

**Summary of Main Findings in
The Assessment of the Impact of
Direct Cross-Strait Transportation**

(Draft)

**Related Agencies
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TABLE OF CONTENTS

1. Assessment of the Economic Impact of “Direct Transportation”	1
(1) Impact on Shipping Costs	1
(2) Impact on Taiwan’s Transportation Status	1
(3) Macroeconomic Impact	2
(4) Impact on Industry	2
(5) Impact on Employment	3
(6) Impact on Asia-Pacific Regional Economic Development	3
(7) Overall Assessment	4
2. Security Assessment of “Direct Transportation”	6
(1) National Defense Costs Could Soar	6
(2) Primary Proposals by the Ministry of Defense for Reducing the Impact of “Direct Transportation” on National Defense.....	6
(3) Other Security Concerns	7
(4) Overall Assessment	7
3. Technical Evaluation of “Direct Transportation”	9
(1) Direct Sea Transportation	9
(2) Direct Air Transportation	10
4. The Requisite Direction and Preparatory Work for the Implementation of “Direct Transportation”	12
(1) Establishing the Direction for Implementation of “Direct Transportation”	12
(2) Supporting Measures that Need Strengthening	12
(3) The Conditions for Implementation and Principles of Negotiation of “Direct Transportation”	14

1. Assessment of the Economic Impact of “Direct Transportation”

(1) Impact on Shipping Costs

- (a) It is estimated that the opening of direct sea transportation would result in a reduction of shipping costs amounting to around NT\$820 million per year (estimates vary between NT\$800 million and NT\$1.2 billion). It would also cut shipping times by about one half (bypassing Ishigaki Island could save an estimated 16 to 27 hours per voyage).
- (b) It is estimated that the opening of direct air transportation would reduce air passengers’ travel costs by about NT\$13.2 billion per year (if implemented with multiple origin and destination points), and reduce their travel time by a total of 8.6 million hours. It would also yield annual savings of about NT\$810 million in the cost of transporting goods by air, and cut shipping time by a total of 260,000 ton-hours.
- (c) For individual enterprises, direct sea and air transportation would reduce shipping costs by an estimated 15% to 30%.
- (d) The benefits of “direct transportation” would be more substantial for air carriers while more limited for sea carriers.
- (e) A potential economic benefit of “direct transportation” is that, through cost and time savings, it could raise the efficiency of goods distribution, generate an increase in cargo volume at seaports and airports, and spur the expansion of various value-added activities in adjacent areas.

(2) Impact on Taiwan’s Transportation Status

- (a) Direct sea transportation could help secure Taiwan’s transportation status by making international shipping companies more willing to operate in Taiwan’s ports, reducing the threat posed to it after the completion of Shanghai’s new deep-water port on Big and Little Yangshan Islands in 2005, and sustaining the operation of Taiwan’s merchant fleets.
- (b) Direct air transportation would be favorable to Taiwan’s development as an Asia-Pacific regional air-cargo and air-passenger transit hub. It also would help Taiwanese businesses to grasp commercial opportunities for goods sourcing and travel, and would further consolidate Taiwan’s international status in air transport.

(3) Macroeconomic Impact

- (a) The economic benefits of “direct transportation” would include:
- i Reducing goods shipment and personnel travel costs, and raising the efficiency of business operations.
 - ii Building a positive image of improving cross-strait relations, and so exerting some stimulus effect on domestic financial markets.
 - iii In the medium to long term, potentially boosting the efficiency of resource utilization, promoting the cross-strait division of labor in industry, and expanding bilateral trade.
- (b) The negative impact of “direct transportation” and the “three links” could include:
- i A larger influx of imports from mainland China and the backflow of goods manufactured by Taiwanese businesses in the mainland, which could deal a blow to domestic industries, reduce Taiwan’s trade surplus, and cause deflation to emerge as a problem in Taiwan.
 - ii Increases in travel, business activity, consumption, and purchase of real estate by Taiwanese in mainland China, which could result in falls in domestic demand and real estate prices in Taiwan.
 - iii Increased Taiwanese business investment in mainland China, which could exacerbate the lopsidedness of cross-strait capital flows, lure industrial technology and high-tech talent to the mainland, and squeeze out domestic investment.

