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Dialogue between China and Taiwan and its geopolitical impact in North-East Asia

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Jaume Giné Daví

Lecturer at ESADE Law School

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China and Taiwan took the first major step towards normalising relations on 29 July when they signed an Economic Cooperation Framework Agreement (ECFA) in Chongqing. The agreement will become effective on 1 January 2011 after ratification by the Yuan – the Taiwanese parliament.

Ma Ying-jeou was elected president of Taiwan in March 2008 with an ambiguous message of 'no reunification, no independence, and no war with China'. As president, Ma has urged dialogue with Beijing in order to further develop and guarantee broad economic and trade cooperation. This dialogue is being urged in the context of China's growing political and economic influence in Asia. Ma is a political pragmatist. He prefers facing economic reality rather than calling for independence and risk provoking the colossus that is modern China.

The starting point for his political pragmatism is economic realism. Although Taiwan was governed between 2000 and 2008 by the pro-independence Democratic Progressive Party (DPP), the island's businesses invested more than \$150 billion in the mainland and nearly 40,000 firms have been operating there since 1991. China overtook the US to become Taiwan's main trading partner in 2003. Taiwan enjoys a large trade surplus with China and Hong Kong – exports reached \$62 billion in 2009, while imports were only \$24.5 billion. In the first quarter of 2010, exports to the mainland totalled \$26.2 billion – or 42.8 per cent of all Taiwanese exports. Meanwhile, the trade surplus continues to grow in Taipei's favour.

In just two years, Beijing and Taipei have signed 12 trade agreements after four rounds of conversations between two semi-official bodies – the *Chinese Association for Relations Across the Taiwan Straits*, headed by Chen Yunlin, and the *Taiwanese Straits Exchange Foundation*, led by Chiang Pin-kung. Sea

and air routes have been inaugurated, and the doors have been opened to institutional contacts as well as tourism in both directions. In the first five months of 2010, some 70,445 Chinese visitors arrived in Taiwan and this was an increase of 70% on the same period of the year before.

However, one factor was decisive in bringing Ma to the ECFA negotiating table. The stark reality is that the Pacific Asian nations are reacting to the economic crisis and the failed Doha Development Round of the World Trade Organisation by increasing foreign trade in two other ways. Firstly, a proliferation of complex bi-lateral free trade agreements (FTAs) has been signed. The Asian Development Bank reports that while 6 such agreements were signed in 1991 and 42 in 1999, the number had grown to 166 by June 2009. Secondly, large free trade areas are being formed, such as the China-ASEAN Free Trade Agreement (ACFTA) that came into force on 1 January 2010.

Taipei, Tokyo, and Seoul have been watching anxiously as Beijing has negotiated and signed trade agreements with their neighbours and main commercial clients. China continues to economically penetrate every Asia market. The ACFTA trade area includes China and six ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand). A market of 1.9 billion people will have been created when Cambodia, Laos, Myanmar (Burma), and Vietnam join in 2015. Economic interdependence between China and the ten ASEAN nations continues to grow. This has awakened the interest of South Korea and Japan (existing members of ASEAN+3) in joining this enormous trading area. China has also signed FTAs with Chile (2005), Pakistan (2006), New Zealand (2008), and Peru (2009), and is considering or negotiating with another 20 nations. Meanwhile, South Korea has signed FTAs with Chile (2004), Singapore and EFTA (2006), ASEAN (2007 and 2009), India (2009); as well as two important, although not yet ratified, FTAs with the US (2007) and the EU (2009). There may also be a future trilateral trade agreement between China, Japan, and South Korea.

Ma is worried that Taiwan may find itself diplomatically and commercially isolated, and is trying to ensure that Taiwan is included in the process of Asian

economic integration. By signing the ECFA trade agreement with China, Taiwan hopes to ensure the competitiveness of its firms in Chinese and ASEAN markets, where Taiwanese products compete with the major Chinese, South Korean, and Japanese companies. Taiwan also hopes that the ECFA will persuade foreign multinationals to open operations in Taiwan as a privileged gateway to the Chinese market. The aim is to stimulate the economy, increase industrial production, and create up to 260,000 jobs on the island. It is worthwhile remembering that Taiwan's economy shrank by 2% in 2009; although the government hopes it will grow by 6% in 2010.

