**The China-Taiwan Trade Deal and the Ensuing East Asian Political Economic Order**

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**Abstract [*Word Count: 161*]**

Northeast Asia’s first free trade pact, the Economic Cooperation Framework Agreement (ECFA), was signed on June 29, 2010 by two unlikely partners, the long-term rivals Mainland China and Taiwan. Their choice of Chongqing for the historic event proved equally unthinkable, for this had been the war-time capital of Taiwan’s ruling party, defeated in the Chinese Civil War. ECFA, a preferential trade agreement, aims to reduce tariffs on more than 800 goods and services across the Taiwan Strait. With its ratification that September, a new era across the Taiwan Strait ushered in, along with a set of thorny questions. How did the rivals embrace each other economically when they still have significant political differences? Will this economically beneficial agreement to Taiwan come at a political cost? What implications does this landmark trade agreement have for Taiwan’s domestic politics and East Asian international relations? And finally, what impact will this new “Chaiwan” Free Trade Agreement have on the U.S.-dominated East Asian security mechanism?

**Keywords:** Economic Cooperation Framework Agreement (ECFA); China-Taiwan Free trade agreement; *Tamamushi-iro* solution; East Asian New Order

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**Introduction**

A trade agreement is not simply about trade; it can be a strategic and political move. The newly minted Taiwan-China trade pact, the most significant agreement ever reached by the two rivals since their split in the 1940s, is of such nature.

The concept of a cross-strait free trade deal was floated on February 22, 2009 after Taiwan’s President Ma Ying-jeou, a staunch defender of the Republic of China (ROC) in Taiwan, was voted in office less than a year earlier. After 18-months of negotiation, the delegates consummated the landmark Economic Cooperation Framework Agreement (ECFA) on June 29, 2010.[[1]](#footnote-1) The accord promised reduction and elimination of trade barriers in goods and services, as well as protection of investments and intellectual property rights against piracy. With ratification in Taiwan’s parliament during September 2010, Northeast Asia’s first Free Trade Agreement is now enacted.

From a purely economic perspective, the deal helps assure Taiwan’s continued economic *prosperity* by further opening up the massive Mainland market to the island’s leading industries and business-savvy firms. With reduced tariffs on more than 800 goods and services across the Taiwan Strait, it is especially beneficial to Taiwan’s economic development. The “early harvest” list, which came to effect on January 1, 2011, cleared the way for 539 Taiwanese goods worth $13.83 billion, and 267 Chinese goods worth $2.86 billion to enter each other’s market with zero tariff treatment.

The trade agreement is also a *political* move for Beijing, aimed at reincorporating Taiwan into the China orbit through economic integration. With its inclusion of 18 Taiwanese agricultural and fishery products in the trade concessions, Beijing wanted to please Taiwan’s politically-sensitive farmers who live in the South and tend to support an independent Taiwan. The agreement is also a political victory to President Ma’s Kuomintang (KMT) party as it allows the latter to claim progress in the thorny cross-Strait relationships. Despite dissent from the independence-minded opposition, Ma’s Administration convinced the public that the deal would fend off Taiwan’s isolation in the fast-growing East Asian economy. The regional trade agreement with China, the so-called ASEAN+1, is scheduled to include South Korea and Japan in the years ahead; accordingly, it is crucial that Taiwanese goods maintain competitiveness in the vast Chinese market.

The ECFA represents an element of the recent, rapid reconciliation, hailed as one of the most important milestones on the road to lasting cross-strait *peace*. The cooperation mechanism it establishes may open opportunities for future cooperation in the Diaoyutai Island and the South China Sea, paradoxically complicating the current security framework in East Asia. One may wonder, what has suddenly changed in the last two years to make such a landmark trade deal possible between the archrivals? Why was it signed despite domestic opposition? What opportunities and risks will this landmark economic interdependence have on Taiwan and the East Asian regional peace and security?

**Historical Tangles**

Many of today’s problems have their roots in history. Few in the West know that the year of 2011 is sentimental for millions of Chinese. The last dynasty fell one hundred years ago, leading to establishment of Asia’s first democratic republic, the Republic of China. That government, however, represented by Mr. Ma, is now in Taiwan, not recognized by any major country of the world. The very title, Republic of China (ROC), is dearly held by some and bitterly opposed by others, even on the island. Meanwhile, the idea of Taiwan celebrating the centenarian birthday of the ROC reminds many on the Mainland that their country remains divided. To these people, the landmark cross-Strait Economic Cooperation Framework Agreement (ECFA) taking effect represents a positive sign towards reunification, as it links their respective economies closer. Though separated since the Cold War, much like their North and South Korean neighbors, Mainland China and Taiwan are now much more closely tied by the newly forged trade deal. Tensions across the Taiwan Strait are at the lowest ebb in sixty years.

Older citizens on the Mainland still remember the ROC, their country’s name when they were born. The nation began as a democracy, but soon disintegrated into chaotic warlordism, followed by Japanese invasion and disastrous civil wars. Then, in 1949, the ROC relocated to Taiwan when the Communist leader Mao Zedong founded the People’s Republic of China (PRC), announced in Beijing. Mao initially hoped to keep the ROC as the new government’s designated abbreviation, but some of his colleagues from then democratic parties were bitterly against it.[[2]](#footnote-2) The PRC’s creation marked the genesis of “two Chinas” across the Taiwan Strait; however, each government viewed itself as the “only legitimate” regime of China and the other as a swarm of “bandits” to be eliminated from the political landscape. Internationally, the ROC represented China in the United Nations until 1971 when the PRC took the seat. The date of ECFA’s signing found the PRC recognized by 169 countries while only 23 small and impoverished countries identify with the Taiwan’s ROC.

