and negotiation. First, tariffs on goods on the early harvest list will be reduced to zero within three years, but the reductions must comply with rules of origin requiring that the ratio of the added value of goods entitled to zero tariff should range from 40 to 50 percent. Second, negotiations for the four follow-up agreements to begin within six months after the ECFA has gone into effect. Third, both governments agreed to set up a Cross-Strait Economic Cooperation Committee to handle and negotiate follow-up matters of the ECFA and relevant issues of cross-strait economic cooperation.

### **Early Harvest Program**

For the early harvest list of goods for trading, the openness shown by China and Taiwan was asymmetric. Under the early harvest program, China offered tariff

concessions for 539 Taiwanese export products, including 18 agricultural and fishery products for which tariff concessions were offered by China proactively. This amounted to US\$13.84 billion in 2010 (representing 16.1 percent of the total export value from Taiwan to China), whereas Taiwan offered tariff concessions for 267 Chinese export products amounting to US\$2.86 billion (representing 10.5 percent of the total import value from China to Taiwan). In addition, while Taiwan recorded an annual trade surplus of approximately US\$40 billion with China in recent years, it restricts 2,249 Chinese export products unilaterally, an act that violates the most-favored-nation requirements of the World Trade Organization. On the contrary, under the ASEAN-China early harvest program, China has offered tariff concessions for 593 ASEAN products, accounting for only 1.7 percent of the export value of ASEAN to China, whereas ASEAN has offered tariff concessions for 400 Chinese products, accounting for only 2.1 percent of the export value of China to ASEAN.

Among the early harvest list of services for trading, China agreed to open markets in 11 service sectors for Taiwan, including three sectors in financial services and eight sectors in nonfinancial services. The Taiwanese services permitted by China include:

1. extending temporary valid licenses of accountants from half a year to one year,
2. services by wholly-owned software sector,
3. science and engineering research and development,
4. conference services,
5. professional design services,
6. exempting import quota restrictions on Chinese-language Taiwanese movies,
7. establishing hospitals in the form of joint-venture, cooperative business, or sole proprietorship,
8. investing in the aircraft maintenance sector in China,
9. permission for Taiwanese insurance companies to form conglomerates, and
10. providing concessions and facilitating operation projects in the banking sector facilitating the securities and futures sector.

Taiwan agreed to open markets in nine service sectors for China—one sector in financial services and eight sectors in nonfinancial services. The Chinese services permitted by Taiwan include:

1. research and development services,
2. conference services,
3. collaboration in exhibitions,
4. specialty design services,
5. permission to broadcast ten Chinese-language Chinese movies in Taiwan,
6. brokerage services,
7. sports and leisure services,

Table 1

**ECFA Early Harvest List Between Taiwan and China**

	Agricultural products	Trade in goods	Trade in services
Received by Taiwan	18 items	Petrochemical products: 88 items Conveyance: 50 items Mechanical products: 107 items Textile products: 136 items Other products: 140 items Total: 521 items	Banking: 1 item (6 breakdowns) Securities and futures: 1 item (3 breakdowns) Insurance: 1 item Nonfinancial services sector: 8 items Total: 11 items
Granted by — Taiwan	—	Petrochemical products: 42 items Conveyance: 17 items Mechanical products: 69 items Textile products: 22 items Other products: 117 items Total: 267 items	Banking: 1 item Nonfinancial services sector: 8 items Total: 9 items

*Source:* Ministry of Economic Affairs, Republic of China 2012c.

8. computer positioning systems in airfreight services, and
9. preferential treatments on setting up bank branches.

The early harvest list of services drawn up by China and Taiwan is summarized in Table 1.

The Ministry of Economic Affairs of Taiwan entrusted the Chung-Hua Institution for Economic Research (CIER) to assess the economic effects of ECFA. The conclusions were: (1) The ECFA between China and Taiwan would result in a 1.65 percent increase in the cumulative economic growth rate of Taiwan, on the assumption that the number of restricted agricultural and industrial products would remain at 2,249, agricultural and industrial products entitled to tariff concession would be liberalized, and all goods from China would be entitled to zero tariff. (2) The ECFA would result in a 1.72 percent increase in the cumulative economic growth rate of Taiwan, on the assumption that the number of restricted agricultural products would remain at 875, import controls on other industrial products would be dropped and those products would be liberalized, and all goods from China would be entitled to zero tariff (CIER 2009).

