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A NEW ERA IN CROSS-STRAIT RELATIONS? TAIWAN AND CHINA IN THE WTO

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Dr. Larry Wortzel: Good morning, ladies and gentlemen, I'm Larry Wortzel, the Director of the Asian Studies Center at The Heritage Foundation. This morning, we are honored to have Dr. Ing-wen Tsai, Chairwoman of the Mainland Affairs Council of the Executive Yuan of the Republic of China, to brief us on recent developments in relations across the Taiwan Strait.

As most of you know, just one month ago, the World Trade Organization voted to admit both Taiwan and China, and there have been high hopes that the entry of both "Chinas" into the WTO would help ease tensions across the Taiwan Strait.

And just 13 days ago, Taiwan's voters went to the polls and delivered the unmistakable message that, despite an economic downturn in Taiwan, their priority issue was maintaining Taiwan's identity as separate from China's.

To discuss those issues with us today, we have Taiwan's foremost authority on the politics, economics, and law of cross-strait relations. No one is better positioned to guide us through the complexities of that relationship than Dr. Tsai.

One of Taiwan's finest attorneys, she has served as one of Taiwan's top trade negotiators and was a key player in Taiwan's WTO application process for nearly a decade.

Because of her legendary talents as a trade negotiator and her keen legal mind, she was chosen by Taiwan's former President, Lee Teng-hui, to be his expert advisor on cross-strait issues. Her formidable reputation impelled Taiwan's current President, Chen Shui-bian, to reach outside his own political party and tap her to oversee the formulation of the full spectrum of cross-strait policy and law for his government.

As Chairwoman of the Executive Yuan's Mainland Affairs Council (MAC), Dr. Tsai is a ministerial-rank officer in the cabinet-level agency which coordinates and formulates all aspects of the cross-strait relationship from the Taiwan side.

Prior to her current appointment to the MAC chair in May 2000, Dr. Tsai was an Advisor on International Economic

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Organizations in the Ministry of Economic Affairs from 1992–2000, where she oversaw Taiwan's application for membership in the World Trade Organization. In 1999 she was named Senior Advisor to Taiwan's National Security Council under President Lee Teng-hui.

Dr. Tsai's expertise is in international trade law. She was Professor of Law at the Graduate Institute of International Trade at Taiwan's National Cheng-chi University, and served as a member of Taiwan's International Trade Commission from 1993 to 2000.

She also has extensive experience in drafting legislation to govern Taiwan's continuing economic relations with Hong Kong and Macau by virtue of her service as "Convener of the Drafting and Research Group on the Statute Governing Relations with Hong Kong and Macau" for the years 1994–1995. From 1994 to 1998, she continued as a member of the Mainland Affairs Council Advisory Committee. During that time, she was also a member of Taiwan's Fair Trade Commission, and served on an advisory committee to the Ministry of the Interior.

Dr. Tsai received her law degree from National Taiwan University in 1978, and was awarded an LL.M. by Cornell University in 1980. She received her doctorate in international trade law from the London School of Economics and Political Science, University of London, in 1984.

Please join me in welcoming, Dr. Ing-wen Tsai.

Dr. Ing-wen Tsai: Thank you, Larry, and good morning to you all.

Earlier this week, on December 11, the People's Republic of China, which I will refer to in the following as "China," formally became a member of the WTO. The Republic of China, which I will refer to as "Taiwan" for the sake of convenience, will become formally a member on January 1, 2002, under the name of the "Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu." This would mark the end of a long negotiation process for each side since 1992, when the General Council of the then-GATT (General Agreement on Tariffs and Trade) established two separate Working Parties for the respective accessions of Taiwan and China. This would also mark the beginning of a

new era for the respective external trade relations of the parties. The two entries are also meaningful to the international trading community, as Taiwan is currently the world's 14th largest trading country and China, the 7th largest.