(4) Impact on Industry

- (a) In the short term, the impact of “direct transportation” would mainly be felt by some industries that are relatively sensitive to transportation time and cost. (Those more adversely affected would include producers of fresh fruits & vegetables and meat, fish and other agricultural products that have a limited shelf life or are highly perishable; and manufacturers of industrial products that carry high shipping costs and are produced under favorable conditions in the mainland, such as home appliances, machinery, building materials, automobiles and automobile parts, and so on. Those favorably affected would mainly be raw material and component industries, such as petrochemicals, textiles, and information and electronics.)

- (b) In the long term, “direct transportation” and the “three links” would have a structural impact on Taiwan’s industrial development:
- i The agricultural and industrial sectors would see a fall in their shares of GNP, while the service sector’s share would increase correspondingly.
 - ii The agriculture and fishery sector would be hardest hit. It would be necessary to improve its technology and upgrade its products in order to maintain some space for its survival and development.
 - iii The structure of manufacturing industry would undergo great change. Relatively uncompetitive traditional industries and those geared toward domestic sales would contract, while high-value-added and high-tech industries would expand their share of manufacturing output.
 - iv Most of the surplus resources of the agricultural and manufacturing sectors would be absorbed by the service sector. Service industries that could bring the mainland market within the scope of their operations and those possessing potential to develop as regional operations centers would have relatively greater room for development.

(5) Impact on Employment

- (a) After the implementation of “direct transportation”, the transformation of Taiwan’s economy could exacerbate structural unemployment, and induce part of the domestic work force, especially medium-grade to high-grade manpower, to go to work in the mainland in pursuit of a “second spring”.
- (b) There would be an inevitable increase in the number of Taiwanese managers and their families going to work and live in the mainland in the wake of their companies’ investments there.

(6) Impact on Asia-Pacific Regional Economic Development

- (a) The mainland economy’s magnetic effect and gradual development into the “factory of the world” is exerting tremendous competitive pressure on neighboring countries and changing the structure of regional economic strategy. But the mainland economy is also facing many short-term, medium-term, and long-term problems, with its economic potential subject to a diverse range of variables. The outbreak of SARS this year (2003) also

dealt a blow to the mainland economy and added another element of uncertainty. In particular, if another SARS epidemic breaks out, it will inevitably have an extremely negative impact on the mainland's economic development.

- (b) "Direct transportation" would be beneficial to strengthening the Taiwan economy's strategic position in the region, reducing the relative cost of mobilizing cross-strait economic resources, and avoiding Taiwan's marginalization from the trend of regional integration. But at the same time, Taiwan would have to overcome the negative impacts of an influx of mainland products and an exodus of capital and talent, to be able to ensure that "direct transportation" had a beneficial effect overall.
- (c) "Direct transportation" would have varying effects on the economies of different countries in Asia. On the whole, it would be favorable to the mainland China economy, but in the short term would be unfavorable to the Hong Kong economy. It would have only a limited impact on Japan's economy, would generate competitive pressure for the South Korean economy, and would have a greater long-term than short-term impact on the ASEAN economy.

(7) Overall Assessment

- (a) In the next five to ten years, Taiwan's economic development will be affected by several key factors, including changes in the internal economy, shifts in the international economy, economic factors in mainland China, and the development of cross-strait business relations. It cannot be denied that the continued strengthening of the "China factor" and the deepening of cross-strait economic and trade interdependency will increase the demand for "direct transportation" and the "three links". But we must also pay heed to the gulf between the two sides' political and economic environments, and the very different nature of systems on either side of the strait. Furthermore, we must keep in mind the plethora of variable factors at work within the mainland economy as well as the possible heavy impact of SARS.
- (b) To respond to the mainland China economy's magnetic pull and its gradual emergence as the "factory of the world", Taiwan has no choice but to include the mainland as one of the main overseas bases for the manufacture and global marketing of its products. At the same time, however, Taiwan must

preserve the autonomy of its economic development, take advantage of its favorable industrial development base, join forces with multinational enterprises, and speed up the reshaping and upgrading of its industry. Furthermore, in response to the needs of the post-SARS era, Taiwan must establish a cross-strait division of labor in industry that is better attuned to risk considerations, and must strengthen its base of production at home. Only by taking such steps will Taiwan be able to secure the comparative advantages it needs for long-term economic development.

