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**An Analysis of the Situation of Economic and Trade Cooperation in  
the Peaceful Development of Cross-Straits Relations**

SHAN Yuli

Fujian Academy of Social Sciences

# An Analysis of the Situation of Economic and Trade Cooperation in the Peaceful Development of Cross-Straits Relations

*Shan Yuli*

Since cross-Straits relations entered the new stage of peaceful development in 2008, both sides of the Taiwan Straits, on the basis of sticking to the “1992 Consensus”, have followed the spirit of mutual benefit, pulled together in times of trouble, tried to promote all-round large-scale economic exchange, cooperation and development in broad fields at multiple levels, and made major achievements. However, at the same time, the internal environment and external environment influencing the deepening of cross-Straits economic relations keep changing, and factors restricting development of cross-Straits relations still exist and are more complicated. In the future, we should still think and make decisions in view of multiple aspects and dimensions, promote cross-Straits economic exchange and cooperation, and further propel the course of peaceful development of cross-Straits relations.

## I. Main achievements in economic and trade cooperation since the beginning of peaceful development of cross-Straits relations

### *(I) Benefited by the ECFA early harvest program, cross-Straits trade grew steadily*

Since 2008, cross-Straits economic and trade cooperation has expanded rapidly in both width and depth, and rapid growth in trade volume has become a highlight in cross-Straits economic cooperation. In 2014, cross-Straits trade volume reached 198.31 billion USD, in which the mainland’s exports to Taiwan were 46.28 billion USD and the imports from Taiwan were 152.03 billion USD. In the five years from 2008 to 2014, the cumulative cross-Straits trade increased 5.76 times to 1.142183 trillion USD, in which Taiwan’s surplus was 672.451 billion USD (see Table 1). At present, the mainland is Taiwan’s largest trade partner, largest export partner and second largest import partner; Taiwan is the mainland’s seventh largest trade partner and sixth largest source of import.

*Table 1 Cross-Straits trade growth since 2008. Unit: 100 million USD*

Year	Total trade volume	Taiwan’s exports to the mainland	Taiwan’s imports from the mainland	Taiwan’s surplus from the mainland
2008	1292.20	1033.40	258.80	774.6
2009	1062.28	857.23	205.05	652.18
2010	1453.71	1156.94	296.77	860.17
2011	1600.32	1249.20	351.12	898.08

2012	2057.42	1689.63	367.79	1321.84
2013	1972.80	1566.37	406.43	1159.94
2014	1983.1	1520.3	462.8	1057.7
2008-2014 total	11421.83	9073.07	2348.76	6724.51

Source of data: based on data from Page 406 of *Taiwan 2013* edited by Zhou Zhihuai and the press conference held by the Taiwan Affairs Office of the State Council on January 14, 2015, <http://www.gwytb.gov.cn/>.

Growth in cross-Straits trade has been benefited by the ECFA early harvest program to a large extent. After ECFA came into force on September 12, 2010, taxes were lowered in a three-phase manner. On January 1, 2013, cross-Straits trade of 806 commodities under ECFA was exempted from tariffs. ECFA kept exerting influence on cross-Straits trade, and effectively promoted growth in cross-Straits trade against the trend of the global economic downturn. As of the end of March 2015, the value of the mainland's cumulative imports of goods enjoying ECFA tariff preferences from Taiwan was 38 billion USD, and tax exemptions and reductions amounted to 14.15 billion RMB. According to the Taiwan customs statistics, the value of the mainland's cumulative exports of goods enjoying ECFA tariff preferences to Taiwan was 6.47 billion USD, and the tariff preferences enjoyed by them amounted to 7.28 billion TWD (equivalent to about 240 million USD).

