

**THE CONTROVERSIAL CROSS-STRAIT
SERVICE TRADE AGREEMENT**

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Executive Summary

1. The Cross-Strait Service Trade Agreement (CSSTA) signed on 21 June 2013 is one of the follow-up agreements under the comprehensive Economic Cooperation Framework Agreement (ECFA). The CSSTA will open 64 service sectors in Taiwan to China and 80 service sectors in China to Taiwan.
2. Taiwan's service sectors comprise mostly small and medium enterprises (SMEs). In 2012, 98% of Taiwanese companies in services were SMEs, which provided employment to 84% of the sector's workforce. However, these SMEs accounted for only 31% of domestic sales and 13% of Taiwan's exports.
3. Taiwan's economy today still largely relies on exports in goods. In 2013, Taiwan's net exports in goods were US\$33 billion compared to only US\$9 billion of net exports in services. Services' larger share of GDP (68%) than industry's (30%) is merely a reflection of the hollowing out of manufacturing sectors rather than a strengthening of its services.
4. Taiwan's largest service trade surplus in "other business services" is a result of "receiving manufacturing orders from abroad" and the most substantial deficit in "royalties and licence fees" is an indication of its strong reliance on foreign technology.
5. Since 2009, Taiwan has lifted the ban on inward investment from mainland China. So far, 51% of service sectors have been opened for China's investment. The early harvest programme under ECFA since 2011 has opened up nine services to China's investment.
6. Between 2009 and 2013, China's investment in Taiwan's service sectors amounted to US\$547 million. Chinese investment in Taiwan's services is concentrated in wholesale and retail trade (28% of total China's investment in Taiwan's services), harbour (25%) and banking (25%).

7. CSSTA will open more sectors not covered in the current arrangement. Although some small and inward looking companies will face potential competition from China, other Taiwanese firms will likely benefit from the shift from a small domestic market to a huge Chinese market. CSSTA will also allow China to benefit from the “technology transfer” from Taiwan’s investment in high value-added services.
8. The Sunflower Student Movement has raised political concern caused by the CSSTA. In reality, however, there is no safeguard against China’s state-owned enterprises’ (SOE) investment from other sources.
9. In 2013 for example, 29% of Taiwan’s inward investment came from British Overseas Territories in the Caribbean where many Chinese SOEs have a foothold. In 2012, China’s outward investment amounted to US\$84 billion, making it the third largest global investor, only behind the US and Japan.
10. The student protestors’ strong opposition to the CSSTA showed that the government’s claim to huge potential benefits from economic opening up to China no longer works. The request for a cross-strait supervisory rule before CSSTA indicates the students’ lack of confidence in the government in defending Taiwan’s national interest in cross-strait negotiations.