- (c) Basic conditions that must be in place for the implementation of “direct transportation” and the “three links” include: the continuing internationalization of Taiwan’s economy; the enhancement of attractive power of Taiwan’s economy; the assurance and strengthening of Taiwan’s core competitiveness; and a balanced interflow of cross-strait resources.
- (d) The implementation of “direct transportation” and the “three links” must include appropriate risk control to guarantee overall economic security. Therefore, economic safety nets must be strengthened, and economic early-warning and response capabilities enhanced, while economic and trade order must be established and factors of uncertainty reduced.
- (e) To sum up, “direct transportation” and the “three links” offer advantages and disadvantages for Taiwan’s long-term economic development. The key is whether Taiwan would be able to amplify the positive effects and diminish the negative impacts. This depends on whether or not it can raise the level of its internationalization, comprehensively improve its investment environment and living quality, enhance its attractive power in economy, strengthen its domestic production base, and promote a balance in the inflow and outflow of resources. Only thus will it be able to attract capital and high-quality human resources from overseas, including the mainland, and secure a leading role for the Taiwan economy. Therefore, the implementation of “direct transportation” must depend upon objective conditions and the completeness of supporting measures put into place. Its timing will depend upon the fullness of preparations in Taiwan and whether negotiations will be able to create the right conditions for it.

2. Security Assessment of “Direct Transportation”

(1) National Defense Costs Could Soar

- (a) The impact of “direct transportation” on national defense would be related mainly to security defense on the one side and national defense strategy and force deployment on the other. The former might be subject to an immediate threat, while the latter would involve a wide-ranging and far-reaching effect.
- (b) Viewed overall, if “direct transportation” could not produce an easing of cross-strait tensions and diminish resort to military conflict, then its impact on national defense could not be overlooked. The adjustment of troop and other military deployments, and all kinds of visible and invisible burdens, would be quite apparent.

(2) Primary Proposals by the Ministry of Defense for Reducing the Impact of “Direct Transportation” on National Defense

- (a) The middle line of the Taiwan Strait and the status quo in the strait (aircraft and ships not straightly crossing its waters) are key to maintaining stability in the Taiwan Strait, and cannot be jeopardized by “direct transportation”.
- (b) The implementation of “direct transportation” across the Taiwan Strait should be carried out gradually in orderly stages, with links first opened in the south, then in the north, and finally in the center of Taiwan.
- (c) The prohibition against aircraft straightly crossing the Taiwan Strait is beneficial to the protection of Taiwan’s security. For direct air transportation, it is suggested that it would not be appropriate to add new air routes, but existing international air routes should be followed to facilitate control and accord longer identification and response time.
- (d) Units of the armed forces should be deployed at all airports and seaports opened for “direct transportation”, in preparation for handling surprise contingencies.
- (e) It is suggested that talks be held with the Beijing government to draw up related laws and regulations, for both sides to implement after reaching consensus thereon, and to map out areas of jurisdiction and responsibility.

- (f) In the event of a surprise contingency or in consideration of an impact on national security, the partial or complete cessation of flights and/or voyages should be recommended at once.

(3) Other Security Concerns

- (a) Possible causing of harm to national sovereignty. The Beijing government treats “direct transportation” as a “domestic matter”, and assert the “one China” principle and “one country two systems”. If the implementation of “direct transportation” required submitting to political preconditions from Beijing that downgraded Taiwan, then that would be bound to cause severe harm to Taiwan’s national sovereignty, and its cost would be nearly inestimable.
- (b) Social security costs could rise dramatically. “Direct transportation” and the “three links” would have an extensive impact on social security, including an adverse effect on public order, a greatly increased burden of disease prevention, a sharp increase in the number of economic dependents in the population, higher social welfare and education costs, etc. Without appropriate measures to contain these effects, the long-term social costs would far outweigh the economic benefits.
- (c) Growing severity of economic security problems. The implementation of “direct transportation” and the full “three links” would lead to fundamental changes in Taiwan’s industrial development and macroeconomic structure, speeding up the breadth and depth of cross-strait economic integration across the board. That could result in economic security problems such as a drastic rise in Taiwan’s economic dependency on the mainland market, the hollowing out of industry and worsening unemployment, a heightening of financial risk, an outflow of core technologies, and Taiwan’s possible economic marginalization.