As pointed out by the CIER assessment report, the ECFA may increase productivity in the following industries: chemicals, plastics and rubber (approx. 14.6%), machinery (14.0–14.3%), textiles (15.7–15.8%), steel (7.7–7.9%), and petroleum and coal products (7.7–7.8%). However, the ECFA may decrease the productivity of the following industries: electrical and electronic products (approx. 7.2%), other conveyances (3.5–3.6%), and wood products industry (approx. 4.0%).

For the effects on employment, CIER adopted the computable general equilibrium model to link the above simulated result of each industry and the general equilibrium model of Taiwan, including input-output tables for 161 sectors in Taiwan in 2007 with information updated to 2008 based on the overall growth rate. It calculated that the ECFA could increase the total number of employed persons in Taiwan to between 257,000 and 263,000. In addition, CIER used a simple regression model to estimate that the amount of foreign direct investment (FDI) inflow to Taiwan would increase by US\$8.9 billion in seven years after the signing of the ECFA.

Two days after China and Taiwan signed the ECFA, President Ma held a press conference on July 1, 2010, indicating that the agreement represented a new chance for Taiwanese economic development. He visualized that the ECFA would open the door for Taiwan to join the East Asian economic integration regime and allow it to sign free trade agreements (FTAs) with other countries. This would improve the competitiveness of Taiwan in exporting to China, leading to more domestic investment and attracting more FDI to Taiwan. Taiwan would very likely become the stepping stone for corporations around the globe to enter the Chinese market (Office of President 2010). The expectations of President Ma about the effects of the ECFA have exceeded CIER predictions.

### **Early Harvest Program Under the ECFA**

Tariff concessions on the trade in goods in the early harvest program under ECFA have been implemented since January 1, 2011. Among the 539 agricultural and industrial products on the early harvest list that China offered to Taiwan, only 76 products on the early harvest list had their tariffs reduced to zero in 2011 (representing 14.1% of the items on the early harvest list). Only 94.5 percent of the products on the early harvest list enjoyed zero tariff preference after the second round of tariff reductions of ECFA on January 1, 2012, whereas the tariffs of the remaining items were reduced to zero in 2013. The early harvest program and the liberalization measures for trade in services were fully implemented on January 1, 2011.

According to Chinese customs statistics, the total amount of export from Taiwan to China was US\$124.9 billion in 2011, an increase of 8 percent; and the export amount for the goods on the early harvest list was US\$19.85 billion, an increase of 9 percent. From January to September 2012, the total amount of exports from Taiwan to China was US\$95.46 billion, an increase of 1.4 percent, and the export amount for goods on the early harvest list was US\$14.96 billion, a decrease of 2.0

Table 2

**Early Harvest Program in ECFA (US\$100 million)**

	2011		January to September 2012	
	Amount	Growth rate (%)	Amount	Growth rate (%)
Exports from Taiwan to China	1,249.0	8.0	954.6	1.4
Exports of goods on early harvest list	198.5	9.9	149.6	–2.0
Exports from China to Taiwan	433.8	21.3	307.9	–8.4
Exports of goods on early harvest list	50.4	28.1	35.7	–5.1

*Sources:* Ministry of Economic Affairs, Republic of China 2012a, 2012d.

percent. According to Taiwanese customs statistics, the total amount of exports from China to Taiwan was US\$43.38 billion in 2011, an increase of 21.3 percent, and the export amount for goods on the early harvest list was US\$5.04 billion, an increase of 28.1 percent. From January to September 2012, the total amount of exports from China to Taiwan was US\$30.79 billion, a decrease of 8.4 percent, and the export amount for goods on the early harvest list was US\$3.57 billion, a decrease of 5.1 percent. The growth rates for overall exports between China and Taiwan and exports on the early harvest list showed no significant difference. While the ratio of items on the early harvest list for exports from Taiwan to China rose substantially from 14.1 percent in 2011 to 94.5 percent in 2012, exports from Taiwan to China declined in the first nine months of 2012, a record showing that the effects of the early harvest program were limited, as can be seen in Table 2.