*(II) Financial cooperation was promoted quickly, and market demand was strong*

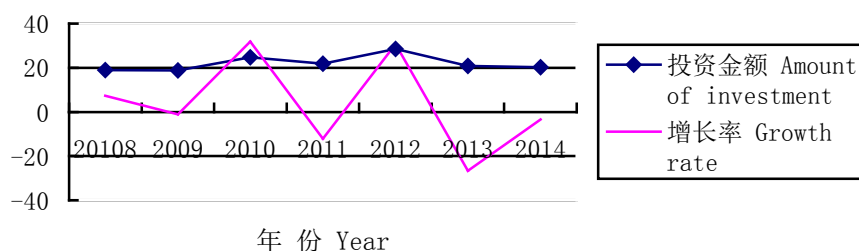
Back in November 2009, both sides of the Taiwan Straits executed the Memorandum of Understanding on Financial Supervision (MOU). On August 31, 2012, both sides of the Taiwan Straits executed the Memorandum on Cross-Strait Currency Clearing Cooperation. On December 11, 2012, both sides of the Taiwan Straits entered the new period of "currency exchange" when Bank of China Taipei Branch became Taiwan's RMB clearing bank; previously, Bank of Taiwan Shanghai Branch was selected as the mainland's NTD clearing bank. On February 6, 2013, Taiwan's first 46 financial institutions officially began to handle RMB business. Cross-Straits currency clearing business was officially carried out and showed a good operating trend. The prominent manifestations are as follows. The amount of Taiwan's RMB deposits kept increasing. As of the end of May 2015, the balance of Taiwan's RMB deposits reached 336.28 billion yuan (RMB, the same below). It is expected that the amount of RMB deposits of Taiwan's financial institutions will increase from 302.3 billion yuan in 2014 to 400 billion yuan by the end of 2015. Meanwhile, the cross-Straits bond market also developed with great momentum. After CTBC Bank issued the first RMB-denominated 3-year "Formosa bond" in March 2013, five institutions including Far Eastern New

Century, TECO Electric and Machinery, Chang Hwa Bank and Deutsche Bank issued “Formosa bonds” successively. On November 27, 2013, Taiwan allowed the mainland’s enterprises to issue “Formosa bonds” in Taiwan. Because of the prevalence of “Formosa bonds”, Taiwan has adjusted the 2015 goal of issuance upwards by 50% from 20 billion yuan to 30 billion yuan. According to other materials, the scale of bond issuance through the offshore RMB bond and offshore RMB deposit certificate market reached 564 billion yuan in 2014 and is expected to decrease to some extent in 2015, but it is expected that the overall market size can still increase by 20% over 2014 and reach 900 billion yuan by the end of 2015.

*(III) Taiwanese businesses’ investment in the mainland fluctuated, while the mainland’s investment in Taiwan grew slowly*

Under the influence of the global financial crisis, the global economy fluctuated and recovered slowly in recent years. Besides, the Taiwan authority always imposes investment quotas on Taiwanese businesses’ investment in the mainland and regulates technology transfer. Because in recent years greater efforts were made to attract Taiwanese businesses to return and invest in Taiwan and the mainland’s economic growth slowed down, the number of Taiwanese businesses’ mainland investment projects and the amount both fluctuated greatly after 2008: after decreasing slightly in 2009, they increased sharply by 31.91% on a year-to-year basis in 2010, declined significantly in 2011, rebounded significantly in 2012, and decreased again by 26.67% in 2013. In 2014, Taiwanese businesses’ investment in the mainland basically stopped the falling trend but was still negative (see the following figure). In 2014, the number of Taiwanese businesses’ investment projects approved by the mainland increased by 14.9% on a year-to-year basis to 2,318. The amount of actually used Taiwanese capital dropped 3.3% over the previous year to 2.02 billion USD, but the total amount was still considerable. From 2008 to 2014, the total number of Taiwanese businesses’ investment projects increased by 17,190, and the amount of investment increased by 15.4 billion USD. As of the end of 2014, the mainland had approved 92,336 Taiwan-funded projects in total and actually used 61.15 billion USD from Taiwan.

2008年以来台商投资大陆态势 Trend of Taiwanese businesses’ investment in the mainland since 2008



As cross-Straits relations entered the stage of peaceful development and cooperation kept deepening, Taiwan promulgated the “Measures Governing Investment Permit to the People of Mainland Area” in June 2009, allowed the mainland’s capital to enter Taiwan for investment, and opened more projects in a phased manner, realizing the mainland’s investment in Taiwan and changing the long-lasting non-equivalent pattern of one-direction cross-Straits investment. However, because the Taiwan authority imposed many restrictions on “the mainland’s capital” and the opened industries and fields were unattractive and subject to strict scrutiny, the mainland’s investment in Taiwan grew very slowly. According to statistics from Taiwan’s “Investment Commission”, as of the end of 2014, 619 investment projects funded by the mainland’s capital had been approved in total, and the approved amount of investment (capital increase) was only 1.195 billion USD.