(4) Overall Assessment

- (a) The effect on security of the implementation of “direct transportation” would primarily be its impact on national defense, and secondarily its impact on economic and social security. At the political and international-relations levels, its long-term effect would exceed its short-term impact.

- (b) The heavy impact of “direct transportation” on national security is a subject that cannot be ignored. To safeguard national security after the implementation of “direct transportation” and the “three links”, it would be necessary to establish comprehensive security concepts and practices, taking an all-encompassing, multi-faceted approach to building up overall national security, to make sure of avoiding any threat to or encroachment on major national interests and core values.
- (c) Given the key nature and importance of national security, the implementation of “direct transportation” would have to adhere to the primary points of proposal put forward by the Ministry of Defense, including: the middle line of and status quo in the Taiwan Strait should be maintained; arriving and departing aircraft and ships should as far as possible avoid navigation on the Taiwan Strait; air routes should follow existing international air routes, and no new air routes should be added; sea navigation routes also should be subject to restrictions and controls, with appropriate matters considered and reasonable arrangements made. Also, to cope with the greater burden of security work after the implementation of “direct transportation”, national security-related deployments and mission emphases would also have to undergo a vigorous process of corresponding adjustment.
- (d) The intricacies and complexities of cross-strait relations make it hard to clearly mark out the boundaries of political, social, economic, and other security problems. This, in turn, adds to the difficulty and complexity of security management. How to strengthen security awareness and understanding, and gather internal consensus, will be a serious challenge for the future.
- (e) The implementation of “direct transportation” would result in the steady intensification of cross-strait flows of goods, people, services, capital, and information. The surging tide of people, goods, money, and technology moving back and forth across the Taiwan Strait could add an unbearable burden to routine security management work. Therefore, the preparatory work for “direct transportation” security should be carried out as early as possible; and how to adjust security mission emphases and related deployments after “direct transportation” becomes a subject of pressing urgency.
- (f) To sum up, the key to implementing “direct transportation” lies in

whether there can be an improvement in cross-strait interaction. If the Beijing government continues to adopt hostile action toward Taiwan, and try to go on using the strategies of “promoting unification through links” and “cloaking politics in business” to absorb Taiwan’s economic power and undermine Taiwan’s sovereign status, then the implementation of “direct transportation” would undoubtedly carry extremely heavy security costs. Therefore, the implementation of “direct transportation” must be built upon the foundations of an improvement in cross-strait relations, an increase in good-faith interaction, and joint effort to establish mutual trust. At the same time, it must be accompanied by comprehensive security measures, to reduce the national defense, social, and economic costs that it might entail.

3. Technical Evaluation of “Direct Transportation”

(1) Direct Sea Transportation

- (a) On the technical side, the main factors that would need to be considered in implementing direct sea transportation are: the definition/designation of shipping routes; the selection of ports; the management of vessels; vessels’ flag display; shipping administration; and the choice of method for implementing “direct transportation”.
- (b) On the naming and definition of cross-strait shipping lines (on which various proposals have been made, including “domestic routes”, “international routes”, “quasi-international routes”, “special routes”, and “cross-strait routes”), Taiwan holds to the position that this should be determined through bilateral negotiations. If there are no negotiations and the issue is dealt with by each side according to its own rules, then though some Beijing government officials may show some flexibility in what they call them, essentially they are bound to persist in treating them as “domestic routes”.
- (c) On the choice of ports for “direct transportation”, if considered from the point of view of Taiwanese business needs and operational considerations, then all four of Taiwan’s international ports could be opened to direct sailing; but if security considerations hold sway, then opening could be carried out in gradual stages as necessary. The opening of mainland ports might need to be the subject of negotiation.

- (d) On the ship management side, no special restrictions would be called for, so that Taiwan-registered, mainland-registered, foreign-registered, and flag-of-convenience vessels would all be able to participate. But mainland China currently permits only Taiwan-registered, mainland-registered, and flag-of-convenience vessels owned by shipping companies registered in Taiwan or mainland China and solely or jointly invested in by Taiwanese or mainlanders to provide cross-strait shipping services.
- (e) Other matters such as the issue of vessels' flag display, shipping administration (certification inspection, customs inspection, ship's equipment and safety inspection, etc.), avoidance of double taxation, the establishment of shipping companies and related shipping industry companies (such as freight forwarders, shipping agents, etc.), could be handled in accordance with international standard practice or through negotiation.
- (f) According to Taiwan's experience of marine transport contacts with other countries, most of the technical matters involved in direct sea transportation should not need to be brought into negotiations between the two sides of the Taiwan Strait. However, on the basis of benign cross-strait interaction as well as security management needs, conducting cross-strait negotiations and signing an agreement would be the most feasible course of action.