Results of the early harvest in the services sector under ECFA can be divided into two categories, namely, the financial services sector and the nonfinancial services sector. Most items that opened up in the financial services sector had already been opened since the signing of the Memorandum of Understanding between China and Taiwan in 2009 and were entitled to concessions for items in the early harvest list under the ECFA. It is difficult to differentiate the marginal effects of ECFA because the Ministry of Economic Affairs of the Republic of China did not disclose the related details. As most of the sector is new, the effects of the nonfinancial services sector are easier to quantify.

Regarding the banking industry, ten Taiwanese banks have set up branches in China, and six Taiwanese banks have set up offices in China. In the securities and futures industry, 12 Taiwanese securities firms have set up 25 offices in China, two

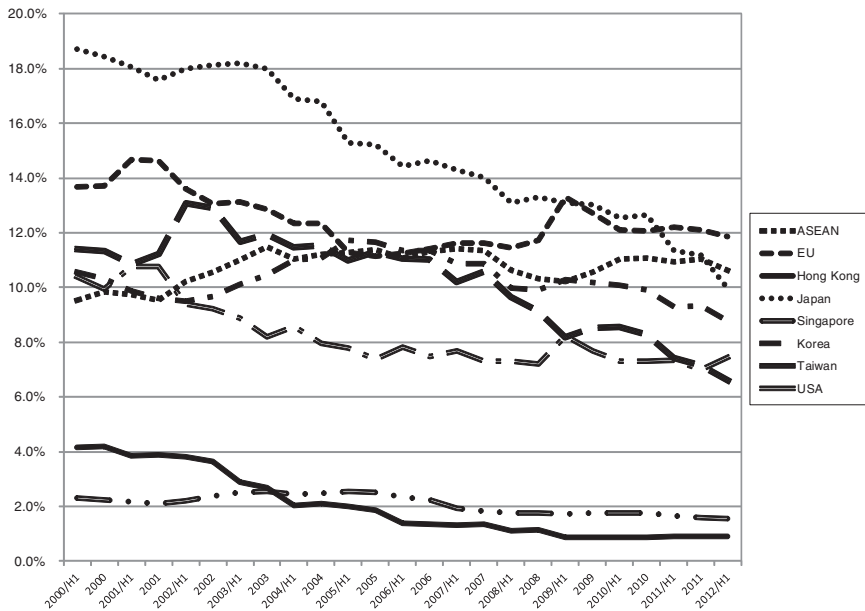
investment trust firms have set up offices in China, and one investment trust firm was allowed to jointly invest with a Chinese businessman in the securities industry to incorporate fund management companies. Six securities investment trust companies and seven insurance companies were certified as Qualified Foreign Institutional Investors (QFII) by China; the approved investment amount totaled US\$1.57 billion. Six Taiwanese insurance companies have already invested and operated in China with 15 offices. On the other hand, the Taiwanese government approved Chinese banks to set up only two branches and two offices in Taiwan.

Regarding the nonfinancial services sector, according to the statistics of the Ministry of Economic Affairs of Taiwan, from 2011 to August 2012 Chinese companies were allowed to invest in only 53 items on the early harvest list of the services sector under the ECFA in Taiwan, and the amount of investments or additional investments was US\$18.76 million. The product-design industry enjoyed the most investment projects in Taiwan (29 items in total). On the other hand, Taiwanese companies were allowed to invest in 228 items on the early harvest list, and the amount of investments or additional investments was US\$320 million. The computer software design industry enjoyed the most investment projects in China (119 items in total). After the signing of the ECFA, the Chinese government approved one hospital fully owned by a Taiwanese enterprise and allowed eight Taiwanese films to be broadcasted in China, while Taiwan allowed ten Chinese films to be broadcasted in Taiwan.