*(III) Economic and trade cooperation was gradually institutionalized, improving the efficiency of cross-Straits economic cooperation*

After both sides of the Taiwan Straits executed the Economic Cooperation Framework Agreement (ECFA) in June 2010, institutionalization of cross-Straits economic cooperation gradually matured. Now 21 agreements have been implemented, the economic cooperation organization under the framework of ECFA has held six regular meetings, normalization, institutionalization and liberalization of cross-Straits economic relations have kept progressing, and the achievements have been prominent. The Cross-Strait Economic Cooperation Committee’s industrial cooperation work team has set up eight industrial sub-teams for automobiles, wireless cities, cold chain logistics, display, LED lighting, textile, pharmaceuticals and electronic commerce, and kept pushing forward cooperation in pilot projects and important projects. Cross-straits economic and trade associations’ working bodies put up their plates successively. On December 18, 2012, Taiwan Trade Center, Shanghai unveiled its plate and became Taiwan’s first working institution for economic and trade cooperation established on the mainland. Later, it established six offices in Beijing, Guangzhou, Qingdao, Chengdu, Dalian, etc. successively. At the end of January 2013, the China Chamber of Commerce for Import and Export of Machinery and Electronic Products became the mainland’s first economic and trade association to establish an office in Taipei. In 2014, both sides of the Taiwan Straits launched the work of establishing the second economic and trade association’s working body on the other side of the Taiwan Straits. On July 5, 2014, the Taiwan Electrical and Electronic Manufacturers’ Association (TEEMA) established a representative office and put up its plate; on January 23, 2015, the Association of Economy and Trade across Taiwan Straits under the Ministry of Commerce was approved to establish an office in Taiwan, and put up its plate on June 16 in Taipei. With

execution of more and more agreements and establishment of executive management bodies by both sides of the Taiwan Straits, systems and mechanisms for promoting institutionalization of cross-Straits economic cooperation have been gradually established, not only effectively promoting implementation of various items of ECFA and the course of subsequent negotiation, but also providing increasingly sound institutional guarantees for sustained development of cross-Straits economic cooperation.

## II. Main problems in cross-Straits economic cooperation

### *(I) Lack of mutual trust restricts deepening of cross-Straits economic cooperation*

Development of cross-Straits relations in many years shows that the influence political factors on cross-Straits economic cooperation is profound. At present, the obstructive effect of politics on the economy is more obvious than ever. In the late 1980s, the Taiwan authority lifted “martial law”, allowed cross-Straits non-governmental exchange, and brightened up the prospects of cross-Straits economic cooperation. At the “Wang-Koo Summit” in the early 1990s, the consensus on “two sides, one China” was reached, economic cooperation entered a new stage, cross-Straits trade developed from the “petty trade” model to transit trade, and Taiwanese businesses’ investment in the mainland became a trend. In 1996, Lee Teng-hui promoted the policy of “overcoming impetuosity and exercising patience”, and cross-Straits economic cooperation stagnated for a while. Around the time when both sides of the Taiwan Straits joined the WTO, under the push of non-governmental organizations, the Taiwan authority allowed producers of laptop computers, telecommunication products and consumer electronic products to invest in the mainland, promoted rapid growth in cross-Straits cooperation, and gave rise to increasingly diversified cooperation models. Then, because Chen Shui-bian declared the “one country on each side” theory and accelerated the promotion of the road of “Taiwan independence”, cross-Straits economic cooperation was affected again. In 2005, KMT and CPC released “Shared Vision of Cross-Straits Peace and Development”. After Taiwan’s party alternation in 2008, the Ma Ying-jeou administration loosened the restrictions on investment in the mainland, pushed the cross-Straits trade volume higher and higher, kept broadening the fields of cooperation and innovating in models of cooperation, and fundamentally changed the long-lasting one-direction, asymmetrical and unequal pattern of cross-Straits cooperation. However, because both sides of the Taiwan Straits have differences in understanding of “sovereignty”, ideology, social systems and stages of economic development and the Democratic Progressive Party always sticks to the standpoint of “Taiwan independence” and to “lessen China’s influence on Taiwan” in every possible way, adding fuel to the unchecked

spread of Taiwan's populism, now cross-Straits economic cooperation is progressing very slowly. Lack of mutual trust has become a nightmare restricting in-depth cross-Straits economic cooperation.

