TAIWAN-MAINLAND ECONOMIC COOPERATION FRAMEWORK AGREEMENT

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Executive Summary

1. Taiwan and mainland China signed an Economic Cooperation Framework Agreement (ECFA) in Chongqing, China on June 29, 2010, heralding a new era in cross-Strait relations.

2. ECFA is a cross-Strait agreement based on the basic principles of the WTO and adapted by negotiators to suit cross-Strait relations. The framework contains five chapters: preface, general principles, trade and investment, economic cooperation, the early harvest lists and other affairs.

3. As an export-oriented economy, Taiwan is highly dependent on trade to sustain its economic development. However, over the last decade, Taiwan has been increasingly marginalized and excluded from East Asia's regional integration process.

4. Taiwan hopes to regain some of its export competitiveness with the conclusion of the ECFA, attracting more foreign investors and more Taiwan-based foreign businesses to Taiwan.

5. Taiwan's economic recovery will definitely benefit from the signing of the ECFA. Taiwan will be able to leverage on ECFA to ride on China's rapid economic growth and develop China's potential domestic market.

6. In the short run, there are disruptive effects. Some critics charge that there will be uneven distribution of benefits and adjustment costs. In the long run however, the ECFA will create a win-win scenario. It will have a positive impact on the transformation of the division of labor in industry across the strait.

7. Instead of exporting intermediate goods and raw materials to China for assembling and re-exporting to western countries, Taiwan will be able to focus on making effective use of innovation, R&D and marketing.

8. Finally and more importantly, the ECFA has regional implications and will facilitate Taiwan’s involvement in regional economic integration in East Asia.

9. It is evident that the early harvest list will have the greatest impact on South Korea and Japan in the China market. Thus the signing of the ECFA will invariably expedite the promotion of an ASEAN+3 FTA.

10. Since the mainland now accounts for nearly 30% of Taiwan’s total exports, by the signing of ECFA with the mainland, Taiwan will indirectly benefit from the mainland’s FTAs with its trading partners in Southeast Asia.

11. With improvement in cross-Strait relations, Taiwan may find more opportunities in joining multilateral activities in the region, for example, as an observer in ASEAN. The signing of the ECFA is likely to help Taiwan’s bid in establishing FTAs with ASEAN countries.

12. For the mainland, it can further enhance cross-Strait economic integration with the ECFA, and increase its communication with Taiwanese society to promote cultural and political dialogues, thus bringing Taiwan closer politically and culturally.

TAIWAN-MAINLAND ECONOMIC COOPERATION FRAMEWORK AGREEMENT

ZHAO Hong*

Taiwan and Mainland China Sign Landmark Trade Deal

1.1 On June 29, 2010, Taiwan and mainland China concluded the fifth round of Chiang-Chen bilateral talks in Chongqing, China with the signing of an Economic Cooperation Framework Agreement (ECFA). The agreement is planned to come into effect in January 2011 after being passed by Taiwan Legislative Yuan. There is no doubt that the ECFA will serve as an important foundation for cross-Strait market opening and the promotion of economic collaboration between Taiwan and China. It heralds a new era in cross-Strait relations and is likely to have an impact on the relations between these two and the region.

1.2 ECFA is a cross-Strait agreement based on the basic principles of the World Trade Organization (WTO) and adapted by the negotiators to suit cross-Strait relations. The framework contains five chapters: preface, general principles, trade and investment, economic cooperation, the early harvest lists and other affairs (see appendix). Comprising a total of 16 articles, the ECFA regulates nearly all major cross-Strait economic activities. The early harvest part covers those aspects of trade in good and services that will be opened up first.

1.3 ECFA is not a full FTA. The early harvest list covers only part of the trading commodity items between the two sides. Further negotiations on the liberalization of trade in goods and services, investment agreement, dispute settlement, etc, will not begin until 6 months after the ECFA has come into

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effect. A special committee (Cross-Strait Economic Cooperation Committee) will be formed to oversee the implementation to boost administrative efficiency and expertise.

1.4 The chapter likely to have the most immediate impact on bilateral trade is the one on early harvest program. This chapter lays down regulations on tariff waivers for merchandise trade and preferential market access terms for service industries. As many as 539 Taiwanese products (including 18 agricultural products and limited number of service industries) were placed on the early harvest list. In 2009, China's imports of these products from Taiwan totaled US$13.8 billion, accounting for 16.1% of Taiwan's total exports to mainland.[1]

1.5 The early harvest list of products with respect to which Taiwan will be reducing the import duty on goods from China includes 267 product items. In 2009, China's exports of these products to Taiwan came to US$2.9 billion, representing 10.8% of China's total exports to Taiwan. Not only is the number of product items for which the mainland is opening up its market to Taiwan higher than the corresponding number for Taiwan, but the percentage of Taiwan's exports to mainland for which these products account is higher than the corresponding percentage of mainland's exports to Taiwan.