Many people also see the two entries as the beginning of a new era for the bilateral relationship between Taiwan and China. I would see the accessions to the WTO as presenting a great opportunity for both sides to interact in a more structured and systemic manner, which is very much needed after more than a decade of exchanges between the two sides in trade, investment, and tourism. It would also help stabilize the bilateral relations, which is very much needed for both sides to engage in their respective internal reforms. What is more significant, hopefully, is the possibility of both sides to use the WTO as a venue to open bilateral discussions on WTO issues and a bridge for discussions on a wider spectrum of issues in a separate context. The possibility is there. It is a matter of the will of the Chinese political leadership to explore such possibility.

Before I turn to the likely impact of the WTO accessions to the bilateral relations, I will first give you a historical review of the cross-strait relations and the relations today.

HISTORICAL OVERVIEW OF THE CROSS-STRAIT RELATIONS

I am sure most of you, if not all of you, are aware that when the Japanese government surrendered its sovereignty over Taiwan after the War, the government of the Republic of China took control and continued to function in Taiwan, after losing the Chinese civil war. However, it gradually lost political recognition from the major countries. Over a period of fifty years, Taiwan has developed from an agriculture-based economy to a major producer of high-tech products. At the same time, the political structure has been changed from an authoritarian regime to a democracy that is close to Western democracies. The relationship with China has been changed from rivalries in civil war, to Taiwan's unilateral termination of hostility towards China in the late 1980s, and to a relationship emphasizing dialogue and exchanges in the 1990s. Both sides continued to debate among themselves and in the international setting on the sovereignty issues. Despite the sovereignty controversy, it is very clear

that each side exercises full control and jurisdiction over a clearly delineated territory and there is no issue of political subordination to each other. The Republic of China on Taiwan does exist, and is a full-functioned country.

THE RELATIONSHIP TODAY

With the increasing exchanges between the two sides in the 1990s, the relationship now is a complicated one, especially in the trade and economic areas. Let me first give you some statistics to illustrate the magnitude and nature of the relationship today. Between 1987 and 2000, indirect trade between the two sides grew by around twenty-one times. For 2000 alone, China is Taiwan's third largest market, with total trade valued at US\$31.25 billion. In terms of Taiwanese business investment to China, by the end of 2000, official figures show that Taiwan investments to China totaled US\$17.1 billion (actual figures could be as high as US\$60 billion to \$70 billion), which accounts for 40 percent of Taiwan's outward investment. Conservative estimation shows that Taiwan investment to China has contributed to the creation of at least 3 million jobs. With Taiwan investments to China exceeding trade figures, this could imply the shift of our job opportunities to China.

Turning to travels by people to China, estimates show 300,000 Taiwanese are regularly in China for business reasons. If we add Taiwanese tourists and visitors to this figure, the total will run as high as 400,000 to 500,000 people in China at any given time. At the moment, without direct air-links with China, Taiwanese are already making around 3 million trips to China per year; with direct air-links planned for the future, we are expecting as many as 5 million trips per year.

These flourishing economic and trade flows between the two sides are expected to be furthered, with China's greater opening after its WTO accession and Taiwanese firms expanding their operation to China, especially high-tech firms such as integrated circuit manufacturers. China has become very relevant to our economy, especially in our business firms' efforts to globalize their business operations. However, as many observers have pointed out, the continuing outflow of capital, technology, and personnel with

management skills is very likely to lead to the hollowing-out of the Taiwan economy, or else making Taiwan overly dependent on the Chinese economy. I would like to note here that the danger of hollowing-out is not unique to Taiwan but also a threat to neighboring countries in the region. We have seen signs of foreign investment diverted to China from Southeast Asia, South Korea, and Japan.

At the same time, there is a rather ironic contradiction in the relationship. China continues to claim its sovereignty over Taiwan and makes every possible effort to undermine Taiwan's political identity in the international setting. Militarily, China poses threats to Taiwan by building up its military capability, conducting military exercises in the coastal area, and installing hundreds of missiles directed at Taiwan.