(2) Direct Air Transportation

- (a) On the technical side, the main factors that would need to be considered in implementing direct air transportation are: the arrangement of air traffic rights, the selection of flight points, the handling of flight control and security issues, the administration of air transport, accident investigation and compensation, and other related technical issues.
- (b) Negotiation of air traffic rights: The arrangement of cross-strait air traffic rights would have to be decided through negotiations covering such matters as origin and destination points, participating airlines, number of flights, and so on, and would then have to be executed by the governing authorities of both sides on the basis of the agreement thus reached.

- (c) Choice of flight points: Taiwan could initially choose Taoyuan CKS International Airport and Kaohsiung Hsiaokang International Airport, and mainland China could choose its open international airports as direct cross-strait flight points. According to a survey of the wishes of airlines conducted by Taiwan's Civil Aeronautics Administration (CAA), the best airports for this purpose on the mainland side would be Shanghai, Guangzhou, Beijing, Xiamen (Amoy), and Shenzhen, in that order.
- (d) Air-route planning: After the implementation of direct air transportation, the two sides' aircraft would still fly through a third-area Flight Information Region (Hong Kong or the Ryukyu Islands) en route to the Taipei Flight Information Region, in which case the related procedures could remain exactly the same as those in current operation and there would be no need to make any other arrangements.
- (e) Methods for opening direct air transportation would include: (i) "fixed-point direct flights" or "multiple-point direct flights"; (ii) "first cargo, then passengers", "first passengers, then cargo", or "passengers and cargo at the same time"; (iii) "one-way direct flights" or "two-way direct flights"; and (iv) "charter flights (unscheduled or programmed)" or "scheduled flights".
- (f) For other matters such as those regarding recognition of flight crew and aircraft certificates and licenses, aircraft maintenance checks, and so on, practices should be consistent with the current international norms. But if the Beijing government refused to accept this, it would need to be decided through cross-strait negotiations.
- (g) The technical matters involved in direct air transportation, in particular the arrangement of air traffic rights and security matters, would all need to be dealt with through cross-strait negotiations. Therefore, the key to implementing direct transportation lies in the holding of cross-strait talks and the signing of a cross-strait agreement.

4. The Requisite Direction and Preparatory Work for the Implementation of “Direct Transportation”

(1) Establishing the Direction for Implementation of “Direct Transportation”

- (a) Implementing “direct transportation” step by step in accordance with national development objectives.
- (b) Implementing “direct transportation” under the guiding principle of “establishing an interactive framework for peace and stability across the Taiwan Strait.”

(2) Supporting Measures that Need Strengthening

- (a) Carrying out the national economic strategy of “cultivating Taiwan deeply and positioning globally.”
 - i The Economic Development Advisory Conference (EDAC) and the Tahsi Meeting have already established “cultivating Taiwan deeply and positioning globally” as the national economic strategy for the new century, and “investment first, economy first, Taiwan first, investment in Taiwan first” as the direction of efforts to rouse the economy. The government accordingly has embarked on the adjustment and long-term planning of various economic measures, including the gradual and orderly adjustment of cross-strait trade and economic policy.
 - ii In the wake of this year’s SARS epidemic, the government stepped up its efforts to comprehensively reshape the economy and speed up the progress of economic liberalization and internationalization, aiming at the same time to strengthen inducements for businesses to come back to invest in Taiwan, to establish a cross-strait division of industrial labor better attuned to consideration of risk, to enhance the overall competitiveness of Taiwan’s economy, and to create more favorable conditions for responding to long-term cross-strait trade and economic trends and for negotiation on the implementation of “direct transportation” and the “three links”.
- (b) Strengthening economic security development strategy and related mechanisms.