1.6 Taiwan's early harvest product items fall into two main categories. The first category comprises up- and mid-stream products of relatively capital-intensive traditional industries such as the petrochemical industry, machinery manufacturing industry, and the textile industry. These are relatively competitive industries with significant exports to China which are being increasingly threatened by products from ASEAN. The inclusion of these products in the early harvest program may help Taiwanese manufacturers of these products maintain their market shares.

1.7 The second category comprises labor-intensive traditional industries such as automobile components and parts, small electrical appliances, apparel and

[1] Mainland Affairs Council, Taiwan, http://www.mac.gov.tw/ct.asp?xItem=85683&ctNotde=5921&mp=3

accessories, footwear and hosiery industry, etc. In the past, mainland's high tariff barriers have made it difficult for companies in these industries to export their products to China. Taiwan enjoys a significant technological advantage in these industries, so their inclusion in the early harvest should help manufacturers raise their market share in China.

1.8 The early harvest program includes items that the two sides are not in much direct competition. However, the fact remains that these products account for only a relatively small percentage of total exports to the other. In the future, further negotiations on tariff reductions and market access negotiations will likely touch upon those contested by businesses from both sides.

1.9 More significantly, economic integration and interdependence in broader areas such as investment and services could lead to heightened criticisms from Taiwan's opposition parties. For example, critics say that the mainland might eventually push Taiwan to lift bans on Chinese investment in some highly sensitive local industries such as finance and banking, telecommunications and high-tech, which involve industry safety and economic security.

1.10 Critics also believe that in the short run there are disruptive effects of the ECFA. They charge that there will be uneven distribution of benefits and adjustment costs, as ECFA only benefits mostly big businesses in Taiwan and will make it difficult for small businesses to compete with the influx of cheap Chinese goods. A number of industries like some labor intensive and traditional industries will have to adjust to a period of lower growth where more restructuring, including layoffs and cost cutting, is needed.

1.11 Moreover, critics also worry that the island would share the fate of Hong Kong, where big businesses with business interests in the mainland have strong influence over what scholars and even newspapers say about China and human rights issues.[2]

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[2] "China-Taiwan trade pact sparks street protest in Taipei", *BBC News*, 26 June 2010, http://www.news.bbc.co.uk/2/hi.world.asia_pacific/10423409.stm

1.12 Taiwan's main opposition party, the Democratic Progressive Party (DPP), has opposed the ECFA consistently, saying that the deal could be the first step to a Chinese political takeover, and attempted to deter its signing through parliamentary reviews and a referendum. The DPP is also trying to make local mayoral elections later this year a vote of confidence against the agreement.

1.13 It is believed that the ECFA primarily affects cross-Strait relations in terms of economic, cultural and educational flows. "There is little chance that it will be used to embark on future political talks or touch on other sensitive issues, such as military confidence building mechanisms between the two sides."[3]

1.14 Generally speaking, Taiwan benefits more from the agreement than the mainland. Thanks to Taiwan's efforts as well as the goodwill of the mainland, all agricultural and fishery products have been excluded from the mainland's early harvest list. Therefore Taiwan does not need to admit any new types of agricultural imports from the mainland or further reduce tariffs on the 1,415 agricultural import items previously admitted. As a result, the signing of the ECFA has little impact on Taiwan's agricultural and fishery industry.

1.15 Taiwan's early harvest list is of considerable scale in terms of item number, amount, and ratio of goods covered to total trade with the mainland. The 539 Taiwan goods covered under the early harvest list more than double the 267 mainland items included. The Taiwan items have a total export amount of about US$14 billion, or 4.8 times more than the trade of goods covered by the mainland's early harvest list. The figure of US$14 billion accounts for about 16.1% of Taiwan's total exports to the mainland, while the US$2.9 billion figure represents 10.5% of the mainland's exports to Taiwan (Table 1). The ratio and scope of these Taiwan items included in the early harvest list under the ECFA is far higher than the mainland's ratio of 2.12% under its early harvest list signed with the ASEAN + 1 countries. [4]

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3 Wu-ueh Chang, "ECFA's effects on the interplay between Taiwan's political parties and cross-Strait relations", *Prospects & Perspectives*, July 2010, Cross-Strait Interflow Prospect Foundation, No. 9.