### **Comprehensive Evaluation of the Effects of the ECFA**

The cross-strait ECFA has been in effect for two years, yet the overall results are limited to the liberalization of the items on the early harvest list and the expected effects of the domestic and foreign enterprises.<sup>1</sup> According to estimates by the Ministry of Economic Affairs of Taiwan, the early harvest efficiency of ECFA accounted for 0.4 percent of the gross domestic production growth of Taiwan, representing in new Taiwan dollars (NT\$) 54.9 billion. It accounted for 0.86 percent of the output growth, totaling NT\$190 billion, and accounted for 0.64 percent of the employment growth, including 60,000 jobs (Ministry of Economic Affairs 2012b).

Several Taiwanese manufacturing products listed in the early harvest program saw a rapid increase in their exports to China in 2011. Nevertheless, according to the overall trading data in 2011, the ECFA did not improve the competitiveness of Taiwanese exports to China if we judge the competitiveness of each country's exports to China by comparing the share of the Chinese import market. Taiwan's market share in the import market of China increased from 11.3 percent in 2000 to 12.9 percent in 2002, began to decline in 2003, and reached only 8.3 percent in 2010. Since the implementation of the early harvest program under ECFA in 2011, Taiwan's market share has dropped to 7.4 percent in the first half of 2011 and further dropped to 7.2 percent in the second half of 2011. The declining trend continued during the first half of 2012, when the market share dropped to 6.6 percent, the

**Figure 1.** Share of China's Import Market by Different Economies, 2000–12

Source: CEIC Database.

lowest since 1993. The ECFA apparently did not bring any change to the declining competitiveness of Taiwan in China's import market (see Figure 1).

The ECFA had an insignificant effect on the attractiveness of Taiwan for FDI, which remained low. After President Ma took office, actual foreign investments in Taiwan dropped by 50.8 percent to US\$6.69 billion in 2008, and further decreased by 33.4 percent to US\$4.45 billion in 2009. Although the effect of the financial crisis had worn off in 2010, actual foreign investments still decreased by 29.1 percent to US\$3.16 billion, only half of the average amount of US\$5.65 billion from 2001 to 2007. In 2011, foreign investments saw an increase of 36.3 percent to US\$ 4.3 billion, which was still an insignificant amount. During the first half of 2012, foreign investments began to decline again, dropping by 8.7 percent to US\$1.06 billion, as shown in Table 3.

According to the World Investment Report (2012) published by the United Nations, Taiwan attracted 0.3 percent of the world's FDI inflows from 2000 to 2007, a higher percentage than Macau, Indonesia, and Vietnam in Asia. However, the ratio of FDI inflow to Taiwan to FDI inflow in the world has been declining since 2008 and dropped to -0.1 percent in 2011. Taiwan only attracted 0.2 percent of world FDI inflows from 2008 to 2011, the lowest among the Four Asian Tigers. Hong Kong, Singapore, and Korea accounted for 4.6 percent, 2.6 percent, and 0.5



Table 3

**FDI in Taiwan, 2000–12 (US\$ million)**

Time	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012/1H
Amount	3,349	1,908	2,724	2,983	3,430	11,576	13,602	6,692	4,454	3,157	4,303	1,063
Growth rate (%)	n.a.	-43.0	42.8	9.5	15.0	237.5	17.5	-50.8	-33.4	-29.1	36.3	-8.7

*Source:* Investment Commission of Ministry of Economic Affairs 2012.

*Note:* Data above are the actual foreign investment amount, not the authorized amount.

Table 4

**Ratio of FDI Inflows of Asian Economies to World Economies, 2000–11 (%)**

	2008	2009	2010	2011	2000–2007	2008–11
China	6.0	7.9	8.8	8.1	5.6	7.6
Hong Kong	3.3	4.4	5.4	5.5	3.2	4.6
Korea	0.5	0.6	0.7	0.3	0.5	0.5
Macau	0.1	0.1	0.2	0.3	0.1	0.2
Taiwan	0.3	0.2	0.2	–0.1	0.3	0.2
Indonesia	0.5	0.4	1.1	1.2	0.2	0.8
Singapore	0.7	2.0	3.7	4.2	1.7	2.6
Thailand	0.5	0.4	0.7	0.6	0.5	0.6
Vietnam	0.5	0.6	0.6	0.5	0.2	0.6

*Source:* United Nations 2012, 169–70.

percent of world FDI inflows, respectively. Taiwan attracted even less FDI than Thailand (0.6%), Indonesia (0.8%), and Vietnam (0.6%), let alone China (7.6%), as shown in Table 4.

