

## *Follow-up of the Signing of ECFA*

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### **Third Round of Secret ECFA Negotiations**

The government of President Ma Ying-jeou is so eager to sign an Economic Cooperation Framework Agreement (ECFA) with China that the third round of expert-level talks has already been completed. The talks resulted in early harvest lists under which, according to a June 14 press release by Taiwan's Ministry of Economic Affairs (MOEA), China will open up its market for import of about 500 items from Taiwan, whereas Taiwan will let in some 200 items from China. But a day later, on June 15, another MOEA press release said that Taiwan's early harvest list contains 500 items worth US\$12 billion in exports, while China's list covers 250 items with an export value of US\$3 billion. The ministry did not explain at all why China's early harvest list had gotten 50 items longer over night with export value increasing by US\$1 billion. This development underlines that the aftermath of these secret negotiations without parliamentary oversight is not only hard to foresee, but that it will cause endless trouble to come.

The two sides are still consulting as to whether the fourth round of ECFA talks should be held concurrently with preparatory consultations for the fifth "Chiang-Chen Talks" between Chiang Pin-kung, head of Taiwan's Straits Exchange Foundation (SEF), and Chen Yunlin, head of China's Association for Relations Across the Taiwan Straits (ARATS). But the Ma government still rushes to sign ECFA with China at the end of June or in early July.

### **Some Five Hundred Goods and Services on the Early Harvest Lists**

The third round of negotiations ended with an agreement on the ECFA text which consists of sixteen articles in five chapters including a preamble, general provisions, trade and investment, economic cooperation, early harvest plans and others. Its five annexes include an early harvest list for trade in goods, an early harvest list for trade in services, temporary place of origin regulations, a definition of the term "service supplier," a dispute settlement mechanism and other safeguard and remedial measures.

The five hundred items in the early harvest list for which China will lower tariffs include petrochemicals, machines, automobile parts, as well as mid-stream and upstream textiles. Items not included in the early harvest list were exports that China deems a threat to its own manufacturers such as machine tools, polypropylene (PP), polyvinyl chloride (PVC) and finished cars. Among these PP was not included in the early harvest list because China wants to protect the interests of its three homegrown petrochemical companies, China National Petroleum Corporation, China Petroleum and Chemical Corporation and China National Offshore Oil Corporation, and does not want to expose them to competition from such petrochemical products from Taiwan. And the Taiwanese side agreed to include about 250 items in the early harvest list, representing an export value of about US\$3 billion.

## Financial Industry Included in Service Trade Early Harvest List

Regarding the early harvest list for trade in services, Taiwan managed to get included the air freight forwarding industry (freight agency services) and the computer service industry, while China will allow Taiwanese companies to build hospitals as sole investors in some provinces. The quota on movie screenings on both sides of the Taiwan Strait will also be raised.

The early harvest list for the financial industry includes banks, life insurances and stock brokerages. According to Taiwanese media reports, banks will be able to conduct renminbi business, if the respective branch has been established for two years and posted profits for one year. China originally stipulates that life insurers can only enter the market if they have total assets worth US\$5 billion, have been in business for 30 years and had a representative office in China for more than two years. But Taiwan succeeded in getting this so-called “5-3-2 principle” scrapped. Taiwan wants its stock brokerages to be allowed to trade in (renminbi-quoted) A shares, which can only be traded by Chinese citizens, and to acquire higher stakes in Chinese counterparts, but concrete results have yet to be decided. Yet the preferential market entry for Taiwanese financial institutions that is being negotiated under ECFA does clearly not reach as far as the Closer Economic Partnership Arrangement (CEPA) that Hong Kong has concluded with China.

## Cross-strait Economic Cooperation Committee to Deal with Further Talks

The consensus reached in the talks includes establishing a “cross-strait economic cooperation committee” that will conduct follow-up negotiations on items outside the early harvest lists that wait to be opened up. The committee will also monitor and assess the implementation of ECFA and provide a dispute settlement mechanism to address misgivings over its application. However, it waits to be seen whether the said committee will surpass the current SEF-ARATS negotiation model, how its organization will be positioned and whether there will be parliamentary oversight over its budget and personnel.

## Possible Future Developments

### *Uncertainties over Parliamentary Review Process*

The ruling and opposition parties have not yet reached consensus as to how parliamentary review for ECFA should be conducted, since there is no prior example that could be followed. It is not clear whether a substantial review shall be adopted or whether the part pertaining to tariffs should simply be approved. Nor is it known what will happen if the Legislative Yuan rejects the agreement. Now that the Referendum Review Committee’s decision to shoot down the ECFA referendum petition has triggered heavy controversy, it is highly likely that the parliamentary oversight that the Ma

government promised will become a mere formality, or that the government will use its parliamentary majority to ram the agreement through. This would cause massive debate in future parliamentary sessions after ECFA has been signed.

#### *Anti-ECFA Street Protests*

The opposition Democratic Progressive Party (DPP), the Taiwan Solidarity Union (TSU) and civic groups are concerned that the Ma government will lock Taiwan into China and therefore ardently oppose ECFA. Aside from speeding up a signature campaign for a new ECFA referendum petition, they will jointly hold a protest march on June 26 and also launch a ten-year campaign under the motto “Against ECFA, Protect Taiwan.” In the future ECFA will deal a severe blow to Taiwan’s economy, society and politics.

#### *Taiwan’s International Status to be Severely Affected*

The Ma government’s rush to sign ECFA with China and its extremely fast political rapprochement with China will destroy the balanced relations that Taiwan enjoys in international trade and security strategy. At an academic symposium not long ago Richard C. Bush, former chairman of the American Institute in Taiwan (AIT) and the current director of the Center for Northeast Asian Policy Studies at the Brookings Institution in Washington, had the following to say: Although Taiwan’s GDP is expected to rise due to ECFA, Taiwan’s greatest challenge are China’s unification ambitions. He also suggested that Taiwan strengthen its ties with

the United States and that Taiwan insist on its own stance in cross-strait negotiations. Bush’s remarks show that the Ma government’s rapid rapprochement with China and its haste in signing ECFA has drawn the attention of the international community.

#### *Early Announcement of Liberalization Schedule*

What kind of political ploy is behind the fact that Taiwan allowed China’s early harvest list to increase from 200 to 250 items over night? Except for the Ma government and the Chinese side, everyone else outside the negotiations can only grope in the dark. How come that the Ma government can present these early harvest lists to Chinese representatives in closed door talks, but does not announce them to the public at all? I am afraid that we still need to wait and see how the content of these lists will affect Taiwan after all.

As for deciding the schedule for full trade liberalization the agreed ECFA text also only vaguely points to “further consultations.” This shows that the Ma government deliberately uses vague wording to avoid publicizing the liberalization schedule in a bid to prevent a severe backlash from domestic industries against the free trade area that will be formed between Taiwan and China after the ten-year ECFA timeframe ends. Yet the government should announce the liberalization schedule as soon as possible to enable Taiwan’s industries and its international trade partners to quickly plan counter measures. **BT**