The ROC’s position at home is equally distressing, if not more so. Its legitimacy has been challenged for two decades on the island of Taiwan. Is the ROC a residual China, a new state or an illegitimate foreign regime? The Kuomintang (KMT), or the Nationalist Party, the founder of the Republic of China, insists that the ROC has been an independent country since 1911 and that its founding father was Dr. Sun Yat-sen, an American-trained Chinese revolutionary. The Democratic Progressive Party (DPP) and its more radical allies in Taiwan attack the ROC as an illegitimate foreign regime; they want to establish a truly independent and new Republic of Taiwan (ROT) to replace the ROC.

Long hostile to the ROC regime in Taiwan, the Chinese Communist Party (CCP) had triumphantly declared the demise of the ROC in 1949. Since 1971 the PRC government used all means at hand to block Taiwan from using its official name at any international events where it appeared. In recent years, witnessing Taiwan’s DPP attempting to cut off the island’s political (and cultural) umbilical cord with the Mainland, the PRC has found that its best option in dealing with the island is *not to deny* the ROC institutions, which have provided the legal foundation for an eventual national unification with Taiwan. To put it simply, of the two options for Taiwan’s name – the ROC or ROT – Beijing prefers the lesser evil, the ROC.

Despite this preference, Mainland China faces a political catch-22. Denying the ROC’s existence would only strengthen the pro-independence movement in Taiwan. Recognizing the ROC would create two Chinas, possibly followed by international double recognition, which might be exploited by the independence-leaning DPP if it returns to power in democratic Taiwan. There currently seems to be no satisfactory political solution. Focusing on low-level issues such as economy and culture might be a viable way out. Straddling a mid-ground between the unification-minded Mainland and the independence-leaning DPP, the Kuomintang and the ROC defenders saw eye to eye with Beijing on the economic integration. In 2005 the KMT reconciled with its long-term rival on the Mainland, but then-President Chen Shui-bian was mired in the outdated economic sovereignty concept which brought with it negative economic consequences on the island.

**Trade-offs between Economic Prosperity and Political Independence**

Like Beijing, dedicated Taiwanese independence seekers believe economic ties with the mainland would diminish their hopes for a permanent independence; accordingly, they insist on minimum social economic links. To prevent closer economic ties and cultural exchanges with China, Chen’s pro-independence government forbid mainland tourists and investments from coming to Taiwan, stifling profitable deals for the island’s economy. Taiwan’s shrewd business elements reacted by departing for the Mainland in significant numbers to exploit the cheap labor there, pushing up unemployment rates in Taiwan. The resulting anemic economy represented only part of the downside to Chen’s policies.

Taiwan’s Southeast Asian neighbors viewed Chen’s independence efforts as a “collective bad” (a negative externality for their relationship with China).[[3]](#footnote-3) The tense cross-Strait relationship made it extremely difficult for Taiwan to initiate bilateral or multilateral trade agreements with any of its regional trading partners. Although the DPP government worked hard to push for FTAs, Taiwan was only able to sign FTAs with its five diplomatic allies in Latin America that have miniscule trading volume with the island. Fearing economical marginalization, Taiwan anxiously observed the Association of South-East Asian Nations (ASEAN) signing their own Free Trade Agreements (FTAs) with the Mainland, Korea and Japan, three of Taiwan’s top trading partners. A forced trade-off between *de jure* independence and economic vitality left Taiwan internally divided.

As Political Scientist Wei-chin Lee has pointed out, Chen’s controversial policy of building a new national identity possessed two critical characteristics of public goods: non-rivalry and non-excludability.[[4]](#footnote-4) Once a new identity is created and independence accomplished, theoretically every resident on the island can benefit from it without diminishing another’s enjoyment, regardless of what contributions one has made to the eventual creation of that good. It is also impossible to prevent any citizen from accessing the good, once created. That means self-interested individuals had strong incentives not to contribute to the creation of the good of Taiwan independence, especially when Taiwanese business, Chinese government and the public all perceived it as public bad and took every possible opportunity to bypass or undermine Chen’s efforts.

According to political theorist Mancur Olson, the “free-rider problem” can be mitigated when the provision of the new identity is tied to some private good provided by a monopoly.[[5]](#footnote-5) Rewarding key supporters with government positions can benefit ardent independence activists. Concentrating Taiwan’s political resources into the hands of pro-independence forces through preventing the KMT or the Taiwanese mainlanders (original or descendents) from coming to power was a strong incentive during Chen’s administration. Yet, doing so tended to demoralize the bureaucracy that created Taiwan’s economic prosperity. In this process of cronyism, exposed corruption culminated in the First Family’s incarceration.

**Six-Round Intensive Negotiations**

To distinguish from independence-leaning president Chen and his confrontational China policies, presidential candidate Ma Ying-jeou promised voters a warmer relationship and closer economic ties with China. He explained this would boost Taiwan’s economy in the backdrop of global financial crisis. Since his inauguration in May 2008, Ma has pursued flexible diplomacy and re-opened cross-Strait channels of talks. Barely three weeks in office, he lifted the decade-long suspension of the semi-official Straits Exchange Foundation (SEF) and the Beijing-based Association for Relations Across the Taiwan Strait (ARATS). At this writing, six rounds of negotiations have been held resulting in issuance of 15 agreements and a consensus document[[6]](#footnote-6) (see Table 1.1).

