

Nov 04, 2016 by **Paul Rockower**

A Strait Deal: Taiwan, China and the PD Implications of ECFA ^[1]

Cross-Strait relations between China and Taiwan took a dramatic and historic turn with the recent signing of the Economic Cooperation Framework Agreement (ECFA). The trade liberalization deal will create closer economic linkage between Taiwan and China, but beyond increasing the flow of goods across the Taiwan Strait, there are serious political and public diplomacy aspects tied up in the trade pact.

Through the trade liberalization deal, Taiwan will be able to export 539 categories of goods tariff-free to China. Such goods are valued at \$13.8 billion annually. Meanwhile China will receive elimination of tariffs on some 260 types of their products for export to Taiwan, the value of such goods worth \$2.9 billion. In total, the deal will open up 11 service sectors, including the banking sector. Meanwhile, the Economist notes that there is a component in the deal to strengthen intellectual property rights between Taiwan and the PRC, which is especially important for Taiwanese Mandarin-language entertainment. Taiwanese cultural entertainment and programming is popular in the mainland, and this deal should help better protect it from piracy; this is especially important as the Taiwanese government is investing \$66.2 million dollars over the next five years to burnish its local pop music industry as vehicle for cultural diplomacy.

However, you can put the abacus away now, because the real balance sheets to be assessed in this deal are in the realms of politics and public diplomacy. Beyond the economic implications, the deal represents China's realization that if it wants to deal with Taiwan in any meaningful way, threats of force are not the ticket. China blustered belligerently towards Taiwan as the island nation moved towards democracy in the 1990s, only to see the tactic backfire as the pro-independence Democratic Progressive Party (DPP) rode the wave of mainland threats to power. Rather this deal is a bit of political and economic public diplomacy from China to Taiwan in the form of a lot of trade concessions to convince Taiwan that closer economic ties are an asset. For Taiwan, the deal offers economic access both to China and with the expectations towards the ability to sign free trade agreements with the Association of South-East Asian Nations (ASEAN) and other regional players like Japan which thus far Taiwan has been blocked from by China.

For Taiwan's President Ma Ying-jeou, the trade agreement represents the crown jewel in his two-year effort towards fostering a more amiable relationship with China. President Ma came to power promising to create a more constructive relationship with Beijing compared to his pro-independence predecessor Chen Shui-bian. Regarding his efforts, Sheridan Prasso commented on CNN Money:

Since he took office, Taiwan's President Ma has managed to secure 12 economic agreements with the mainland. He allowed Chinese investment into Taiwan,

including into the stock market, for the first time. He also opened up direct air and sea links that had been closed since the Communist capture of China in 1949. Instead of a lengthy detour through Hong Kong, the 1 million Taiwanese who invest in and live in mainland China can fly direct on 270 regular weekly flights between Taiwan and 31 mainland cities. The government estimates that 1 million mainland tourists will visit Taiwan this year -- up from 600,000 last year (injecting \$986 million in revenue), and up from virtually zero in 2007 before President Ma opened up the Taiwan Strait to cross-Strait trade.

Such economic and cultural exchange linkages foster enhanced public diplomacy via people-to-people exchanges on both sides of the Straits and have been a fundamental aspect of President Ma's pragmatic diplomacy towards China.

However, also on *Ihla Formosa* the deal has been met with a good deal of consternation. There has been a considerable amount of fear and loathing here in Taiwan about the implication of a deal that brings Taiwan closer to China's orbit. Critics of ECFA such as the opposition Democratic Progressive Party (DPP) paint the deal as a Chinese Trojan horse meant to hasten the political integration of Taiwan into Chinese clutches. Calling the pact a threat to Taiwanese jobs, the opposition rallied some 30,000 to march through the rain-soaked streets of Taipei against the signing of the deal, albeit considerably less than the 100,000 demonstrators promised. Perhaps encompassing the sentiments of the opposition, one such placard exhibited a doctored image of President Ma smooching the cheek of China's President Hu Jintao (ala the famous Breshnev-Honecker mural ) with the statement emblazoned, "Don't embrace the enemy." Rarely does a trade deal cause such existential angst, but rarely also are trade deals concluded between a country whose right to exist as an independent entity is not recognized by the trade partner and vastly larger neighbor.

However, in its piece of witty title, "Know your customer," The Economist offers some perspective on what the deal does and does not represent. The magazine argues that the impact of the deal on Taiwanese domestic politics will be limited. It states, "Voters there understand China's intentions very well and are unlikely to be swayed by a few tariff cuts." Moreover, Sheridan Passo of CNN argues that in order for Taiwan to increase its economic power in the region and continue to expand its economy, it must both conclude this deal and continue in its effort to open up to China. Passo states, "A stronger economy strengthens Taipei's position in any eventual talks with the mainland. Isolation weakens it."

While many in Taiwan view this deal with apprehension in that it could squeeze the island too close into China's orbit; I take a contrary view of it and see this more as a possible Trojan horse for Taiwan to help socialize privatization and liberalization in mainland. Like the reversal of fortune tied up for the Soviet Union in the Helsinki Accords, this deal may ultimately do more to undermine China more than Taiwan with the significant socialization repercussions that are rife in the deal that creates linkages between open Taiwanese sectors with their more-closed Chinese counterparts. Don't underestimate Taiwan's private sector actors - the guerrilla capitalists behind the Taiwanese Tiger - or their ability to alter the Chinese business landscape. In addition, the increased people-to-people interactions through business, culture and closer societal contacts between China and Taiwan may prove to have a public diplomacy impact not yet understood or appreciated.