The figures for international capital flows to Taiwan, including direct investments (overseas direct investments and direct investments in Taiwan) and securities investments (assets and liabilities), indicate that Taiwan was losing its place in international competition rapidly. In the 1990s, the average net annual international investment (net direct investment plus net securities investment) of Taiwan was negative US\$1.98 billion. Under the Democratic Progressive Party administration from 2000 to 2007, the net annual international investment of Taiwan was negative US\$13.23 billion. During the governance of President Ma from 2008 to 2011, the net annual international investment was negative US\$27.67 billion, representing the most serious outflow of capital in Taiwan's history. The annual capital outflow of Taiwan from 2008 to 2011 was US\$17.1 billion, US\$13.4 billion, US\$29.7 billion, and US\$50.4 billion, respectively. The capital outflow in 2011 was the most serious in history, as shown in Table 5.

Taiwan's domestic investment of Taiwan continued to flag after the establishment of the ECFA, as witnessed by the record wide gap between deposits and loans. The real investment rate may again hit a record low. In the 1980s, the real investment rate of Taiwan was 22.4 percent, and the average annual idle funds (difference between deposits and loans) totaled NT\$885 billion, accounting for 0.9 percent of the fixed capital formation. In the 1990s, the real investment rate of Taiwan was 28.0 percent, and average annual idle funds totaled NT\$ 2,576.2 bil-

Table 5

**Net International Investment in Taiwan, 1990–2011 (US\$ hundred million)**

	1990– 99	2000–7	2008– 11	2008	2009	2010	2011
Net direct investment (total)	–202.5	–247.8	–317.8	–48.6	–30.7	–90.8	–147.7
Net securities investment (total)	4.1	–810.3	–789.1	–122.5	–103.3	–206.7	–356.7
Net international investment (total)	–198.4	–1,058.0	–1,106.9	–171.1	–134.0	–297.5	–504.4
Net international investment (average per annum)	–19.8	–132.3	–276.7	n.a.	n.a.	n.a.	n.a.

*Source:* Central Bank of the Republic of China, Balance of Payments (by year) [in Chinese]. Available at [www.cbc.gov.tw/ct.asp?xItem=2336&ctNode=538&mp=1](http://www.cbc.gov.tw/ct.asp?xItem=2336&ctNode=538&mp=1), accessed June 10, 2012.

lion, accounting for 1.2 percent of the fixed capital formation. The real investment rate during the Democratic Progressive Party's administration was 23.7 percent, and the average annual idle funds totaled NT\$7,018.2 billion, accounting for 2.7 percent of the fixed capital formation. During the administration of President Ma, the average annual real investment rate was 17.7 percent, and the average annual idle funds were NT\$10.6848 trillion, accounting for 4.4 percent of the fixed capital formation. The Taiwanese government forecasted that the real investment rate of 2012 would reach a record low at 16.5 percent. The difference between deposits and loans in June 2012 was NT\$11.5148 trillion, a record high, and accounted for 4.6 percent of the fixed capital formation, the second-highest in history, as shown in Table 6.

Since signing the ECTA with China, Taiwan has not signed an FTA with any East Asian country in order to further its entry into the East Asia economic integration regime, nor has it commenced negotiations regarding FTAs with its major trading partners—the United States, Japan, and the European Union. Based on the statistics for 2010, tariff-free exports from Taiwan to the five countries in Central America accounted for 0.2 percent of total Taiwanese exports, whereas the early harvest program under the ECFA accounted for 6.7 percent of total Taiwanese exports. If the early harvest program under the ECFA had been in full operation, the proportion of Taiwanese tariff-free exports would be raised to a total of 6.9 percent (Kao 2012, 6). Compared with many East Asian countries, and Korea in particular, Taiwan had a very limited proportion of products that enjoyed bilateral free trade.