TAIWAN'S CROSS-STRAIT AGENDA

Political Agenda

In cross-Strait relations, politically, our policy is clear, *i.e.*, we will continue to maintain peace and stability, and not to be provocative. We remain confident with the relationship, and despite the political differences, we would make every possible endeavor to resume dialogue with China, and manage in one way or another to develop rules of engagement with China to make the stability sustainable.

Most importantly, President Chen, since his inauguration last year, has made a series of efforts to assure China that there would be continuity in the cross-Strait policy, and the Administration will have the necessary patience to wait for the best time to resolve the issues facing the two sides. The President's inauguration speech mentioned the "four no's plus one."¹ He said that, during his presidency, as long as the other side does not have the intention to use force against Taiwan, he will make no change to the national title, the Constitution, or the *status quo* with respect to the question of independence or unification. The President also said that we are prepared to work with the other side on the question of a future one China. More recently, in his New Year's cross-century remarks, the President went a step further by raising the possibility of integration in economic and cultural

terms, and followed by political integration. These messages are clear indication of the Administrations intention to improve the relationship by telling the other side that Taiwan is prepared to be positive and pragmatic about the relationship.

Economic Agenda

Economically, we are going through a process of (i) correcting what has been accumulated in the past and trying to reverse the trend of hollowing out, and (ii) pursuing proactive policies to make use of the market and resources in China. In this regard, we have concrete measures taken in four major areas:

- a) On investment, we have developed a new investment review system that is transparent and flexible—a system to suit the needs of businesses and emphasizing macro rather than micro aspects of the investment flows. At the same time, we stress partnership between the government and businesses in managing risks associated with investment in China, which despite the opportunities offered, is still highly risky for investors and their home countries.
- b) We are building up a system to facilitate two-way investment, trade, and capital flows, to make the relationship more balanced. The first stage of the exercise involves the use of OBUs (offshore banking units) to facilitate the two-way flow of funds with the hope that they could develop into financing centers for Taiwan businesses in China.
- c) On trade, we want to follow WTO rules and regulations, and our WTO accession commitments in opening up our markets for Chinese products and services, to the extent that this does not seriously jeopardize our national security. This would also involve Chinese investment in the real estate market, services market, and possibly, in the future, the securities market.

- d) On direct transportation links, the government is fully aware of the importance to the businesses of establishing direct transportation links with China. It is well known that this is not something that is entirely within the control of the government in Taiwan. There are cross-strait political difficulties that we have to overcome in order to establish full direct transportation links but before that, we will try every possibility to take interim measures to lower down the transportation cost for the businesses.

IMPACT OF THE WTO ON TAIWAN AND ON CHINA

Impact on Taiwan

Accession to the WTO will undoubtedly benefit Taiwan in many ways. Especially, it will assure Taiwan of access to the world market and will deepen its integration into the world economy. However, accession would also mean much greater competition. On top of this, Taiwan's economy is facing a critical turning point. After decades of rapid economic prosperity as an export-oriented economy depending heavily on the world market, the world recession is, of course, a major factor affecting our economy today. At the same time, Taiwan is now faced with structural changes which are much triggered by the rapid global changes, the technology changes, and the emergence of other economies as competitors in areas where Taiwan once excelled. An apparent example is, of course, China. With WTO accession, this structural adjustment is to be expedited.

With so many changes going on, Taiwan has to consider its industrial strategies and make plans for the next five to ten years. The government has to restructure the agricultural sector, to make it less of a welfare burden, and at the same time, develop the sector into a competitive one in modern terms. The services industries have to be developed so that after a long period of protection,

1. "... As long as the other side has no intention to use military force against Taiwan, there will be no declaration of independence, no change in the national title, no inclusion of the so-called "State-to-State" description in the Constitution, and the referendum to change the status quo with regards to the question of independence or unification will not be promoted. Furthermore, the abolition of the National Reunification Council or the National Reunification Guidelines will not be an issue...."

they can face the competition of today. While Taiwan is trying to catch up with people that are ahead, it has to be careful, so as not to be out-competed by people behind. The changes Taiwan is facing are enormous, and coupled with the slowdown of the economy, make some people back home lose confidence in the economy, in the government, and in the country. Therefore, the government has to educate its people and take confidence-building measures, so that, as people in more matured economies, they are able to cope with changes with the necessary degree of calmness.