By focusing on functional matters, the two sides have achieved a significant thaw in their relationships. In the absence of government-to-government bilateral ties, Taiwan’s SEF Chairman Chiang Pin-kung met ARATS Chairman Chen Yunlin in Beijing. Their **first** meeting concluded with agreements launching direct weekend charter flights and opening Taiwan to as many as 3,000 Chinese tourists per day. The agreements expanded the previous limitations of a four-holiday set of direct flights to regular weekend flights. Despite improvements, the new charter flights still had to take a circuitous route through Hong Kong airspace due to Taiwan’s insistence, which added an hour to the flying time.

Chiang-Chen’s **second** talk in November 2008, and the first ever meeting in Taiwan, put an end to the unnecessary detour for cross-Strait travelers. Prior to that, all travels had to go through third countries or regions, including Hong Kong and Macau due to security concerns. Both sides agreed on aviation routes, direct air and sea transportation links, postal services and food safety standards. A month later on December 15, direct air and sea transportation and postal services were launched, marking the arrival of the “major three links” era. As a result of this agreement, a flight from Taipei to Shanghai now takes only ninety minutes, instead of the nine hours of a few years ago.

The **third**-round cross-Strait talks occurred in Nanjing, where Taiwan’s ruling KMT had its last capital on the mainland. Both sides agreed to establish a financial cooperation mechanism and to collaborate in civil and criminal fields on fighting crime, the latter being more significant to Taiwan because the travel convenience allowed more criminals from Taiwan to hide in the Mainland. The third agreement launched additional regular cross-strait passenger and cargo flights with more destinations on the Mainland. A memorandum of understanding was also signed to promote Mainland investment in Taiwan, covering banking, securities and insurance. Prior to the meeting, President Ma instructed his delegation to mention Taiwan’s desire to sign the ECFA, framing it as a “public livelihood” issue. The negotiators addressed the topic but did not set a time table.

The **fourth** round negotiations concluded three agreements to boost their economic collaboration on the fishing industry, agricultural quarantine inspection, industrial product standards and certification. Since 1991 Taiwan had allowed mainland Chinese crew members to work on its fishing boats due to labor shortages. The new agreement established a cooperative mechanism for crewmember employment of each other’s citizens. The agricultural quarantine procedures and product standards further guaranteed the safety of agricultural production and workers health.

Chen and Chiang’s **fifth** talks focused on the ECFA agreement and the copyright protection deal. Due to its political sensitivity, Taiwan’s government asked its Mainland Affairs Council to conduct island-wide surveys on citizens’ views immediately after the ECFA was signed. According to Table 1.2, a majority of respondents were pleased with the IPR agreement (73%), the zero or reduced tariff arrangements (54.8%), and the overall negotiation results (61%). While almost two-thirds (64%) of people viewed positively the inclusion of 18 agricultural and fishery products in the zero-tariff category, four-fifth of respondents were satisfied with the cross-Strait negotiation mechanism. The number of unsatisfied respondents with the ECFA (30%) largely equals to the size of pro-independence supporters.

To counter accusations from the opposition that Ma’s government did not protect “weak” industries and was “selling off” Taiwan to Mainland China, a list of interesting questions appeared in the survey as well (Table 1.3). Taiwan’s relatively disadvantaged industries compared with China’s are 17 sectors including towel, household appliances, agricultural and fishery, not on the list of “early harvest.” Still there were 37 percent of respondents did not think the government protected enough. In spite of the dissatisfaction, a majority of people thought Ma’s government did a good job protecting Taiwan’s interests (66.8%) and national sovereignty (58.9%).

At the **sixth** round of talks, a medical agreement was signed, which covers four areas: prevention of infectious diseases, management and development of new drugs, emergency rescue operations and the study of Chinese medicine and its safety management. The new pact is expected to facilitate epidemics information exchanges on each other’s jurisdiction, and to benefit Taiwan’s budding biotechnology industry with a lucrative Mainland market.

It is worth noting that as a result of this latest meeting, a seven-panel Economic Cooperation Committee (ECC) was formed to handle commodities trade, service trade, financial services, intellectual property rights (IPR), economic cooperation, dispute settlement and investment protection. Instead of having government officials wear “white gloves,” pretending to be private citizens, each of these panels are headed by government bureau or department executives from both sides.[[7]](#footnote-7) The Agenda for the next round of talks, at the time of writing scheduled for mid-2011, may include negotiations on science, education and culture, and an installed investment protection agreement.

***Tamamushi-iro* Solutions**

One can see that the pace and scope of the negotiations, as well as the goodwill from both governments, were unprecedented in their history. As one may imagine, negotiating and ratifying 15 agreements between long-term adversaries encounters many roadblocks; any reckless moves could derail all previous efforts and set the negotiations back to square one. Given the political sensitivity, Taiwan’s chief negotiator Chiang Ping-kun credited their shelving disagreements as a *tamamushi-iro* approach.

Tamamushi is the Japanese name of a jewel beetle whose color changes depending on the angle of the observer and the source of the light. The *iro* (colors) may be different but the insect is still the same. In diplomacy, *tamamushi-iro* solution refers to a deal reached through a vague, ambiguous term that is designed to please both sides. With mutual appreciation, the parties involved would not challenge each other’s interpretations.

The first major block was the controversial “One China principle,” which Beijing has insisted to be as a prerequisite for any negotiations with Taiwan. The PRC and the ROC do not formally recognize each other’s government. They are currently at a stage of “mutually non-denial,” to use President Ma’s terminology. Legally, Taiwan treats the Mainland as an “area” within the ROC, in accordance with the *Act Governing the Relations Between the Peoples of the Taiwan Area and the Mainland Area*. The Mainland, on the other hand, views Taiwan as a province within the People’s Republic of China.