The ECFA should facilitate the negotiations for an FTA between Taiwan and Singapore. Meanwhile, the joint feasibility assessment of signing an FTA with New

Table 6

**Domestic Investment Momentum in Taiwan, 1981–2012**

Item	1981–89	1990–99	2000–7	2008–11	2012
Real investment rate (%)	22.35	28.04	23.68	17.73	16.49
Difference between deposits and loans (NT\$ hundred million)	8,850	25,762	70,182	106,848	115,148
Proportion of deposits-loans difference to total fixed capital formation (%)	0.9	1.2	2.7	4.4	4.6

*Sources:* National Statistics of Republic of China News, “Gross Domestic Product per Quarter Each Year by Expense” [in Chinese]. Available at [www.stat.gov.tw/ct.asp?xItem=14616&CtNode=3564&mp=4](http://www.stat.gov.tw/ct.asp?xItem=14616&CtNode=3564&mp=4), accessed August 7, 2012.

Central Bank of the Republic of China, Major Financial Indicators [in Chinese]. Available at [www.cbc.gov.tw/ct.asp?xItem=995&ctNode=523&mp=1](http://www.cbc.gov.tw/ct.asp?xItem=995&ctNode=523&mp=1), accessed August 10, 2012.

*Note:* Real investment rate in 2012 was estimated by the Taiwan government, while the difference between deposits and loans margin is the data in June 2012.

Zealand has commenced. The amount of trade between Taiwan and Singapore only accounted for 3.6 percent of Taiwan’s total foreign trade, while the amount of trade between Taiwan and New Zealand accounted for as little as 0.2 percent. In other words, even if Taiwan successfully entered into FTAs with these two countries, the contribution to Taiwan’s economic growth would be quite limited, as would any possible contribution to establishing Taiwan as an economic platform in East Asia.<sup>2</sup> In addition, some East Asian countries, afraid of political pressure from China, are unwilling to undertake negotiations with Taiwan in respect to FTAs or hope that Taiwan could provide unilateral economic benefits.<sup>3</sup>

In comparison, Korea, Taiwan’s major economic competitor, has already signed FTAs with nine economies: ASEAN, India, the European Union, the United States, Singapore, Peru, Chile, the European Free Trade Association, and Colombia. Korea is currently involved in negotiations with eight economies in respect to FTAs. Furthermore, in November 2012, China, Japan, and South Korea commenced FTA negotiations. If the agreement is entered into, Korea’s tariff-free export amount would account for 71.7 percent of its total exports, and 90 percent of Taiwanese exports will be affected by the FTAs entered into by Korea (Kao 2012).

Taiwan has even less of a chance of becoming the platform of East Asian economies now that Korea’s FTAs with the European Union and the United States have taken effect (on July 1, 2011, and March, 15, 2012, respectively). According to Taiwan’s Bureau of Foreign Trade, the amount of Taiwanese exports impacted

by the FTA between Korea and the European Union was NT\$150 billion, and the amount impacted by the FTA between Korea and the United States was NT\$350 billion. The total amount of Taiwanese exports impacted reached NT\$500 billion, accounting for 6.2 percent of total Taiwanese exports (Chen 2011).

In 2011, when running for office, President Ma proposed that Taiwan should join the Trans-Pacific Strategic Economic Partnership Agreement (TPP) in the next decade. However, this expectation could only come to fulfillment after President Ma is no longer in office. Taiwan has so far not formally indicated its willingness to join TPP and has not proposed a full plan. The U.S. government has pointed out that to join TPP, Taiwan must reach a high level of liberalization in such areas as trade policy, intellectual property rights, the services sector, investments, labor, and the environment, and must be determined to comply with free trade agreements with high standards (Liou 2012). With the rapid development of the East Asian economic integration regime, a decade of waiting will inflict great harm to Taiwan.

### **Follow-Up Negotiations After the ECFA**

The overall effect of the ECFA will depend on the follow-up negotiations on the four agreements. As of June 24, 2012, the Taiwan government has allowed the importation of 8,889 Chinese agricultural and industrial products, representing 80.7 percent of a total of 11,105 items. As Taiwan only listed 267 tariff-free Chinese goods in the early harvest program under the ECTA, 9,645 items of products still have to be completely liberalized if the target of liberalization of the agreement on trade in goods is set at 90 percent of the items of products. The services sector in Taiwan accounted for approximately 70 percent of the GDP, while the workforce accounted for approximately 58 percent of the total employed population. Therefore, opening the market of the services sector is the key to the competitiveness of the Taiwanese economy.