*(II) Taiwan's complex political environment has become a variable influencing development of cross-Straits economic relations*

As a plural society and an election society, Taiwan has a complex political environment. Coerced by Taiwan's forces for "Taiwan independence", the KMT government's initiatives for promoting cross-Straits economic relations have been indecisive and slow for long. The anti-CSSTA protest that took place on March 18, 2014, the Black Island Nation Youth Front's attack on Taiwan's "Presidential Office" on March 31 in 2015 and the protest against the Taiwan authority's application for joining the AIIB all show Taiwan's complex political environment and its negative influence on cross-Straits economic cooperation. The results of Taiwan's "nine-in-one" election held at the end of November 2014 made a major impact on Taiwan's political environment, KMT's large blue areas were fragmented, and its administrative resources decreased sharply. As Taiwan's 2016 general election approaches, the struggle between the blue camp and the green camp will certainly intensify, and social disintegration will be irreconcilable. Under the situation of political parties' fierce struggle and social cleavage, how to adjust the mainland policies of the opposition parties and the ruling party has become an uncertainty for future cross-Straits economic and trade cooperation and will influence the direction of cross-Straits economic cooperation to a very large extent.

*(III) Taiwan's contradictory mentality in the Asia-Pacific region's economic integration influences development of cross-Straits economic relations*

In recent years, Taiwan kept strengthening external economic relations in an attempt to eliminate the dilemma of being marginalized in the Asia-Pacific region's economic integration, and achieved a certain effect, as prominently manifested by development of economic relations with the United States and ASEAN. For example, in March 2013, Taiwan and the United States resumed talks on the "Trade and Investment Framework Agreement" that had been delayed for six years; in June 2013, Taiwan and the United States renewed the "Memorandum of Understanding Concerning Cooperation in Fisheries and Aquaculture" for the second time. The effect achieved in cooperation between Taiwan and ASEAN is especially prominent. On November 7, 2013, Taiwan and Singapore executed ASTEP, which is the first agreement on economic cooperation executed by Taiwan with a Southeast Asian country. Taiwan also actively carried out non-governmental feasibility studies on FTAs with Indonesia, the Philippines,

Malaysia, etc. Statistics show that Taiwan's trade with ASEAN grew significantly in recent years, ASEAN surpassed the United States and Japan in terms of volume of trade with Taiwan to become Taiwan's third and second largest trade partner in 2007 and 2008 respectively, and ASEAN has become Taiwan's second largest export market and second largest source of trade surplus following the mainland. Meanwhile, Taiwan's investment in ASEAN also showed a trend of rapid growth. In 2012, ASEAN became the largest recipient of Taiwan's overseas investment (apart from the mainland), accounting for 70.6% of its overseas investment.<sup>6</sup> Besides, the relations between Taiwan and ASEAN in terms of personnel exchange, cooperation in tourism, science and technology exchange, etc. are increasingly close.