To seek common ground while allowing each side to score points, the chief negotiators found a *tamamushi-iro* solution – “one China with different interpretations.” The formula, which they dubbed as “the 1992 Consensus,” allows both sides to read their definition of what that China actually means. The agreement allows Beijing to interpret it to mean People’s Republic of China, and Taipei to refer to it as the Republic of China (ROC, Taiwan’s official name). Former President Chen, who did not allow any gray areas to exist by denying the existence of such an agreement, was partially responsible for the diplomatic stalemate with Beijing. Accepting “the 1992 Consensus” proves to be a winning move on Ma’s administration.

As such, the signing parties were not the heads of state, nor foreign ministers, but Taiwan’s Straits Exchange Foundation (SEF) and its mainland counterpart, the Association for Relations Across the Taiwan Strait (ARATS), both bearing the status of quasi-governmental institutions. As Lee Ping in Hong Kong’s *Apple Daily* has commented on the first round of cross-strait negotiations, “both sides are more ambiguous about ‘One China’ and reunification, indicating that ideological conflicts [between Beijing and Taipei’s ruling party] are diminishing.”[[8]](#footnote-8)

In his April 2010 visit of Taipei, Harvard University’s Michael Porter pointed out that a FTA between countries of different sizes usually benefits the smaller economy more, since the latter gains valuable access to a larger market. The economist-turned strategist noted that signing a trade agreement with Beijing was Taiwan’s only real option. Two months later, Japanese corporate strategist Ohmae Kenichi compared the trade deal to Taiwan’s economic “vitamins,” urging Taipei to move quickly with the signing of a cross-strait ECFA.[[9]](#footnote-9) KMT honorary chairman Wu Poh-hsiung concurred with the “vitamins” metaphor. .

Another indication of the *tamamushi-iro* approach reflects in the separate interpretation of their relationships. In resolving the functional issues, there is evidence that Beijing responded to Taiwan with sincerity, compromise and generosity. For example, to calm Taiwan’s fears that the ECFA could lead to a flood of cheap Chinese goods, Premier Wen Jiabao promised in March 2010 that any trade deal would not harm Taiwan. He said, “In negotiating this agreement…we need to keep in mind Taiwan’s small businesses and ordinary people, and the interests of farmers in Taiwan. We will let the people of Taiwan benefit from tariff conditions and early harvest programs.”[[10]](#footnote-10) In return, Taiwan had the wisdom not challenging Beijing when the latter repeatedly referred to them as “one family.”

**Potential Regional Cooperation?**

Will this spirit of cooperation be expanded to other regional issues of mutual territorial concern? Taiwan is involved in two sets of disputed island claims that have potential to collaborate with Mainland China. The first are the Diaoyutai Islands, 100 nautical miles (185km) off Taiwan’s northeast tip in the East China Sea, which are controlled by the Japanese who call them Senkakus. There have been many Taiwanese fishing boats harassed and detained by Japan. In June 2008, one boat was sunk by the Japanese coast guard. China supports Taiwan’s claim that the Diaoyutais belong to Taiwan, which is part of China (whether represented by the ROC or PRC).

The other set of island disputes that involves Taiwan are in the South China Sea, which include Spratly, Paracel, Macclesfield, and Pratas Islands.[[11]](#footnote-11) In contrast with the Diaoyutais, the Pratas Islands (450km southwest of Kaohsiung), the largest in the entire South China Sea, have been occupied and patrolled by Taiwan’s Coast Guard Administration since 1946. In 2007 Taiwan set up the Dongsha Atoll National Park as one of its eight national parks. Also under Taiwan’s administration is the Taiping Island (aka Itu Aba Island), the largest in the Spratlys. China controls Paracel Islands. Like China, Taiwan claims indisputable sovereignty over all four island archipelagoes and the adjacent waters in the South China Sea, citing evidence from “history, geography or international law.”[[12]](#footnote-12) Other countries that dispute the claims in whole or part are Vietnam, the Philippines, Brunei and Indonesia.

These territorial disputes, especially the Diaoyutais, are emotional scars resulting from China’s Century of Humiliations. President Ma was one of those overseas student protesters in the 1970s when the U.S. returned the islands to Japan. He went on ahead to write his now-famous doctoral dissertation at Harvard University on those troubled waters and their legal issues*.* At the time of establishing diplomatic relationships in the 1970s, PRC leaders decided to shelve disputes for future generations; now Japan has espoused the controversial position that no dispute exist. Incensed Chinese on both sides of the Straits, as well as overseas Chinese, have repeatedly called for “Defending the Diaoyutais.” Indeed, there have been calls for a joint cross-Strait governmental action on those islands. For example, Liu Naiqiang, a Hong Kong representative to China’s parliament, has called for cross-Strait authorities to “shelve disputes and jointly defend Chinese land and seas.”[[13]](#footnote-13)

In addition to Chinese governmental protests against Japan, actions from civil societies to assert claims to the Diaoyutais have received increased media coverage. On June 22, 2003 an attempt was made by 15 protestors from China and Hong Kong to land on the islands with a small fishing boat. In December, the Xiamen-based Chinese Defending Diaoyutai Association was established, with 30 members from Mainland China, Taiwan and overseas.[[14]](#footnote-14) A Taipei-based Chung-hwa Baodiao Alliance [Chinese Alliance in Protection of the Diaoyutai Islands] was established in November 2008.

In the recent dispute over a collision between a Chinese fishing trawler and a Japanese patrol vessel off the Diaoyutai / Senkaku Islands, Japan initially took a strong position that it intended to prosecute the Chinese captain under its domestic law. A concerned China grew apprehensive that this unprecedented move, if allowed to proceed, would not only perpetuate Japanese *de facto* occupation of the disputed islands, but it would also create a precedent to legalize the occupation. President Ma of Taiwan sent patrol boats to declare sovereignty over the Diaoyutais, stressing that the ROC’s ally, the United States, does not take a position on the sovereignty of the islands. Japan eventually released, without charge, the Chinese captain whom it had held for more than two weeks.