The World Trade Organization carried out quantitative assessments of the commitments to services sector liberalization according to Mode 1 (cross-border supply) and Mode 3 (commercial presence). The results showed that economic integration agreements (EIAs) facilitated the progress of liberalization of trade in services more effectively than the General Agreement on Trade in Services (GATS). In the commitment to the liberalization of trade in services in Mode 1, the degree of liberalization is about 20 percent more in developed countries than in developing countries. As China is rather conservative about expanding liberalization, the disparity of the commitments to liberalization of trade in services in EIAs and GATS is only 4.2 percent, while that of other countries is mostly over 20 percent.

Our study of the commitment to liberalization of trade in services of Mode 3 found the degree of commitment to liberalization in China in EIAs was about 55.4 percent; the commitments to liberalization in India, Thailand and Malaysia were 38.0 percent, 42.8 percent, and 48.8 percent, respectively. The commitments to liberalization in Japan, Korea, Singapore, the United States, and the European

Table 7

**Commitment to Liberalization of Trade in Services of Bilateral Economic Integration Agreements in East Asian Countries, 2012**

Country	Mode	Commitment to liberalization of trade in services under bilateral EIA (%)	Disparity of commitment to liberalization of trade in services between bilateral EIA and GATS (%)
China	Mode 1	44.4	4.2
	Mode 3	55.4	16.9
Indonesia	Mode 1	54.1	35.8
	Mode 3	38.0	21.7
Thailand	Mode 1	36.6	24.6
	Mode 3	42.8	16.5
Malaysia	Mode 1	44.8	18.9
	Mode 3	48.8	19.9
Japan	Mode 1	62.9	19.5
	Mode 3	76.2	14.6
Korea	Mode 1	64.7	23.7
	Mode 3	76.2	20.1
Singapore	Mode 1	77.7	43.9
	Mode 3	85.3	44.1
United States	Mode 1	67.5	13.3
	Mode 3	70.1	13.6
European Union	Mode 1	59.0	8.1
	Mode 3	69.7	10.0

*Source:* World Trade Organization 2012.

Union were 76.2 percent, 76.2 percent, 85.3 percent, 70.1 percent, and 69.7 percent, respectively. Obviously, the degree of liberalization in the developed countries was nearly 30 percent higher than in the developing countries. Although China had a relatively higher degree of liberalization, it still lagged by about 20 percent compared with the developed countries, as shown in Table 7.

Considering the Korea-U.S. Free Trade Agreement, the degree of commitment to liberalization of trade in services in Korea expanded from 48.8 percent achieved by GATS to 67.0 percent achieved by EIA, and that of the United States correspondingly expanded from 55.4 percent to 68.0 percent. This shows that both countries promoted liberalization of trade in services proactively. Considering the Korea-Singapore Free Trade Agreement, the degree of commitment to liberalization of trade in services in Korea expanded from 48.8 percent to 58.4 percent, and that of Singapore expanded from 37.6 percent to 71.0 percent. In comparison, the degree

Table 8

**Liberalization of Bilateral Trade in Services of Korea, Singapore, and China (%)**

	Korea and United States		Korea and Singapore		China and Singapore	
	Korea	U.S.	Korea	Singapore	Korea	U.S.
GATS	48.8	55.4	48.8	37.6	39.3	37.6
EIA	67.0	68.0	58.4	71.0	40.1	44.1

*Source:* World Trade Organization 2012.

of commitment to liberalization of trade in services in China expanded just slightly from 39.3 percent to 40.1 percent, and that of Singapore expanded from 37.6 percent to 44.1 percent under the China-Singapore Free Trade Agreement. Obviously, the willingness of China to expand its degree of commitment to liberalization of trade in services was limited, but Korea and Singapore showed higher and more active willingness. Taiwan should follow in the footsteps of Korea and Singapore by expanding its degree of commitment to liberalization of trade in services and should ask China to sign an agreement of trade in services with a higher degree of liberalization, as shown in Table 8.

