



# SINO-TAIWAN ECONOMIC COOPERATION FRAMEWORK AGREEMENT (ECFA): TIME TO DISCUSS ONE CHINA?

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*The Economic Cooperation Framework Agreement (ECFA) was signed by China and Taiwan in June this year and took effect on September 12. It is designed to promote closer cooperation and is viewed by many as a great step in the ongoing economic integration. However, questions remain as to whether this agreement can help resolve political disputes between China and Taiwan, especially those related to security and sovereignty.*

## The Pro-Mainland Policy of Ma Yingjeou

Dangerous confrontations in cross-strait relations between China and Taiwan continued during the eight years that Chen Shuibian was Taiwan's president (2000–8). He repudiated the "one China" principle and his party, the Democratic Progressive Party (DPP), continued to air the view that Taiwanese independence was their ultimate goal. In response, China threatened military action while building up missile batteries in the region and continued applying diplomatic pressure on other countries to further isolate Taiwan internationally.

However, relations across the Taiwan Straits have improved since Taiwan's new president, Ma Yingjeou, took office in March 2008. Ma and the Kuomintang (KMT) have repaired relations with China that were damaged under President Chen. Ma has opposed Taiwan's independence policy and agreed that the 1992 Consensus is the basis for negotiations between the two sides. The Consensus states that both sides recognize that there is only one China, with both mainland China and Taiwan belonging to one China. However, both the People's Republic of China (PRC) and the Republic of China (ROC) hold that there is one China, and both claim that they are the sole legitimate representative.

With Ma's pro-mainland policy, genuine reconciliation has taken shape over the Taiwan Straits. Recently, high level semi-official organizations – the Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Straits (ARATS) – reopened between Taipei and Beijing and made several important technical agreements.

Direct flights between mainland China and Taiwan started allowing the entrance of up to 3000 visitors from China to Taiwan every day, and the partial liberalization of Chinese investments on the island. Taiwan's international status has also slightly improved. The most outstanding agreement, however, was seen at the fifth round of the SEF-ARATS talks, when the Economic Cooperation Framework Agreement (ECFA) was signed in the Chinese city of Chongqing in June 2010 by trade representatives from both sides. This is the equivalent of a free trade agreement. It is regarded as the most significant agreement since the end of Chinese Civil War between the Kuomintang and the Communist Party of China in 1949. Nevertheless, questions still remain as to whether or not this historic economic agreement can help both sides begin to resolve their political disputes, especially military confrontation and sovereignty issues.

## Why did China and Taiwan sign the ECFA?

The ECFA is a landmark free trade style agreement aimed at stimulating trade between China and Taiwan by slashing tariffs in hundreds of sectors. Under the ECFA, China will scrap tariffs on 539 Taiwanese products within the next two years. That amounts to US\$13.8 billion worth of Taiwan's exports. In return, Taiwan will abolish tariffs on 267 Chinese exports worth US\$2.85 billion.

The deal is thought to be structured to benefit Taiwan far more than mainland China. In fact, China made major concessions, giving Taiwan twice the number of tariff free exports and a fivefold advantage in money terms. Furthermore, China allowed imports of Taiwanese agricultural



products and also opened markets in eleven service sectors such as banking, securities, insurance, hospitals, accounting and motion picture industries to Taiwanese businesses. Meanwhile, Taiwan opened only nine service sectors to China, and continues to ban workers from the mainland from seeking employment on the island as well as the export of Chinese agricultural products to Taiwan.

With such Chinese concessions, an obvious question centers on what China and Taiwan's different strategic motivations are through integrating their economies?

It is obvious that the ECFA could maximize mutual prosperity and common interest which will establish the goodwill necessary for facilitating political rapprochement between China and Taiwan in the future.

However, for China's part, it has frankly stated that it supports the ECFA undertaking because it believes that this will maximize its ability to coerce Taiwan into eventual political integration across the Taiwan Straits. In other words, China expects it will be the first step towards reunification. Furthermore, China could incorporate Taiwan's economy into a Chinese regional economic bloc, taking one more step towards the so-called "One China" vision. The Framework Agreement signals the emergence of a pan-Chinese market that encompasses China, Taiwan, Hong Kong and Macau, boasting a consumer base of 1.4 billion people with a combined economy of US\$5.5 trillion.

Meanwhile, Taiwan expects that the economic benefits of the ECFA will provide a good opportunity for Taiwan to enhance its capacity in dealing with its current economic difficulties. Taiwan believes the ECFA will help it create 260,000 jobs and boost economic growth, which recorded -1.9% in 2009 due to the global financial crisis, by as much as 1.7%. Particularly, big businesses in Taiwan, such as banks, petrochemical companies, and hi-tech firms seeking greater access to China's market, are expected to benefit. In addition to the economic aspect, Taiwan expects to escape from potential isolation amid a global frenzy of free trade agreements. Taiwan has an inability to sign free-trade deals with other countries because of objections from China who has sought to limit Taiwan's international profile. Taiwan is likely to attempt to overcome its economic isolation from the international community through its first free trade agreement with China.

In sum, the ECFA would give a boost to Taiwan's economic growth, while China sees it as part of a long term

charm offensive aimed toward self-ruled Taiwan's eventual reunion with China.

### Dispute over Sovereignty and the Future of Sino-Taiwan Relations

The ECFA will no doubt not only result in much closer cooperation across the Taiwan Straits, but also result in a reduction of tension between the longtime rivals. Despite the current peaceful atmosphere, there has been no progress, so far, on resolving the underlying, six-decade-old dispute between China and Taiwan over sovereignty. It is commonplace that China-Taiwan deals have prioritized economic benefits and avoided discussing sensitive political and security issues. The two sides seem reluctant to engage in difficult dialogues at present. Many of the current Chinese leaders have been prepared to place greater emphasis on social and economic stability rather than inviting instability and tension with other countries. Similarly, with China's rising economic prospects, Taiwan's leaders are increasingly seeking mainland trade and investment opportunities as a way to recover from its domestic economic recession. Nonetheless, China has always held a policy of no toleration moves toward independence for Taiwan. China still keeps more than 1,000 missiles targeting Taiwan as a warning against any possible moves towards independence.

The sovereignty issue, which was artificially suppressed for the last two years, remains the most critical in how this possible dispute will play out or be resolved in the future. However, it does not seem to be an urgent issue. There is no prospect for political or military dialogues across the Taiwan Straits in the short term. A political deal with China does not seem to be on President Ma's agenda at least until (and if) he is reelected in 2012, since he is still in a weak position to commit to further political integration with China. Indeed, the KMT's mainland policy has been under intense attack from the anti-China opposition in Taiwan that is also keen to point out any link between the deal and its political relations with China. Furthermore, in several local elections the DPP has recovered parts of its lost electorate, adding pressure on the current government. Furthermore, President Ma's approval ratings dropped to 28 percent in mid-June 2010 from about 40 percent in mid-2009. Due to increasing dissatisfaction with the Ma government, he was hesitant to sign the ECFA which could harm Taiwan's sov-



ereignty by making the island too economically dependent on, and politically vulnerable to China.

Ma and his party will face tough local elections this November, a legislative election in late 2011, and general elections in March 2012. Elections will be a critical factor for the future political relations across the Taiwan Straits and whether the seemingly intractable sovereignty issue is to be resolved peacefully or not.

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