4 Mainland Affairs Council, Taiwan, http://www.mac.gov.tw/ct.asp?xItem=85683&ctNotde=5921&mp=3

TABLE 1 COMPARISON OF GOODS ON THE EARLY HARVEST LIST UNDER THE ECFA

Item	Number of Mainland Tariff Concessions to Taiwan	Number of Taiwan Tariff Concessions to Mainland	Ratio
Number of listed goods	539	267	2: 1
Export value of the listed goods (US$1 billion)	13.83	2.86	4.8:1
Ratio of said export value to total exports to the other side (%)	16.1	10.5	1.5:1

1.16 It is clear that in the immediate future, Taiwan stands to benefit from the ECFA and its subsequent negotiations for the access they provide to one of the world's most dynamic market. It is a significant achievement in Taiwan's endeavors to be involved in regional market integration in Asia through participation in multinational trade organizations and engagement in free trade agreements (FTAs).

Challenges to Taiwan's Trade Development

2.1 As an export-oriented economy, Taiwan is dependent on trade to sustain its economic development over the past decades. Taiwan's foreign trade has grown rapidly since the early 1970s. Its foreign trade value came to US$100 billion in 1988, and reached US$400 billion in 2006. With a record trade value of US$496 billion in 2008, Taiwan stood as the 18th leading exporter in the world. Due to the global economic downturn triggered by the 2008 financial tsunami, Taiwan's exports declined to US$378.4 billion in 2009 (see Table 2).

TABLE 2 DEVELOPMENT OF TAIWAN'S EXPORTS AND IMPORTS (US$ billion)

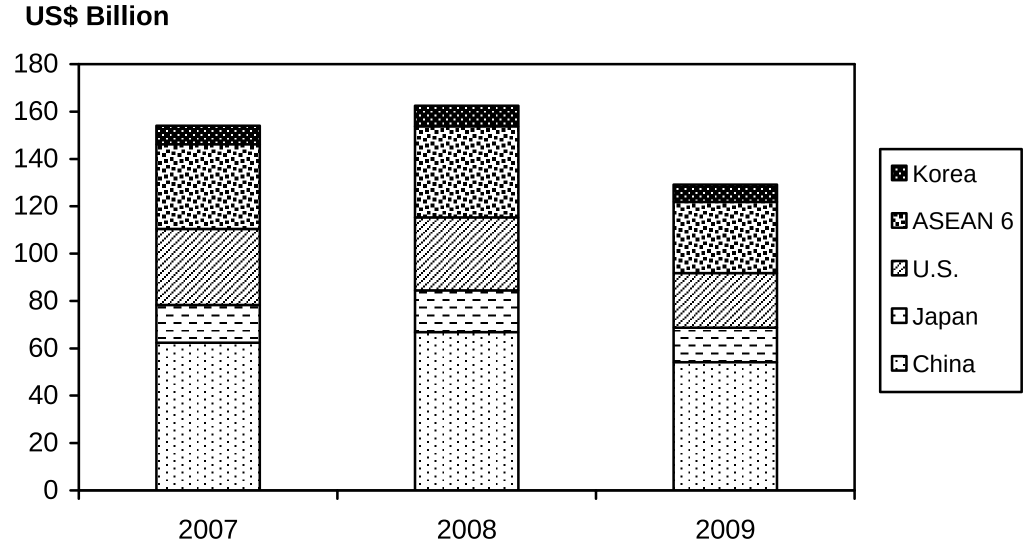
	Total	Exports	Imports	Balance
1970	3	1.48	1.52	-0.043
1975	11.3	5.31	5.95	-0.64
1980	39.5	19.8	19.7	0.078
1985	50.8	30.7	20.1	10.6
1990	121.9	67.2	54.7	12.5
1995	217.4	113.3	104.0	9.3
2000	292.7	152.0	140.7	11.2
2001	234.3	126.3	108.0	18.3
2002	248.6	135.3	113.2	22.1
2003	278.6	150.6	128.0	22.6
2004	351.1	182.4	168.8	13.6
2005	381.0	198.4	182.6	15.8
2006	426.7	224.0	202.7	21.3
2007	465.9	246.7	219.3	27.4
2008	496.1	255.6	240.4	15.2
2009	378.4	203.7	174.4	29.4

Source: Ministry of Finance, Taiwan, http://web01.mof.gov.tw/njswww/jspproxy.aspx?sys=100 &funid=defjspt2

2.2 Taiwan's trade share in its GDP in 2009 was 99.7%. Over the past decade, Taiwan's major export destinations have shifted to East Asia. Taiwan's growing dependence on regional markets reflects the expansion of manufacturing production chains with its neighboring economies, where scores of electronics factories assemble Taiwan-made components for onward export to the U.S. and other foreign markets.