Taiwan's continuous enhancement of its relations with ASEAN on the one hand is caused by market laws under regional economic integration and on the other hand results from the political need to avoid "excessive dependence" on the mainland. In fact, Taiwan wanted to benefit from the mainland's rapid economic development and at the same feared excessive dependence on the mainland market, so it required the mainland to open the door and give more preferential treatment to Taiwan than to other cooperators while restricting opening its market to the mainland in every possible way and making great efforts to encourage enterprises to invest in Southeast Asia, Central and South America and other countries and regions. This "hesitant" attitude and act caused Taiwan to lose many business opportunities in regional economic integration. For example, both sides of the Taiwan Straits executed ECFA back in June 2013, but Taiwan shelved it because of ideological reasons. However, time waits for nobody. On June 1, 2015, the mainland and the Republic of Korea officially executed the Free Trade Agreement between the Government of the People's Republic of China and Government of the Republic of Korea, which is undoubtedly a great challenge to Taiwan because the Republic of Korea is deemed by Taiwan as the biggest competitor. Upon evaluation of the Free Trade Agreement (FTA) executed by the mainland and the Republic of Korea, Taiwan's department in charge of the economy thought that Taiwan's lost business opportunities amounted to 6 billion USD at most and that the panel industry was impacted most seriously. The Free Trade Agreement executed by the mainland and the Republic of Korea will profoundly influence Taiwan's industrial development. In the short run, traditional industries, textiles and machinery products will be seriously affected, and in the long run, industries such as petrochemicals, ready-made clothes, glass, steel, automobiles, polarizers, panels and machine tools will possibly be affected. Besides, after the execution of the FTA between the mainland and the Republic of Korea, due to lower tariffs, exports of Taiwan's products to the mainland will also be affected. According to Secretary General of the Chinese National Federation of Industries Lien-sheng Tsai, the Republic of Korea is Taiwan's biggest competitor



and Taiwan will be marginalized if it cannot join regional economies in the long run in the course of regional economic integration. This shows that Taiwan has lost great opportunities given by the mainland and kept marginalizing itself in the regional economic integration of the world, especially East Asia. If Taiwan does not change the current thoughts, its comparative advantages in East Asia's regional economic integration will be further weakened, and cross-Straits economic cooperation will also be seriously affected.

### III. Prospects of cross-Straits economic and trade cooperation

The prospects of cross-Straits economic and trade relations can be viewed from the following three perspectives.

The first one is the mainland factor.

At present, the mainland's economic development has entered the "new normal", mainly characterized by the shift from high-speed economic growth to medium speed, constant optimization and upgrading of the industrial structure, and the shift from element- and investment-driven growth to innovation-driven growth. The new normal economy requires a change of the past model of extensive management, exploration of a balance between stabilization of growth and structural adjustment and cultivation of new growth points through innovation. The new normal of the mainland's economy will be a long course in which some potential risks will gradually come to the surface and new conflicts and new problems will emerge. In this course, the model of cross-Straits economic cooperation, the direction of industrial cooperation and the priorities need to be adjusted timely, the industrial structure and the product structure need to be upgraded and transformed, and enterprises' marketing strategies, regional goals, etc. also need to be changed correspondingly. All these will bring huge funds, technology, talent and market pressure to enterprises on both sides of the Taiwan Straits.

However, the new normal does not just mean challenges because the new normal of economic development does not change the fact that the mainland's development is still in the important period of strategic opportunities, a period in which much can be achieved, but which changes the connotations and conditions of the important period of strategic opportunities. To adapt to the new normal, the mainland is implementing a series of major initiatives, which will also bring new opportunities to cross-Straits economic cooperation. The prominent manifestations are as follows. First, the mainland's acceleration of opening up, implementation of the "One Belt and One Road" strategy and quicker building of free trade zones are conducive to promoting further deepening of cross-Straits economic and trade cooperation. The "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" released by the State Council in

March 2015 specially mentions “we should also make proper arrangements for the Taiwan region to be part of this effort”. In December 2014, the mainland established three new free trade zones in Tianjin, Guangdong and Fujian and at the same time expanded the area of the Shanghai Free Trade Zone. The “Framework Plan for China (Fujian) Pilot Free Trade Zone” approved by the State Council in May this year specifies that the Fujian Free Trade Zone should “be based on both sides of the Taiwan Straits, serve the whole country, face the world, and be built into a test field for institutional innovation, a demonstrative zone for deepening cross-Straits economic cooperation and a new highland for opening up to and cooperating with countries and regions along the 21st-Century Maritime Silk Road”. Such strategic orientation helps Taiwan share opportunities of the mainland’s reform and opening up first. Second, because the mainland’s economic structure is optimized constantly, the emerging industries’ potential for development is manifested and can bring a new round of investment opportunities. Third, as the mainland makes efforts to streamline administration and delegate more power to lower levels, accelerates change of functions and improves the market economy and legalized economy continuously, the vitality of the market will certainly be further released and the investment environment will be further improved. All these will be conducive to the further development of cross-Straits economic relations towards normalization, institutionalization and mechanisms and provide broader space for cross-Straits economic cooperation.

