

# Economic Cooperation Framework Agreement (ECFA): Domestic Opportunities and Challenges

**S**ession Two was moderated by *Associate Prof Simon Tay*, Chairman, Singapore Institute of International Affairs (SIIA), Singapore. The speakers were **Dr Yu-Ning Hwang**, Assistant Professor, Department of Economics, National Cheng-Chi University, Taiwan, and **Dr Chao-Jen Huang**, Director, Research Division of Southeast Asia, Taiwan Institute of Economic Research, Taiwan. **Dr Jorah Ramlan**, Senior Analyst at ISIS Malaysia, reports.

**Dr Yu-Ning Hwang's** presentation focused on Taiwan's position in relation to economic integration in East Asia before ECFA, as well as the ECFA and opportunities for China, Taiwan, and Asia. He also discussed cross-straits cooperation, and the importance of economic cooperation relationships beyond the ECFA.

Due to the nature of the political relationship across the Taiwan Straits, Taiwan has been excluded from the rising trend of Asean economic integration, thus facing the risk of marginalization. Asean, as a regional organization, is acknowledged as the core of economic integration among its member countries. Since the East Asian financial crisis of

1997, Asean has progressed in deepening integration through bilateral Free Trade Agreements (FTAs) with China, Korea, and Japan, and multilateral FTAs with Asean+3 and Asean+6 countries.

The FTA between Asean and China, Taiwan's largest trade partner, took effect early this year; it saw the almost complete removal of some products' tariffs (Table 1). There is concern that without any trade arrangement between Taiwan and China, Taiwanese exports will face severe competition in China and in other Asian countries.

**Table 1: China's Tariffs for Taiwan and Asean**

	Tariffs in Taiwan (Average nominal tariffs) %	Preferential Tariffs of Asean in China (Average nominal tariffs) %			
	2009	2005	2007	2009	2010
Plastics and Chemicals	6.49	6.01	5.53	0.98	0.25
Machinery	8.23	6.97	5.84	2.08	0.07
Vehicles and Accessories	14.92	14.92	11.42	7.04	4.31

On June 29, 2010, Taiwan signed an ECFA with China which, to some extent, reduced the concern over Taiwan's exports to East Asia. In addition, it is expected to precipitate further cooperation and bring about mutual benefits for Taiwan and China. For Taiwan, the ECFA may promote greater market opportunities and the possibility of signing FTAs with other countries. For China, the ECFA may contribute in eliminating economic imbalances caused by the rapid economic progress since China's reform and open-up policy in 1978.

Taiwan as a country that developed based on Chinese culture but with a Western style economic system can be a good blueprint for the economic development of China. Some aspects of this blueprint can be adapted by China for example in areas such as economic specialization.

The ECFA, framed under the spirit of the free market, in which production factors will move according to comparative advantages, will precipitate specialization in China and across the Straits. While industries with more advanced technologies will be located in coastal cities, those which are labour-intensive will move to the west where wages are low, so that the production chain can be consolidated. This will also help in the development of poor cities in the west, thereby reducing inequality between rural and urban areas, achieving macroeconomic balance, and thus improving social stability.

As for intangible benefits, the ECFA will contribute by creating a closer relationship between China and Taiwan, through social and cultural interaction, thus establishing mutual understanding and trust, the basis of peace across the Straits. This in turn will have wider positive implications for Asia.

Dr Hwang suggested that China should consider Taiwan as part of the East Asian integration process since Taiwan has maintained long-lasting and good relationships with East Asian countries. Taiwan has become one of the

essential parts of the highly specialized East Asia production chain. Removing it from the integration process will deteriorate the production chain, thereby lowering production capacity as well as reducing economic efficiency.

Prosperity in the region is the key to successful integration. The decline in the competitiveness of Taiwan will slow down the development of China, and also cause losses to East Asia and the global economy. Thus, Taiwan should be included in East Asian integration, and allowed to maintain normal and stable trade relationships with other countries.

It is believed that the importance of economic cooperation relationships beyond the ECFA is determined by the development and prosperity of the Greater China Circle. The Greater China Circle should be connected more closely with East Asia through vertical and horizontal integration. The vertical integration which is essentially the integration of economies with different levels of development can include:

- High-end integration consisting of Japan;
- High-to-medium integration of Chinese coastal cities, and Korea, Taiwan, Singapore;
- Medium-end integration consisting of the second-tier cities in China, and countries like Philippines and Malaysia;
- Lower-end integration of the Chinese western cities, and Myanmar and Vietnam.