2.3 Regional market integration in Asia and ASEAN in particular presents great opportunities for Taiwan. Some of these regional dynamic economies have become increasingly important trade partners to Taiwan. For example, from 1985 to 2009, export shares of the U.S. in Taiwan's total exports decreased from 48.1% to 11.6%, while that of ASEAN 6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) increased from 6% to 14.8%, and that of mainland China rose to 26.6%. In 2009, Taiwan's export dependence on China, ASEAN 6, U.S. and Japan was 26.6%, 14.8%, 11.6% and 7.1% respectively (Figure 1).

FIGURE 1 TAIWAN'S EXPORT DEPENDENCE



Source: http://cus93.trade.gov.tw?FSC3/FSC3040F

2.4 However, over the last decade, Taiwan has been increasingly marginalized and excluded from East Asia's regional integration process. The stagnant pace of WTO Doha Round Negotiation has proliferated bilateral FTAs worldwide as a result of the "Spaghetti Bowl Effect". By January 2010, a total of 98 FTAs had been implemented in East Asia, while Taiwan had inked FTAs with only 5 central American countries (Table 3), which constitute a combined 0.187% share of Taiwan's global exports.

TABLE 3 FTA STATUS IN EAST ASIA BY COUNTRY, AS OF JANUARY 2010

Country	Implemented	Signed	Under negotiation	Proposed	Total
Singapore	18	1	7	4	30
Korea	6	2	7	13	28
India	11	0	10	5	26
Thailand	10	0	7	6	23
China	8	1	6	7	22
Malaysia	8	1	6	5	20
Japan	11	0	4	4	19
Indonesia	7	1	2	5	15
Philippines	7	0	1	3	11
Vietnam	7	0	2	2	11
Taiwan	4	0	2	1	7
Hong Kong	1	0	1	0	2
Total	98	6	55	55	214

2.5 ASEAN is currently engaged in ASEAN+1 agreements with China, Japan, Korea, India, and Australia-New Zealand, making ASEAN a de facto FTA hub (Table 4). Since January this year, ASEAN and China have moved closer to a single free trade market, within which over 90% of goods traded are granted tariff-free treatment. Japan and South Korea are now in intensive talks with mainland China over FTA, potentially resulting in an even bigger 13-country free trade market.

TABLE 4 TIME FRAMES FOR ASEAN AND ASEAN PLUS AGREEMENTS

Group/FTA	Signed	Implementation	Completion date of tariff commitments	
			ASEAN 6	ASEAN 4
ASEAN-AFTA (0-5% tariff target)	1992	January 1993	2003	2006-2010
ASEAN-AFTA (0% tariff target)			2010	2015
ASEAN + China	2004	July 2005	2010	2015
ASEAN + Japan	2008	January 2009*	2012	2017
ASEAN + Korea	2006	Jun 2007**	2010	
ASEAN + India	2008	March 2010		
ASEAN + Australia/New Zealand	2009	Pending ratification		

* Implemented by Brunei, Japan, Laos, Malaysia, Singapore, Myanmar, and Vietnam.
** Thailand has yet to sign and implement the goods agreement.

2.6 The increasing concern is that Taiwan's businesses will be seriously disadvantaged, due to higher import tariffs as well as other trade and business barriers, if it continues to be excluded from any free trade areas in East Asia. This is especially true for some of Taiwan's pillar industries such as petrochemical, machinery and motor industries which accounted for 24% of Taiwan's total exports in 2007.

2.7 According to a recent report from Taiwan, 110,000 workers may lose their jobs due to the trade diversion brought about by the ASEAN-China FTA, since Taiwan's exports of petrochemical, machinery products and motor vehicles and spare parts to the mainland are subject to 6.49%, 8.23% and

14.92% import tariffs respectively, much higher than those for ASEAN countries under the ASEAN+1 framework (Table 5).