In the Jiangxi-Taiwan Economic and Trade Cooperation Seminar held in China’s Jiangxi Province in September of 2010, John Chiang, the ruling KMT Vice Chairman and grandson of the late Chiang Kai-shek, remarked that the Diaoyutai Islands “belong to all Chinese people”, and vowed that the KMT would defend it.[[15]](#footnote-15) Days later, Taiwan’s Presidential Office held a discussion specifically on the status of these islands. A document obtained by the pro-independence newspaper the *Taipei Times* indicated Ma’s government regards Mainland China as part of the ROC territory; as a result, the KMT sees no conflict of its claim over the Diaoyutais as conflicting with China’s claim. This interpretation reportedly concerned Japanese officials.[[16]](#footnote-16)

The United States returned the Senkaku / Diaoyutai jurisdiction to Japan in 1971, but their sovereignty was not confirmed. In Hanoi, Vietnam on October 30, 2010 Secretary of State Hillary Clinton reiterated that “the United States has never taken a position on sovereignty [of the island].” Despite this, one can see that America favors Japan’s stance when she made it clear that the United States would defend the islands as part of the 1960 treaty obligations. In addition, she referred to the island using the Japanese preferred name “the Senkaku Islands” rather than the Chinese name. Though she was willing to host a trilateral conference among the U.S., Japan and China, Japan was the first to refuse.[[17]](#footnote-17) China would emerge a winner because such a conference would shred Japan’s long-held position of no disputes existing on the status of the Diaoyutais.

In 2010, the United States and China had several diplomatic spats, ranging from Washington’s arms sales to Taiwan, President Obama’s meeting with the exiled Tibetan leader, to China’s currency, trade surplus, and human rights record at home. In addition to these structural issues, the U.S. military exercises with South Korea and Japan raised China’s eyebrows. With Obama’s Administration taking a more active role in East Asia, China feels uneasy, especially when Secretary of State Clinton asserted in July 2010 that the U.S. had “a national interest” in the region. Positioned at the axis of the three East Asian flashpoints – the Korean Peninsula, the Taiwan Strait and the South China Sea – Taiwan’s moves with these territorial disputes in the region may complicate the U.S. calculations of its interests. As a result, Taiwan’s domestic politics, that is, whether the ruler is a ROC defender or an independence-minded politician, matters greatly in the region’s politics.

**ECFA’s Effects on Taiwan’s Domestic Politics**

Critics of the Taiwan-China deal also likened the ECFA to its earlier Hong Kong version, *the Closer Economic Partnership Arrangement* (CEPA). [[18]](#footnote-18) In an article published in the pro-independence *Taipei Times*, Woody Cheng, history professor at National Cheng Kung University compared the ECFA to a China-imposed “birdcage” that Taiwan should flee from. Using a textual analysis characterized by post-modernist thought, Cheng deconstructed the Taiwan pact. He assessed it in the context of its timing, venue, and the words used in the ECFA compared with those in the Hong Kong case. He pointed out two interesting coincidences of the signing ceremony: The same initial signing date (June 29) and the choice of Chongqing, the mainland city where 65 years ago Mao Zedong’s Communists and Chiang Kai-shek’s Nationalists held their second round peace talks. Cheng’s third interesting element lies in his interpretation of the “A” in both cases. Though he acknowledges that CEPA’s “A” means “arrangement” while ECFA’s “A” refers to “agreement,” reflecting Taiwan’s relatively larger bargaining room, Cheng suggests the Chinese phrase of framework (*kuangjia*) in ECFA “implies a greater sense of confinement” that is meant to “lock” Taiwan into Chinese orbit. [[19]](#footnote-19)

During each and every round of the cross-Strait talks, the opposition DPP argued that economic integration would 1) flood Taiwan with cheap Chinese products, thus damaging fragile industries; 2) prompt massive job losses, destroying Taiwan’s middle class; and 3) make Taiwan vulnerable by being overly dependent on China. Opponents to the trade deal fear that deregulation of the agricultural and financial sectors would undermine Taiwan’s self-sufficiency, and would thus be detrimental to Taiwan’s security. Pushing for an ECFA referendum, the extremist Taiwan Solidarity Union (TSU) has painted President Ma as China’s puppet, and the deals as setting the stage for an eventual Chinese takeover of Taiwan. The most radical view is that the ECFA should be abolished once the DPP comes back to power.

If Beijing had wanted to use the trade deal to prevent the DPP from taking office in 2012, its strategy was not successful, judging from the results of the post-ECFA municipality mayoral elections. As anticipated, the KMT retained hold of the north (Taipei, Sinbei [formerly Taipei County] and Greater Taichung), while the DPP maintained control of the south (Greater Tainan and Greater Kaohsiung). Despite of the election-eve shooting violence widely believed to have benefited the KMT, the total vote-count was in favor of the DPP, the party that loathes ECFA. The DPP won 49.9 percent of popular votes while the ruling KMT only garnered 44.5 percent, with a difference of 400,000 ballots.[[20]](#footnote-20)

