

Economic Cooperation Framework Agreement (ECFA)

Background

I. Main objectives

1. To promote the normalization of cross-strait economic and trade relations

Although both sides of the Taiwan Strait are currently members of the WTO, many restrictions in cross-strait trade and commerce remain.

2. To avoid Taiwan being marginalized by regional economic integration

The global trend of regional economic integration has led to the signing of approximately 247 free trade agreements (FTAs) in the world so far. Given that signatories provide tariff exemptions on a reciprocal basis, failing to sign FTAs with key trading partners puts Taiwan at risk of being marginalized and losing its competitiveness in major markets. Signing agreements with mainland China, Taiwan's main export market, will help us participate in regional economic integration and mitigate the risk of economic marginalization.

3. To enhance Taiwan's position as a platform for regional investment

Signing trade agreements (arrangements) with mainland China will offer incentives for transnational enterprises to use Taiwan as a trade and investment springboard to the East Asia market, which will help Taiwan to better integrate into the global trading

system.

II. An overview of the ECFA

1. **What's in a name?** The tentative name for the economic agreement is the Cross-strait Economic Cooperation Framework Agreement (ECFA). The exact title, in both the Chinese and English languages, is to be decided in future negotiations.
2. **What is a framework agreement?** Signing a formal agreement requires considerable time and effort. Countries therefore tend to first sign a framework agreement that focuses on the structure and objectives, before negotiating the eventual content. Framework agreements can also be negotiated to include an 'Early Harvest' list, which allows certain critical industries to be eligible for early tariff reductions and privileged market access. This will throw a lifeline to those industries in Taiwan that are in desperate need of tariff reductions to maintain their competitiveness internationally. Framework agreements between countries are not uncommon. For example, the Association of Southeast Asian Nations (ASEAN) has signed such agreements with mainland China, Korea, Japan and India.
3. **What will the content of the ECFA be?** The content is subject to negotiations between the two sides. Considering our domestic needs, as well as the model provided by the ASEAN-China Framework Agreement on Comprehensive Economic Cooperation, it is likely to include:
 - i. Preamble: illustrates the guiding principles of the ECFA and

the long-term vision of the two sides for promoting the institutionalization of economic cooperation.

- ii. Chapter 1 (General Provisions): outlines the goals of the agreement and the range of measures for economic cooperation and trade liberalization.
 - iii. Chapter 2 (Trade and Investment Liberalization): sets out the range and timetable for future negotiations over agreements on trade in goods and services, investment and so forth.
 - iv. Chapter 3 (Economic Cooperation): a major component of the agreement, the scope of which is planned to include industrial cooperation, customs cooperation, trade facilitation, goods inspection, import licensing and food safety.
 - v. Chapter 4 (Early Harvest): another major component of the agreement, which identifies items and services eligible for early tariff reductions and early market access.
 - vi. Chapter 5 (Miscellaneous): includes supporting measures regarding food safety control measures, a mechanism for dispute settlement, the executive body, amendments, date of entry into force, a termination clause and so forth.
4. **What is the nature of the ECFA?** The ECFA will not follow the model of agreements signed by mainland China with Hong Kong and Macau. ECFA negotiations are being conducted in compliance with WTO principles and take into full consideration the distinct characteristics of cross-strait relations. As with other agreements concluded between the two sides, the ECFA only

deals with cross-strait economic cooperation and does not touch on sovereignty or political issues.

5. What are the guiding principles for the ECFA negotiations?

Negotiations are undertaken on the basis of equality, dignity and fairness, and will not compromise Taiwan's status. Furthermore, as per the President's stated commitments, the government will not open up Taiwan's market any further to agricultural produce from mainland China, nor will it allow mainland Chinese workers into Taiwan. The guiding principles are Taiwan's national needs, public support and legislative oversight.

III. Benefits of an ECFA

1. Improve macroeconomic scale

The simulations conducted by the Chung-Hua Institution for Economic Research using the Global Trade Analysis Project show that Taiwan's trading environment and society will benefit significantly from an ECFA. For instance, an ECFA should boost economic growth by between 1.65% and 1.72%, and create between 257,000 and 263,000 jobs.

2. Strengthen Taiwan's international position

- i. Enter mainland China's market before trade competitors;
- ii. Attract foreign direct investment and foster Taiwan's economic restructuring;
- iii. Become a priority cooperation partner and a gateway for foreign businesses seeking to enter and invest in mainland China;
- iv. Encourage Taiwanese enterprises in mainland China to

expand their purchases from Taiwan, thereby enhancing the competitiveness of local industries and keeping Taiwan in the manufacturing supply chain; and

- v. Accelerate Taiwan's transformation into a regional industrial operations center.

3. Deepen relations with major trading partners

- i. The American Chamber of Commerce stated in its *2009 Taiwan White Paper*, “the conclusion of this trade agreement with China would pave the way for Taiwan to participate in regional trade blocs and enter into bilateral FTAs with additional trading partners.”
- ii. The Japanese Chamber of Commerce & Industry in its *2009 Taiwan White Paper Issue* affirmed, “If the ECFA comes into being, it should form a great opportunity for Taiwan and Japan to discuss signing an FTA. Therefore, this Chamber sincerely looks forward to progress being made in the ECFA negotiations.”
- iii. The European Chamber of Commerce expressed the following opinions in its *2009-2010 Position Paper Overview*:
 - “The sooner Taiwan signs the ECFA with China, the quicker political impediments to other countries (including the EU) signing economic agreements with Taiwan will be removed.”
 - “In order to revitalize Taiwan's economy and increase trade, the ECCT recommends that the government seek

to sign an Economic Cooperation Framework Agreement (ECFA) with China and commit to Trade Enhancement measures with Europe as soon as possible. This will help to secure Taiwan's position as an important link between China and Europe and reintegrate Taiwan into the global and regional economy.”

IV. Taiwan's measures to mitigate potential negative impacts of ECFA

1. Although Taiwan's overall economic development will benefit from an ECFA, certain local industries would suffer as a result of tariff reductions for mainland Chinese imports. In order to mitigate the negative effects of an ECFA on the impacted industries, the government has set aside a budget of NT\$95 billion to help them. The government also will provide vulnerable industries with suggestions and assistance so that they can adjust and upgrade their competitiveness.
2. In tandem with the effort to promote an ECFA, the government has been seeking to negotiate FTAs with other major trading partners in order to decrease its dependence on mainland China. By adopting this approach, Taiwan can also improve its business environment and reduce the risk of it being marginalized economically in the region.

V. Legislative oversight and the referendum debate

1. During the ECFA negotiations, the government will adhere to the three criteria of “meeting the nation's need, winning the support

of the public and proceeding with legislative oversight.” The administration will report to the President of the Legislature and the legislative Party Caucus, as well as at the joint meetings of the various legislative committees, on the progress of negotiations to ensure legislative oversight. Once inked, the agreement will not come into effect until passed by the Legislative Yuan.

2. Signing an ECFA is an economic matter that does not involve the issue of sovereignty or politics. As a rule, countries do not ratify FTAs through a referendum. The exception was in Costa Rica where, in 2007, the people voted on the Central American FTA (the CAFTA) that their government had signed with the US but which failed to garner parliamentary support. The CAFTA was subsequently approved in the referendum.