TABLE 5 CUSTOMS TARIFFS FOR TAIWAN'S PRODUCTS IN MAINLAND (US$ million; %)

Items	Tariffs for Taiwan	Preferential Tariffs for ASEAN Under ASEAN+1 Framework				Taiwan's Exports to mainland (2007)		Total global exports (2007)	Employees
	2009	2005	2007	2009	2010	Value	Share in total exports		
Petrochemical products	6.49	6.01	5.53	0.98	0.25	13405.7	43.3	30,929.6	57,000
Machinery Products	8.23	6.97	5.84	2.08	0.07	4 098.3	27.1	15,154.4	327,480
Motor vehicles and spare parts	14.92	13.59	11.42	7.04	4.31	504.7	5.4	9,353.3	80,000

Sources: China's customs statistics and Taiwan's customs statistics

2.8 The situation will worsen when other FTAs such as those between Korea and the U.S., and the EU and India come into effect between 2010 and 2012, putting Taiwan at a further disadvantage. Recent years have already witnessed decline in competitiveness of Taiwan's exports and fall of its world ranking and share of global trade.

2.9 Although Taiwan advanced to the eighth place in the latest world competitiveness yearbook of the Switzerland-based International Institute for Management Development from 23rd last year, it was still ranked 104th in the "market access" sub-index of World Economic Forum's (WEF) 2009 – 2010 world competitive report. According to *Focus Taiwan*, "the reason Taiwan was given such a low WEF ranking is that it has forged only a limited number of FTA with foreign countries."[5] As shown in Table 6, between 2000 and 2008, Taiwan's share in global exports declined from 2.3% to 1.6% while its share in global imports declined from 2.1% to 1.5%.

[5] "ECFA let Taiwan 'resume regional hub status'", *Focus Taiwan*, June 21, 2010, http://focustaiwan.tw/showNews/WebNews_Detail.aspx?Type=aECO&ID=201006210008

TABLE 6 TAIWAN'S WORLD RANKING AND SHARE OF EXPORTS AND IMPORTS

	Exports			Imports			Total Trade	
	Amount	**Ranking**	**Share**	**Amount**	**Ranking**	**Share**	**Amount**	**Ranking**
1999	121.6	14	2.2	110.7	15	1.9	232.3	15
2000	148.3	14	2.3	140	15	2.1	288.3	14
2001	126.3	14	2.0	108	16	1.7	234.3	16
2002	135.3	14	2.0	113.2	16	1.7	248.6	15
2003	150.6	15	2.0	128	16	1.6	278.6	15
2004	182.4	17	2.0	168.8	16	1.8	351.1	16
2005	198.4	16	1.9	182.6	16	1.7	381.0	16
2006	224	16	1.9	202.7	16	1.6	426.7	17
2007	246.7	16	1.8	219.2	17	1.5	465.9	17
2008	256	18	1.6	240.0	18	1.5	496.0	17

Source: Annual WTO international trade statistics

2.10 Taiwan hopes to regain some of its export competitiveness with the conclusion of the ECFA, which will oblige the mainland to grant tariff waivers and market access to a number of Taiwanese products and services. Taiwan also hopes that with the signing of ECFA, more foreign investors will flock to the island state, and many Taiwan-based foreign businesses will expand their presence in Taiwan. "The ECFA, coupled with the reduction of the corporate income tax rate to 17% under the Industrial Innovation Act and the opening of direct cross-Strait transportation lines, will enable Taiwan to emerge as a regional business hub," [6] according to *Focus Taiwan*.

Effects and Implications of the ECFA

3.1 The global economy as a whole is now starting to recover from the financial crisis of 2008. Individual countries and economies around the world are adjusting their economic structures and implementing long-term development strategies so as to compete more effectively in global markets in the future.

3.2 China is currently in the process of formulating its 12th Five-year Plan, and is to adjust its current growth pattern and explore a new development model in

[6] "Trade pact with China will be a 'vitamin' for Taiwan: Japanese expert", *Focus Taiwan*, June 22, 2010, http://focustaiwan.tw/showNews/WebNews_Detail.aspx?Type=aECO&ID=201006220074

the post-crisis era, while Taiwan is planning for “Ten Golden Years” and to enhance its role as a regional headquarter for business. For both China and Taiwan, one of the key factors that determine the success or failure of these plans will be how effectively they are able to leverage on the ECFA to maintain a stable development of cross-Strait ties and put the bilateral trade on a more institutionalized and systematized footing.