The second one is the Taiwan factor.

On the one hand, lack of mutual trust between both sides of the Taiwan Straits and unchecked spread of Taiwan’s populism are still the biggest obstacles to cross-Straits economic cooperation. Under the situation where opposition against anything related to China or Ma Ying-jeou by Taiwan’s Democratic Progressive Party and the pan-green camp has become the norm, the majority is coerced by the minority and democracy is coerced by populism, coercion of the economy by politics will still seriously hinder development of cross-Straits economic relations. On the other hand, out of the need to transform Taiwan’s economy, Taiwan will still strengthen economic cooperation with the mainland. To change the economic downturn in recent years, Taiwan has promulgated a series of policy measures for “boosting the economy”, many of which involve cross-Straits economic cooperation at many levels. For example, the “Economic Power-Up Plan” lists development of cross-Straits financial business with special characteristics in its contents; the Free Economic Pilot Zone Program loosens restrictions on the entry and exit of the mainland’s products, funds and personnel. All these will influence cross-Straits economic cooperation at different levels and bring opportunities to cross-Straits economic cooperation. Though Taiwan’s “general election” is approaching, whether the KMT will continue to rule or the opposition party DPP will assume power again in 2006, the key to winning the hearts of the people is to

make the people feel economic growth. Economic ties with the mainland are a main determinant of Taiwan's economic prosperity. Therefore, whoever wins the election must strengthen economic and trade cooperation with the mainland. For Taiwan, this is also its internal motivation for pushing forward cross-Straits economic cooperation.

The third one is the international economic environment.

The slow world economic recovery and the ongoing economic restructuring are important factors influencing cross-Straits economic cooperation that cannot be neglected. In recent years, the world economic recovery was very slow, and the twilight of recovery always disappeared in the twinkling of an eye, tormenting people in a continuous alteration of hope and disappointment. The outlook of the future global economic situation is still not optimistic. Though the governments of many countries including the United States, Germany, Great Britain, etc. are actively promoting energy transformation, carrying out structural reform and pushing forward smart growth in an attempt to find a solution to weak global economic growth and certain new variables, new business forms and new momentum emerging in the world economy might bring about more new business forms and new business models and bring new growth points to the world economy, because the aftereffect of the international financial crisis still exists, the world economy is yet to fully get out of the shadow of the crisis. Under the clash among many forces, various economies' recovery trends will differentiate further. Trends in developed economies vary, and many emerging economies also face the challenge of slower growth. Meanwhile, the world economy is undergoing a new round of major restructuring and showing new features. First, developed countries' industries tend to substantiate. After the 2008 financial crisis, developed countries including the United States began to reflect on their economic structures and proceeded to adjust them. The United States, Europe, Japan, etc. all put forward grand goals of the real economy's development and paths of implementation. Second, the world's main economies have all entered the period of unprecedented innovation and development of emerging industries, taking breakthroughs in core critical technologies and promotion of strategic emerging industries' development as new economic growth points. Third, the service industry has become the priority of various countries' industrial restructuring. Fourth, the high-tech industry's cooperation keeps expanding, and developed countries play a dominant role in science and technology cooperation. The new round of developed countries' economic restructuring is actually readjustment of the interest pattern of economic globalization. Developed countries' return to the real economy will certainly break the original industrial value chain. The mainland and Taiwan as highly export-oriented economies need to seize opportunities in this round of international economic restructuring, give full play to their comparative advantages, effectively integrate resources, participate in international division of

labor more deeply and enhance their positions and interests in the international division of labor. This will exert an important influence on the closeness, cooperation mode and cooperation level of cross-Straits economic relations.

To sum up, there is still much room for future cross-Straits economic cooperation, but facing many challenges, both sides of the Taiwan Straits should pull together in times of trouble with one mind to seize opportunities, overcome difficulties and make glorious achievements again.