By taking advantage of geographical proximity, the integration can be horizontal, involving: the southeast cities of Taiwan and Hong Kong; the northeast area including Tianjin, Japan and Korea; and the southwest with countries such as Myanmar and Vietnam. Horizontal integration is expected to facilitate market expansion.

For Taiwan, the ECFA is not without challenges. The primary concern involves the 'hollowing-out' of industries in Taiwan, or the possible over-dependence of Taiwan on China. In

addition, political concerns are unavoidable. Taiwan is sceptical that China will allow it to sign FTAs with other countries.

In conclusion, Dr Hwang emphasized that the opportunities created by ECFA are not limited to the cross-straits region but include the integration of East Asia. The inclusion of Taiwan in the integration process will contribute to the economic transformation of China and the less developed countries in East Asia, solidify the basis for East Asia integration, and create stability and prosperity specifically in the region, and in the world in general.

**Dr Chao-Jen Huang** discussed the economic impact of the ECFA on China and Taiwan based on a study using a Computable General Equilibrium (CGE) model of global trade. Four hypothetical scenarios were introduced, including Asean plus China, co-existence of Asean plus China and ECFA, Asean plus 3, and co-existence of Asean plus 3 and ECFA. The effects of ECFA on gross domestic product (GDP), investment, terms-of-trade, and welfare were analyzed for Taiwan, China, Asean, Japan, Korea, North American Free Trade Agreement (Nafta), European Union, and the rest of the world.

In the production sector, the co-existence of Asean, China, and ECFA will only benefit Taiwan's products like machinery and equipment, chemical and plastic products,

textiles, motor vehicles and parts, and leather products. However, sectors which are expected to lose in this arrangement are processed rice, paddy rice, electronic equipment, transport necessities, and meat products. In addition the ECFA appears to produce positive effects in the exports and imports performance of China and Taiwan (Table 2).

The co-existence of Asean, China and the ECFA embraces a positive economic momentum within members as the result of trade liberalization and the flow of goods. Thereby bilateral economic integration between individual members is further strengthened by economic factors. It is argued that the formation of ECFA FTA will stress the importance of the economic enmeshment of Taiwan, in response to economic regionalization and globalization, and to take the idea of developing Taiwan's economic security mechanism as a result of economic integration.

A hypothetical FTA assumption suggests that Taiwan may suffer negative economic effects on its GDP, terms-of-trade and welfare, due to its exclusion from regional economic integration. ECFA may carry positive economic benefits for Taiwan in production, and trade with Asean, China and Taiwan, which in turn may improve the economic performance and welfare of people in China and Taiwan. It has been suggested that Taiwan should implement a more aggressive economic policy to balance

**Table 2: Taiwan: Possible Changes in Cross-Strait Trade Relations (USD million)**

Scenario	Exports to China	Imports from China
Asean plus China	75,983.39 (-1,600.35)	17,906.91 (-293.07)
Asean plus China and ECFA	99,512.51 (21,928.77)	22,928.71 (4,728.73)
Asean plus 3	72,124.06 (-5,449.68)	18,288.40 (88.42)
Asean plus 3 and ECFA	94,481.94 (16,898.20)	23,167.30 (4,967.32)

challenges from regional integration. It is further suggested that the feasible approach is to show complementary attributions among Taiwan, China, and Asean. In addition, if Taiwan and regional countries integrate all sources together, then it will strengthen regional competitiveness toward the global market.

Signing an ECFA with China is one important option and one from which Taiwan may benefit economically. Nonetheless, the best recipe for Taiwan is to liberalize the business sector for the purpose of fostering industrial competitiveness in the global market. The question remains as to what other possible approaches Taiwan should consider in order to balance possible economic challenges from being excluded from different regional arrangements.

This session concluded that Taiwan is in a precarious position in its current relationship with China. Despite its economic progress, Taiwan is on a short leash as far as its economic integration with other East Asian countries is concerned. Most countries will be cautious when dealing with Taiwan so as not to step on China's toes. The existence of an element of mistrust between China and Taiwan, and the possibility of changes in Taiwan's ruling party created a sense of insecurity in other Asian countries. They were hesitant about including Taiwan in ECFA and regional economic integration.



*Taipei 101, a symbol of the success of the Taiwanese economy*