3.3 As the Chinese government is adjusting its development model from export-led to domestic consumption-led, China is transforming from a “world factory” to a “world market”. Taiwan will be able to leverage on the ECFA to ride on China’s rapid economic growth and develop China’s potential domestic market. Instead of exporting intermediate goods and raw materials to China for assembling and re-exporting to western countries, Taiwan will be able to focus on making effective use of innovation, R&D and marketing to establish a strong position in the mainland market. Thus the ECFA will lead to a transformation of the division of labor in industry between Taiwan and the mainland, and will bring about a new stage in the process of industrial upgrading for both sides.

3.4 In the short term, Taiwan’s economic recovery will definitely benefit from the signing of the ECFA although there is the adjustment problem for some small industries. The mainland is not only the biggest export market for Taiwan, but also an important source of tourists, investment and consumer demand. The huge mainland market has become the most important driving force for the recovery and future development of the island’s economy, with the estimated creation of some 260,000 jobs in Taiwan and the lifting of its GDP by 1.7% per year.[7]

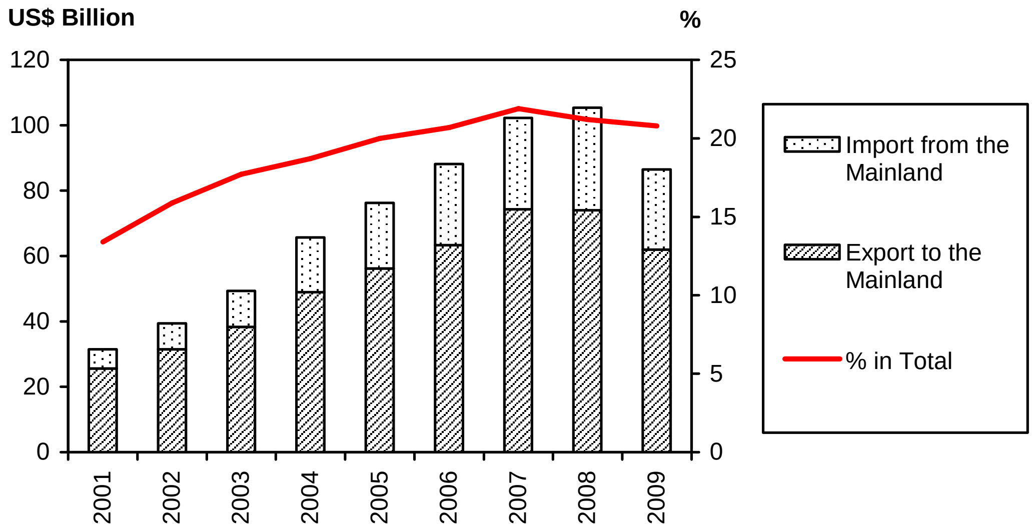
3.5 Most of the 539 items on the early harvest list for tariff concessions from the mainland side are sought by Taiwan particularly in the interest of its small and medium-sized enterprises (SMEs). According to the statistics compiled by the Ministry of Economic Affairs, at least 23,000 SMEs will profit directly from

[7] “Early harvest lists finalized at ECFA meeting”, *The China Post*, June 25, 2010, http://www.chinapost.com.tw/national/national-news/2010/06/25262092/Early-harvest.htm

the deal. These businesses have a combined mainland export value of US$2.77 billion per year and a workforce at least 426,000 people.[8]

3.6 In terms of bilateral trade, due to the 2008-2009 financial crisis, cross-Strait trade decreased from US$105 billion in 2008 to US$86.5 billion in 2009, with Taiwan still enjoying a trade surplus of US$37.5 billion (Figure 2). The signing of the ECFA, which leads to zero tariff for most industrial products, will give Taiwan a head start in the mainland market. It will put Taiwan on an equal footing with ASEAN countries and overtake South Korea in the mainland market.

FIGURE 2 TAIWAN'S TRADE WITH MAINLAND CHINA



Source: www.cweb.trade.gov.tw

3.7 Take petrochemical raw materials as an example. In 2007, of China's total imports of approximately US$76.3 billion, Taiwan accounted for 15%, South Korea 20%, and Japan 18%. If China's average import tariff (6.17%) was reduced to zero, it would help Taiwan win over a big portion from Japan and

[8] Mainland Affairs Council, Taiwan, http://www.mac.gov.tw/ct.asp?xItem=85683&ctNotde=5921&mp=3

South Korea's combined market share (38%), worth approximately US$38 billion.