Lin (2012) adopted the methodology by Marchetti and Roy (2008) to calculate the proportion of services subsectors subject to new or improved commitments to EIAs by China to its several trading partners. Not surprisingly, the highest proportion is in the Closer Economic Partnership Arrangement (CEPA) signed by Hong Kong and China. For some time, Taiwan's Ministry of Economic Affairs has indicated the intention to negotiate even better deals in ECFA than in CEPA. One area of particular interest is the financial sector. China has given an exclusively high level of improved commitments to Hong Kong in banking, securities and futures, and the insurance industry. The financial sector in Taiwan is quite mature, but its markets are overly crowded and competitive. Therefore, it makes good sense for Taiwan to negotiate a bilateral preferential agreement in the financial sector in general, and perhaps, more particularly, another renminbi offshore center (other than Hong Kong, Singapore, and London), so as to seize the opportunity offered by the renminbi internationalization process.

## Conclusion

Taiwan's economy faces strong international competitive pressure due to the rapid development of regional economic integration. President Ma tried to resolve the marginalization pressure on the Taiwanese economy by signing an ECFA with China to increase the competitiveness of Taiwan's exports, create more domestic investments, attract more foreign investment to Taiwan, and sign free trade agreements

with other countries. Although the ECFA has been in effect for two years, its effect is quite limited. Moreover, the ECFA may not prevent China from opposing FTA negotiations between Taiwan and other trading partners (the United States, Japan, and Europe), since China has not signed an FTA or even commenced negotiations with these countries.

Whether the ECFA can achieve significant effects will be determined by the outcome of the negotiation of the subsequent four agreements. After signing the agreement on investment protection in early August 2012, both sides said the agreement on trade in services could be signed before the end of the year. The Taiwanese government should carefully assess and integrate the advantages of the services sector of Taiwan and avoid repeating its mistakes in signing the ECFA, which yielded few results, by impatiently signing the cross-strait agreement on trade in services that will open up only a small portion of the services sector and miss the chance for development of Taiwan. In particular, the Ma administration should not require China to unilaterally open up more trade in services to Taiwan in favor of short-term political convenience, as this will give China a reasonable excuse to refuse a wider opening of trade in services.

Lastly, given the immense competitive pressure from rapid regional economic integration, Taiwan should focus its valuable negotiation resources on China and the United States. Simultaneously signing FTAs with them should be the first priority so as to break through the political obstacles posed by China and to maximize economic benefits for Taiwan. Negotiating FTAs with Japan, the European Union, Southeast Asia, and Hong Kong would be the second priority. To complete the bilateral FTA negotiations successfully, the Taiwanese government must be determined to advance economic liberalization, reach consensus between the ruling and opposition parties, fully evaluate the advantages and disadvantages of the FTA, establish comprehensive supporting measures while actively integrating the interests of industries, facilitate economic structural adjustment, and, most importantly, to assist in achieving full employment.

## Notes

1. Yiin Chii-ming, minister of the Council for Economic Planning and Development, agrees that the ECFA is a framework agreement with a limited function and “therefore significant benefits should not be generated.” Seminar on “National Economic Development of Taiwan” at the Lee Teng-hui Foundation, May 27, 2012.

2. Dialogue between the first author and senior officials of Singapore in Taiwan on August 15, 2011. According to the ECFA Website set up by the Taiwanese government, the Industrial Development Bureau of Taiwan convened 170 practitioners in the industry for the first time on June 25, 2012, for exchanges and discussions on follow-up tariff reduction requirements under the ECTA.

3. Dialogue between the first author and an official of a Southeast Asian country in Taiwan on July 5, 2010. A senior official of Australia stationed in Taiwan told the first author on June 22, 2012 that Australia did not intend to negotiate with Taiwan in regard to an FTA. It would negotiate an FTA with China first and saw no signs that Taiwan was determined



to promote trade liberalization. Moreover, a deputy representative of an African country stationed in Taiwan told the author on July 4, 2010, that it had been pressured by China and did not want to negotiate an FTA with Taiwan.

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