If ECFA had any impact on Taiwan’s domestic politics, it was contrary to the interests of the signing parties. While all the small parties were marginalized, the newly-minted One Side One Country Alliance (OSOCA), formed by the incarcerated ex-President Chen Shui-bian, has gained momentum. Established in September 2010, barely two months prior to the elections, the radical alliance ran an “anti-China abolishing-the-ECFA” campaign, with former minister of foreign affairs Mark Chen as its president. Of the 40 councilor candidates it recommended (35 DPP members and 5 independents), the OSOCA won 30 seats in all five municipalities, thus becoming the largest political pressure group, with influence expanding to every corner of the island. Notably, Chen Chih-chung, son of the former President who ran on an independent ticket, won the highest-number of votes in his district in Tainan. Some of the OSOCA’s most infamous members include Wang Dingyu who had mobilized supporters to violently attack the visiting Chinese envoy a year earlier. Another prominent member was Tsai Ting-kuei, a National Taiwan University professor who heads the Taiwan Referendum Alliance.[[21]](#footnote-21)

Through this political maneuver, Chen has no doubt extended his grip beyond the current confinement. It was notable that the jailed former President had accurately anticipated the election results. From the Taipei Detention Center where he was held for embezzlement and money laundering, Chen managed to put together a group of candidates that covered most districts in the five municipalities. He had predicted, correctly, that the KMT would win 3 of the 5 municipalities, with the DPP winning the rest, but grabbing a larger share of the electoral votes.[[22]](#footnote-22) Via the *Ah-Bian’s Notes* series, Chen voiced his concerns that the DPP, under Chairperson Tsai Ing-wen, might move toward the middle, claiming that a middle road would lead his former party to nowhere. Drawing connections between his OSOCA and America’s Tea Party movement, Chen urged followers not to quit their fundamental ideals for an independent Taiwan. In his most recent “*Ah-Bian’s Notes 56*,” the former president quoted Tea Party candidate Christie O’Donnell in cautioning the DPP’s new leader not to deviate from the direction that Chen had formerly led.[[23]](#footnote-23)

Despite Chen’s influence, there are indications that the DPP under Chairperson Tsai is moving toward the middle in its China policies. In an interview with *Apple Daily* in September, Tsai suggested that her party, if voted into power in 2012, would continue Ma’s conciliatory cross-Strait policies. She implied that a DPP government would not make changes to cross-Strait agreements, including the ECFA, unless via democratic procedures. On a separate occasion, she advocated establishing a think tank research center to strengthen the DPP’s policy capacity regarding cross-Strait development. In a sign of her breakaway from the former President’s corruption allegations, Tsai did not rehabilitate Chen, nor did she take an offensive on the ECFA referendum promoted by the more radical Taiwan Solidarity Union.[[24]](#footnote-24) By and large, the cross-Strait issues were largely put on the back burner during the recent elections. As a result, Chen’s move may compromise Tsai’s efforts to move toward the middle, but it is unlikely.

Another indicator of Tsai’s softer China approach can be seen from the DPP’s newly adopted nomination rules. In January 2011, the party congress replaced primaries with public polls for all future candidates—presidential, legislative, or mayoral. Though bitterly resisted by hardliners, majority of the party members approved the motion. The professed goal was to curb factional disputes, which demoralized the last presidential race, so that the party could unite to win the presidential election in 2012. In effect, the new selection mechanism would give Tsai a freer hand by reducing the influence of radical members on her policy options on China.

**Conclusions**

Two thousand years ago in a Chinese kingdom, King Xuanwang of Qi asked his advisor Mencius [Meng Zi] how to maintain a neighborly relationship. Mencius replied succinctly, “The great power should treat the small with magnanimity, and the small should respond to the great with prudence. In so doing, the great power brings peace to the world and the small power protects its kingdom.”[[25]](#footnote-25) Mencius teachings remain useful to today’s cross-Strait relationships.

In negotiations leading to the Economic Cooperation Framework Agreement (ECFA), leaders on both sides heeded the wisdom of Mencius. Mainland China treated Taiwan with goodwill and generosity, while Taiwan’s government and negotiators responded in kindness. Prior to the Chinese New Year in 2011, President Ma of Taiwan said that “patience, love and perseverance” were keys to cross-Strait breakthroughs. He further expressed his conviction that their joint culture and its wisdom may guide the cross-Strait relations towards peace and prosperity.

The Taiwan Strait had never been calmer since Chiang Kai-shek’s nationalist army retreated to the island in 1949. Moving away from his predecessor’s confrontational China policy, President Ma broke the ice with China using a formula of “the 1992 Consensus” in which each side agrees to disagree on the meaning of One China. This *Tamamushi-iro* solution proved effective in shelving the long-term cross-Strait dilemmas. By focusing on functional matters, the two sides have achieved a significant thaw in their economic and trade relationships. Their approach may provide a meaningful case study for future conflict resolution practices.

Though both sides tried hard to minimize its political effect, the cross-Strait ECFA is a strategic move, blessed by politicians who desire a rejuvenation of the Chinese Nation (*zhonghua minzu*) and want to build a conciliatory relationship. In the long run, it has the potential to change East Asian dynamics, especially in issues related to the disputed waters in East Sea and the South China Sea. Given the capacity of such issues to quickly ignite nationalist sentiments, all parties including the United States should plan to negotiate deals to defuse tensions.