3.8 In terms of service sectors, in the early harvest list, the mainland opens up 11 service sectors to Taiwan, including 8 non-financial sectors and 3 financial sectors, while Taiwan opens up 9 sectors, including 8 non-financial sectors and 1 finance sector (see appendixes 2 and 3). The mainland has eased the rules for Taiwanese banks to set up branches in the mainland (especially in the central and western part of mainland), lowering asset thresholds for license and requirements for three consecutive years of profits. It should be noted that Taiwan, with high level of skills and manpower, should have strong competitive advantage in these service areas, much like Hong Kong for the mainland. Thus Taiwan will gain more from cooperation in the service sector.

3.9 So far cross-Strait investment has been a one-way traffic from Taiwan to the mainland. The two sides have discussed this disparity and reached a consensus on jointly promoting mainland investment in Taiwan based on the principles of "complementary strengths, mutual benefit and a win-win situation". Taiwan will open 99 industries and business lines in the manufacturing and service sectors as well as the infrastructure sector to Chinese investments in Taiwan. Taiwan stands to benefit significantly from mainland investments.

3.10 In the long run, the ECFA will facilitate Taiwan's plan to become a regional industrial operations center. Effects of cross-Strait trade liberalization (thanks to direct trade-communications-transport links, personnel flows, lowered tariffs and non-tariff barriers) will put Taiwan in a better position to attract overseas companies and upgrade itself into a multifunctional center for transshipment, logistics, distribution, end-processing, and other operation services.

3.11 Finally and more importantly, the ECFA has regional implications and will help Taiwan develop its regional cooperation. It is evident that the early harvest list will have the greatest impact on South Korea and Japan. Within the top 100 export items from Taiwan to the mainland, there is an overlap of 61 items between Taiwan and South Korea. As for Japan, the number of overlap items between Taiwan and Japan is 46. Thus, the signing of ECFA between Taiwan and the mainland will invariably expedite the promotion of an ASEAN+3 (Japan, Korea and China) FTA.

3.12 Since the mainland now accounts for nearly 30% of Taiwan's total exports, by signing ECFA with the mainland, Taiwan will indirectly benefit from the mainland's FTAs with its trading partners in Southeast Asia. Moreover, Taiwanese enterprises can collaborate with mainland enterprises to enter Southeast Asian markets jointly so as to take full advantage of the ASEAN FTA.

3.13 Taiwan is seeking to forge FTAs with ASEAN countries, including Singapore, Malaysia and Thailand. The signing of the ECFA is likely to help Taiwan's bid to establish FTAs with ASEAN countries, as Wang Yi, director of the China's Central Committee Taiwan Work Office, said recently that Beijing will handle Taipei's wish for FTAs with other countries in a "pragmatic" and "appropriate" manner.[9]

3.14 With improvement in cross-Strait relations, Taiwan may find more opportunities in joining multilateral activities in the region, for example, as an observer in ASEAN. "Taiwan is participating in regional economic arrangements not as a state but as an economy, as it does in its membership in APEC, WTO and the Asian Development Bank. With this made clear, Taiwan and its international partners can conceivably expand the space of Taiwan's involvement in the more practical areas of cooperation among institutions, business firms and people,"[10] according to former ASEAN Secretary General Rodolfo C. Severino.

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9 Quoted from *Taiwan News*, 14 July 2010, http://www.etaiwannews.com/etn/news_content.php?id=1318469&lang=eng_news&cate_img=logo_taiwan&cate_rss=TAIWAN_eng

10 "Taiwan's economic relations with Southeast Asia", Rodolfo C. Severino, at the 1st Taiwan-East Asia Conference on FTA, organized by the Institute of International Relations, National Chengchi University and the Bureau of Foreign Trade, Ministry of Economic Affairs, Taipei, October 11, 2008

3.15 In sum, the signing of the ECFA will undoubtedly create a win-win scenario for both sides. It will not only further improve cross-Strait relations but also have significant long-term strategic and regional implications. For the mainland, it can further enhance cross-Strait economic integration and increase its communication with the Taiwanese society to promote cultural and political dialogues, thus bringing Taiwan closer politically and culturally.

3.16 While for Taiwan, the ECFA will help reduce cross-Strait hostility and bring in a higher level of stability and prosperity for its economy in the long run. This in turn will improve Taiwan's economic outlook and consolidate its role as headquarters for global transnational businesses and increase its involvement in the process of regional economic integration in East Asia.