- i Speeding up Taiwan's economic transformation. While adhering to the national economic strategy of "cultivating Taiwan deeply and positioning globally", we must set Taiwan's economic transformation on course toward establishing the island as an "integrator of resources." This entails the creation of highly efficient mechanisms for business operations, while upgrading Taiwan's technical innovation, logistics management, and systems integration capabilities, to fully integrate domestic and overseas, including mainland Chinese, manpower, capital, technology, industry, transportation, trade networks, and other economic resources, so as to speed up Taiwan's economic transformation and gradually advance toward the goal of establishing Taiwan as an operations center.
- ii Raising overall competitiveness. We must draw up concrete plans to comprehensively upgrade the all-round competitiveness of Taiwan's economy, including the overall competitiveness of its regions, cities (metropolitan areas) and industries, as a means to offset the limitations of the economy's lack of scale and hinterland.
- iii Establishing supporting measures for adjustment of the industrial structure. Such measures will be needed to deal effectively with problems such as investment outflow, the decline of certain industries, and loss of jobs stemming from industry's structural adjustment.
- iv In conjunction with the opening of "direct transportation", the planning and implementation of cross-strait economic and trade framework consultations, to give domestic industry time to adjust, and to ensure that such problems as lopsidedness in the interflow of people and capital do not arise in the wake of "direct transportation".
- v Attracting more inward investment. This includes mapping out domestic investment spheres and specific programs that can complement "direct transportation" and the "three links", and stepping up efforts to attract domestic and foreign investment. It also includes establishing a functional pattern for international economic cooperation, and promoting concrete economic cooperation programs with the U.S., Japan, and the member countries of ASEAN.

- vi Setting up a national economic security system. This includes the formulation of specific indicators to measure economic competitiveness, economic autonomy, and economic adaptability, and the establishment of related security response measures.
 - vii Strengthening disease prevention systems, to assure the safe movement of people and goods after the implementation of “direct transportation”.
- (c) Establishing national mainstream values, and consolidating the people’s sense of national identity.
- i Pressing forward with efforts to reform and deepen democracy, reinforcing the protection of human rights, and consolidating the people’s sense of national identity.
 - ii Speeding up judicial reform, to ensure social fairness and justice and put into effect the ideal of a society under the rule of law.
 - iii Raising the people’s awareness of Taiwan’s history and native culture, to build up consciousness of our people’s shared destiny.
- (d) In accordance with national security goals, and on the basis of national security mechanisms established for Taiwan’s entry to the WTO, further improving operating strategies and enforcement measures for security management in the wake of the opening of “direct transportation” and the full “three links”, the scope of which includes: revamping of national security; enhancement of political security; consolidation of international status; underpinning of social order; stable and harmonious social development; sustainable land use; economic and financial stability and sustainable development; and mechanisms for benign cross-strait interaction.

(3) The Conditions for Implementation and Principles of Negotiation of “Direct Transportation”

- (a) Conditions for advancing and implementing “direct transportation”
- i Based on the will and consensus of the people of Taiwan.
 - ii Backed up by full supporting measures and legal mechanisms.
 - iii Normal and benign cross-strait interaction.

(b) Principles and agenda of negotiation

- i “Direct transportation” must be implemented through cross-strait negotiations and the signing of an agreement or agreements, to ensure that it fully accords with the highest national interest. Negotiations should adhere to the following basic principles:
 - Absolutely no concessions must be made on national sovereignty. Taiwan must certainly not be snared by Beijing’s “one China” and “internal affairs of a single country” united front strategy.
 - The workings of government authority must not in any way be eroded.
 - Overall national interests and the long-term welfare of the people must be safeguarded.
 - Negotiations must be under the full direction of the government.
- ii Negotiations on “direct transportation” must encompass all related economic and trade issues. The related issues include:
 - Direct sea and air transportation agreements.
 - Subsidiary economic and trade issues, including: the opening of Taiwan to tourist visits by people from mainland China; the orderly opening of Taiwan’s market to the importation of goods from the mainland; problems related to service sector investment; bilateral agreement on investment protection; common protection of intellectual property rights; bilateral agreement on avoidance of double taxation; cross-strait financial transactions and supervision; establishing order for cross-strait agricultural and fishery interchange; agreement on fishing industry labor cooperation; collaborative mechanisms for cross-strait epidemic prevention; and other related issues.