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| **Table 1.1 Cross-Strait Agreements Since May 2008** |  |
| **Negotiation Rounds (# of Agreements)** | **Date** | **Place** | **Agreement Contents** |  |
| **Round 1 (2)** | Jun. 8-13 2008 | Beijing, China | Agreement on Cross-Strait Tourism of Mainland Residents to Taiwan |  |
| Minutes of Talks on Cross-Strait Chartered Flights  |  |
| **Round 2 (4)** | Nov. 4 2008 | Taipei, Taiwan | Agreement on Cross-Strait Air Transport |  |
| Agreement on Cross-Strait Sea Transport |  |
| Agreement on Cross-Strait Postal Services |  |
| Agreement on Cross-Strait Food Security |  |
| **Round 3 (3) with 1 consensus** | Apr. 26 2009 | Nanjing, China  | Cross Strait Financial Cooperation Agreement |  |
| Supplementary Agreement on Cross-Strait Air Transport |  |
| Agreement on Joint Cross-Strait Crime-fighting and Mutual Judicial Assistance |  |
| Consensus on Mainland Investment in Taiwan |  |
| **Round 4 (3)** | Dec. 21-5 2009 | Taichung, Taiwan | Agreement on Cooperation of Agricultural Product Quarantine and Inspection |  |
| Agreement on Cooperation in Respect of Standards, Metrology, Inspection & Accreditation |  |
| **Round 5 (2)** | Jun. 29 2010 | Chongqing, China | Agreement on Cooperation in Respect of Fishing Crew Affairs |  |
| Economic Cooperation Framework Agreement (ECFA) |  |
| Cross-Straits Agreement on Intellectual Property Right Protection & Cooperation |  |
| **Round 6 (1)** | Dec. 20-2 2010 | Taipei, Taiwan | Medical and Health Cooperation Agreement |  |

Source: The Straits Exchange Foundation

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| **Table 1.2 Taiwanese Views of the Fifth Round Meeting** |  |
| **Are You Satisfied With These Elements of the ECFA?** | **Very Satisfied** | **Somewhat Satisfied** | **Slightly Unsatisfied** | **Very Unsatisfied** | **Don't Know** |  |
| 1. Zero or Reduced Tariff Rates  | 14.2 | 40.6 | 11 | 13.8 | 20.4 |  |
|   | 54.8 | 24.8 |   |  |
| 2. 18 Agricultural & Fishery Products  | 19 | 44.6 | 12.2 | 14.6 | 9.5 |  |
|  Zero Tariff | 63.6 | 26.8 |   |  |
| 3. ECFA's Overall Negotiation Results | 15.5 | 45.6 | 12.9 | 17.1 | 8.9 |  |
|   | 61.1 | 30 |   |  |
| 4. Agreement on Intellectual Property  | 29.8 | 43.3 | 7.5 | 9.9 | 9.5 |  |
|  Rights & Cooperation | 73.1 | 17.4 |   |  |
| 5. Institutionalized Negotiations  | 39.6 | 39.7 | 6.5 | 9.4 | 4.8 |  |
|   | 79.3 | 15.9 |   |  |
| 6. Investment Protection Negotiation | 37.3 | 33.7 | 8.5 | 13.9 | 6.6 |  |
|   | 71 | 22.4 |   |  |
| *Notes*: Survey Time: July 2-4, 2010; Sample: 1114; Sponsored by Taiwan’s Mainland Affairs Council |  |  |
| *Source*: "民眾對第五次『江陳會談』之看法」民意調查" <http://www.mac.gov.tw/public/Attachment/07621452091.pdf>  |

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| **Table 1.3 Taiwanese Views of the Fifth Round Meeting** |  |
| **Questions** | **Yes** | **No** | **Don't Know** |  |
| 1. Has the Government Protected Taiwan's Weak Industries? | 53.1 | 36.7 | 10.3 |  |
| 2. Will the ECFA Help Taiwan sign FTAs with other countries? | 62.6 | 25.9 | 11.4 |  |
| 3. Will the ECFA Have Long-term Positive Impact? | 59.2 | 31.0\* | 9.9 |  |
| 4. Did the ECFA Protect Taiwan’s Economic Interests?  | 66.8 | 22.5 | 10.7 |  |
| 5. Did the ECFA Hurt Taiwan’s National Sovereignty? | 29.8 | 58.9 | 11.3 |  |
| \*Combination of "No impact" and "Negative impact" |  |  |  |  |
| *Notes*: Survey Time: July 2-4, 2010; Sample: 1114; Sponsored by Taiwan’s Mainland Affairs Council |
| *Sources*: "民眾對第五次『江陳會談』之看法」民意調查" <http://www.mac.gov.tw/public/Attachment/07621452091.pdf>  |