APPENDIX 1 SUMMARY OF THE ECFA
(Signed on 29 June 2010)

	Main Contents
Preface	It is agreed that based on the basic principles of the WTO, the two sides shall gradually reduce or lift their trade and investment barriers; through the ECFA, the two sides shall further promote bilateral trade and investment relations
Chapter 1 General principles	Cooperation targets; cooperation measures
Chapter 2 Trade and investment	Merchandise trade; service trade; investment
Chapter 3 Economic cooperation	Intellectual property protection and cooperation; financial cooperation; bilateral trade promotion; customs cooperation; e-business cooperation
Chapter 4 Early harvest	Early harvest in merchandise trade; early harvest in service trade
Chapter 5 Other affairs	Exceptions; dispute resolution; establishing cross-Strait economic cooperation committee; termination
Appendices 1	Early harvest list for merchandise trade and tariff reduction arrangement
Appendices 2	Interim Rules of Origin for early harvest goods
Appendices 3	Defensive measures for early harvest in merchandise trade
Appendices 4	Early harvest in service sectors and liberalization measures
Appendices 5	Definition of a service provider for early harvest in service sectors and liberalization measures

APPENDIX 2 SUMMARY OF THE NON-FINANCIAL SERVICE SECTORS ON THE EARLY HARVEST LIST

Mainland	Taiwan
1. Business services, including professional services, computer services, R&D services, conference services	1. Business services, including R&D services, conference services, exhibition services, specialty design services
2. Communications services, including audiovisual services	2. Communications services, including audiovisual services
3. Health-related and social services, including medical care services	3. Marketing services
4. Transportation services, including air transport services, aircraft repair and maintenance services	4. Entertainment, cultural and sporting services, including sports and other entertainment services
	5. Air services, including computer reservation system

APPENDIX 3 SUMMARY OF THE FINANCIAL SERVICE SECTORS ON THE EARLY HARVEST LIST

Mainland	Taiwan
Banking and other financial services (excluding securities, futures and insurance):	**Banking:**
1. Taiwanese banks can apply to set up banks or branches after establishing representatives in mainland for 1 year	Mainland banks can apply to set up branches after establishing representatives in Taiwan for 1 year
2. Taiwanese banks can apply to operate RMB business after 2 years in the mainland	
3. Taiwanese banks can set up financial franchisees to provide financial services for small businesses	
4. The mainland provides "Green Channels" for setting up branches in central and western part of the mainland	
5. When reviewing the nature of profit status of one branch, the overall assessment of a number of branches should be taken	
Insurance and related services: Taiwanese insurance companies can form merged groups to enter the mainland market	
Securities, futures and insurance: Taiwanese financial institutions can apply for investment eligibility in mainland	

APPENDIX 4 TAIWAN'S TRADE WITH MAINLAND CHINA

Year	Total trade			Export from Taiwan to the Mainland			Import from the Mainland to Taiwan			Surplus
	Amount (US$ bil)	Change (%)	% in total	Amount (US$ bil)	Change (%)	% in total	Amount (US$ bil)	Change (%)	% in total	Amount (US$ bil)
2001	31.5	-6.7	13.4	25.6	-6.7	20.3	5.9	-5.2	5.5	19.7
2002	39.5	25.3	15.9	31.5	23.1	23.3	7.9	35	7	23.6
2003	49.3	24.8	17.7	38.3	21.5	25.4	11	38.3	8.6	27.3
2004	65.7	33.3	18.7	48.9	27.8	26.8	16.8	52.4	10	32.1
2005	76.4	16.2	20	56.2	15	28.4	20.1	19.7	11	36.2
2006	88.1	15.4	20.7	63.3	12.5	28.3	24.8	23.3	12.2	38.6
2007	102.3	16.1	21.9	74.3	17.3	30.1	28	13.1	12.8	46.3
2008	105.4	3.1	21.2	74	-0.4	28.9	31.4	12.1	13	42.6
2009	86.5	-18	20.8	62	-16.2	26.6	24.5	-22	14	37.5

Source: Board of Foreign Trade Ministry of Economic Affairs, Taiwan, http://www.cweb.trade.gov.tw

APPENDIX 5 TAIWAN'S INVESTMENT IN MAINLAND CHINA (US$ million)

Period	Total	
	Cases	Amount
1991-2009	37,771	82,703
1991	237	174.2
1993	9,329	3,168.4
1995	490	1,092.7
1997	8,725	4,334.3
1999	488	1,252.8
2000	840	2,607.1
2001	1,186	2,784.2
2002	3,116	6,723.1
2003	3,875	7,698.8
2004	2,004	6,940.7
2005	1,297	6,007.0
2006	1,090	7,642.3
2007	996	9,970.5
2008	643	10,691.4
2009	590	7,142.6

Source: Investment Commission, Ministry of Economic Affairs, Taiwan