The ECFA was signed on very favourable business terms for Taipei. Tariffs were reduced (and will be abolished in two years) on 539 categories of Taiwanese exported products worth \$13.8 billion; compared with only 267 categories of Chinese products worth \$2.85 billion. Beijing is giving Taiwanese companies access to 11 service sectors including banking, insurance, and health, compared with the 9 sectors that are being opened to the Chinese on the island. By granting these concessions, Beijing hopes to achieve two objectives: firstly, improve its poor image in Taiwan – where many people remain suspicious of the political motives behind the signing of the ECFA; and secondly, give indirect support to an economic recovery that will help pave the way for Ma's re-election in the 2012 presidential elections.

However, Ma's bid is highly risky given the strength of domestic opposition led by the DPP. The opposition is successfully exploiting anxieties about the ECFA in order to offer a clear alternative to Ma's Kuomintang party in 2012. Ma is meanwhile attempting to separate economics from politics and has just two years to show voters the advantages of the ECFA.

Taipei also hopes to gain diplomatic benefits. Until now, Taiwan has only been able to sign FTAs with five Central American countries that represent just 0.25 per cent of its global trade. After signing the ECFA with China, the government hopes to sign similar trade agreements with other Asian countries and avoid being marginalized within the network of FTAs that its trading partners have

agreed with other competing nations. However, there is some doubt as to whether Ma's aim of signing more FTAs will receive the green light from Beijing.

The signing of the China-Taiwan ECFA has also worried Seoul and Tokyo. The Korea Herald referred in an editorial (June 30) to a potential threat from 'Chiwan' that could endanger 60 per cent of South Korean exports in China. The agreed Chinese tariff concessions on manufactured goods could harm exports of 14 basic products that South Korea sells to China in direct competition with Taiwan. This situation may prompt South Korea to begin FTA negotiations with China and even Japan.

Could the signing of agreements such as the ECFA affect the geostrategic map of north-east Asia? This is a difficult question to answer. However, economic cooperation may favour political dialogue between China and Taiwan. There have been positive examples in Europe and other continents.

The geostrategic map of north-east Asia is very complex. The two Koreas remain technically at war and the North is demanding recognition of nuclear status. There are unhealed historic wounds and other unresolved territorial disputes between China, South Korea, and Japan. China considers Taiwan to be another Chinese province. However, this region now includes the world's second and third largest economies and there is a steadily growing regional economic interdependence. International organisations such as ASEAN, ASEAN +3, ARF, APEC and EAS help channel the spirit of dialogue and cooperation, even political discussion, between nations with economies that, although unequal, are often complementary. Nevertheless, north-east Asia remains one of the few areas where, despite great potential and commercial dynamism, there are no specific international frameworks of cooperation and economic integration.

Japan and South Korea fear that China may impose political, economic, and monetary hegemony over Asia, given that it is already the main trading partner of virtually every Asian nation. Tokyo and Seoul are concerned about China's economic progress and the use of the yuan as the preferred currency for

international transactions in the region. This explains why former Japanese Prime Minister Yukio Hatoyama launched in August 2009 a project to establish an East Asian Community (EAC) with a common Asian currency. Hatoyama is looking to the EU and the euro as a model of economic and monetary integration; however, for political reasons this proposal will be difficult to implement. Japan and South Korea would prefer economic integration within ASEAN +3, rather than dependence on a dominant China and yuan in eastern Asia. China does not rule this out, but wants to limit such a trading area to the ASEAN +3 countries and now also Taiwan. In contrast, Japan wants to expand cooperation with India, Australia, and New Zealand to balance Chinese power. Hatoyama has also said that a future EAC should reach agreements with the US and EU.

During his Asian tour in November 2009, Barack Obama saw for himself that the US has lost political power in Asia. Yet various Asian countries remain wary of the rapid economic and military rise of neighbouring China. Although their economic interdependence with China grows, they still want the US to remain an economic and military presence in the region. Not wishing to remain at the mercy of the Chinese colossus, they are looking for a counterweight that only the US, and perhaps India, can offer. The EU should speak with one voice, and in coordination with the US, make moves to advance its interests in the Pacific Asian region.

For further information about ESADEgeo's Position Papers, please feel free to contact:

Irene García García

Jr. Research Fellow

ESADE Center for Global Economy and Geopolitics

Av. Pedralbes 60-62, 08034 Barcelona, Spain

irene.garcia2@esade.edu

93 280.61.62 Ext. 3917