1. For a list of major events on ECFA, see Taiwan’s government website <http://www.ecfa.org.tw/event.aspx?pagenum=1&>; For the Chinese version of the Agreement and their English translations, see <http://www.ecfa.org.tw/RelatedDoc.aspx> [↑](#footnote-ref-1)
2. See高小林、綦军(Gao Xiaolin and Qi Jun), 《解密开国大典（增订版）》[Declassifying the Nation-Founding Ceremony], Chapter 3, 中共黨史出版社[Chinese Communist Party History Publishing House], 2006. [↑](#footnote-ref-2)
3. For example, former Singaporean Prime Minister Lee Kuan Yew was vocal in his criticism of Chen and the independence movement. [↑](#footnote-ref-3)
4. Wei-Chin Lee, Taiwan’s cultural reconstruction movement: Identity politics and collective action since 2000. *Issues & Studies*, 41 (1), March 2005, 1-51. [↑](#footnote-ref-4)
5. Mancur Olson, *The logic of collective action: Public goods and the theory of groups*. Cambridge, Mass.: Harvard University Press, 1965. [↑](#footnote-ref-5)
6. For information about all six rounds talks, see Taiwan’s ministerial Mainland Affairs Council’s website: <http://www.mac.gov.tw/np.asp?ctNode=5689&mp=1> [↑](#footnote-ref-6)
7. For example, the IPR Panel is headed by Taiwan’s Ministry of Economic Affairs’ Intellectual Property Office director-general Wang Mei-hua. [↑](#footnote-ref-7)
8. “Media praise China-Taiwan talks,” *BBC News*, 12 June 2008, <http://news.bbc.co.uk/2/hi/asia-pacific/7450878.stm> [↑](#footnote-ref-8)
9. “Japanese strategist Kenichi Ohmae backs ECFA,” *United Daily News*, June 8, 2010. <http://www.taiwantoday.tw/ct.asp?xItem=107408&CtNode=413> (accessed January 1, 2010) [↑](#footnote-ref-9)
10. Ben Blanchard and Ralph Jennings, “China's Wen seeks to reassure Taiwan on trade deal,” *Reuters*, March 15, 2010. [↑](#footnote-ref-10)
11. Each of these islands has a different Chinese name. Spratly is called Nansha Islands; Paracel, Xisha Islands; Macclesfield, Zhongsha Islands; and Pratas Islands, Dongsha Islands. By far the Spratlys remain the most controversial in the South China Sea. [↑](#footnote-ref-11)
12. For more information on China’s position, see *Declaration of the Government of the People's Republic of China on the Baseline of the Territorial Sea of the People's Republic of China* (15 May 1996) and *Law of the People's Republic of China on the Territorial Sea and the Contiguous Zone*, <http://www.fdi.gov.cn/pub/FDI_EN/Laws/GeneralLawsandRegulations/BasicLaws/P020060620318668126917.pdf>; For Taiwan’s position, see Taiwan’s Ministry of Foreign Affairs’ latest statement <http://www.mofa.gov.tw/webapp/content.asp?cuItem=45948&mp=6> ; [↑](#footnote-ref-12)
13. Liu, Naiqiang [刘乃强], “Gezhi zhenyi liang’an gongtong bao jiang wei hai” [搁置争议两岸共同保疆卫海Shelve Disputes, Two Sides Jointly Defend Chinese Lands and Seas], China Review Monthly [中国评论月刊], No.155, November 2010. http://gb.chinareviewnews.com/doc/1014/9/0/6/101490659.html?coluid=1&kindid=0&docid=101490659&mdate=1107000405 [↑](#footnote-ref-13)
14. “Diaoyutai Lieyu[islands]: A Great Exhibit about Intrinsic Territorial Sovereignty Owned by China,” Chapter 15, <http://www.cfdd.org.cn/html/dyd/15-27.html> [↑](#footnote-ref-14)
15. “蔣孝嚴：釣魚台屬全體中國人,” [John Chiang: Diaoyutais Belong to All Chinese People], *China Times*, September 24, 2010. [http://news.chinatimes.com/mainland/0,5245,50504930x132010092401517,00.html](http://news.chinatimes.com/mainland/0%2C5245%2C50504930x132010092401517%2C00.html) [↑](#footnote-ref-15)
16. Fan Cheng-hsiang, “Japan worried over ROC interpretation,” *Taipei Times*, October 4, 2010, P. 1 <http://www.taipeitimes.com/News/front/archives/2010/10/04/2003484493> [↑](#footnote-ref-16)
17. “Remarks With Vietnamese Foreign Minister Pham Gia Khiem,” *U.S. Department of State*, October 30, 2010. <http://www.state.gov/secretary/rm/2010/10/150189.htm> [↑](#footnote-ref-17)
18. Along with six annexes, the CEPA was signed by Mainland China and its Hong Kong Special Administrative Region (SAR) on June 29, 2003 and September 29, 2003 respectively. Since then seven supplements have been added to the arrangement, with one on each intervening year. The full text of the CEPA and its supplements can be found <http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html> [↑](#footnote-ref-18)
19. Woody Cheng, “Taiwan needs to flee the birdcage,” *Taipei Times*, July, 10, 2010, p.8 (translated by Julian Clegg). [↑](#footnote-ref-19)
20. The November 2010 elections were designed to select a total of 314 city councilors. The result shows that the DPP and the KMT each won 130 city councilor seats. The small pro-unification parties won 7 seats, with the People First Party and New Party winning 4 and 3 seats, respectively. The radical pro-independence Taiwan Solidarity Union fared worst: out of the 15 nominees it won only 2 seats and is now severely marginalized, partly because of the emergence of “One country on Each side” caucus that competed for the same constituents. [↑](#footnote-ref-20)
21. Liu Xing-ren, “yi-bian yi guo lianxian, tai zhengzhi zuida bianshu [One Side One Country Alliance, the greatest variable in Taiwan’s Politics], *China Review News*, Dec 19, 2010. <http://www.chinareviewnews.com> [↑](#footnote-ref-21)
22. Ko Shu-ling, Chen warns DPP on Taipei election, *Taipei Times*, Sep 28, 2010, P.1. <http://www.taipeitimes.com/News/front/archives/2010/09/28/2003483945/1> [↑](#footnote-ref-22)
23. Vincent Y. Chao, “Chen draws from ‘Tea Party’ ideas,” *Taipei Times*, Oct 15, 2010, P.3 [↑](#footnote-ref-23)
24. Vincent Y. Chao, “DPP would maintain PRC policy: Tsai,” *Taipei Times*, September 25, 2010, p.3. <http://www.taipeitimes.com/News/taiwan/archives/2010/09/25/2003483714> ; So-Heng Chang, “The Political Implications of Taiwan’s Big Five Mayoral Elections,” *Foreign Policy Research Institute*, December 2010. <http://www.fpri.org/enotes/201012.chang.taiwan.html> [↑](#footnote-ref-24)
25. *Mencius: Liang Hui Wang II*. The Chinese text can be found <http://www.cycnet.com/encyclopedia/literature/ancient/collection/mengzi/mengzi002.htm> [↑](#footnote-ref-25)