Despite the challenges Taiwan is facing, I remain confident that the essential elements that have made Taiwan a success in the past few decades are still there. Its entrepreneurship, the level of education, the level of technology, management skills, Taiwan's democracy and political structure, and its diversified culture and open society are helping it to maintain competitiveness *vis-à-vis* the newly-emerged competitors. This is so despite the fact that Taiwan needs to continue to improve in every aspect of its economy and society, in order to maintain the gap between Taiwan and such competitors, and to maintain its significance in the world economy.

Impact on China

For China, WTO membership will also help its further integration into the world trading community. This could mean accelerating China's reform into a market-based economy, towards a more transparent and predictable market, which will in turn attract more foreign capital and resources. This will no doubt add impetus to and benefit China's economy in the long run.

China's accession to the WTO will amplify its problems associated with its economic development. WTO membership and rapid economic development in the last decade will inevitably result in adjustment problems, which in many cases mean unemployment, redistribution of wealth; this could entail social and political problems. In addition, China has to find a proper role for its military in a modern setting. Moreover, its regional imbalance, its urban-rural divide, its problems with minority groups, and distribution or re-distribution of power between local and the

central governments may all be sources of its instability.

With this set of complicated and difficult problems, China has to move from an authoritarian to a democracy-based political structure, under which balance can be found between different interest groups, and mechanisms can be built in to resolve conflicts without resort to revolution or violence. China has to move at a speed that is commensurate with the change brought about by its economic growth and its integration into the world system. This is not an easy job. Failure to do so may not only slow down its economic growth, but can also have explosive effects on its fragile internal balance.

Peace and Stability in the Face of WTO Accession

The challenges facing Taiwan and China at this juncture are already enormous, even without the WTO. The adjustments that would follow the entries to the WTO will deepen the difficulties. If not properly managed, the short-term difficulties may become permanent, and the expected longer-term benefit will not be realized. Both governments need full concentration for their respective domestic reforms, and would expect least disruptions from the outside. Therefore, stable and peaceful cross-strait relations are very much in the interest of both sides. China would not want the Taiwan issue to become a disruption to its internal balance; and Taiwan of course, would not wish to exhaust itself in dealing with the cross-strait issues. Undoubtedly, properly established cross-strait trade and economic ties would create benefits for both sides. China would benefit from our investments, and our businesses would benefit from the market and resources in China.

It is, of course, important to have the intentions to maintain peace and stability, and to understand the importance of establishing mutually beneficial trade and economic ties. However, this is still not enough. What is more important is for both sides to have the political will to overcome political difficulties and to maintain internal balance, so as to be politically ready to make joint efforts.

For Taiwan, I am pleased to say that after the election of December 1 for legislators and local

magistrates, the political stability we have been waiting for is emerging. The Democratic Progressive Party (DPP), *i.e.*, the ruling party, has obtained a renewed and reinforced mandate from the people, and is in a position to lead a political process which hopefully would eventually lead to a more sustainable political stability. We would also hope to see smooth political transition in China.

What is also important is to seek a proper framework, a venue for both sides to interact and to communicate, so as to build trust and confidence, and to avoid misunderstanding/miscalculation that may cause unnecessary disruption to the relationship. The WTO presents itself as a possibility, and the Taiwan side is prepared to explore such a possibility. I would also note that we do not consider WTO the only possibility; we have been making efforts, and will continue to make efforts, to find ways to re-establish the bilateral dialogue mechanism of the 1990s.

WTO ACCESSION IN LIGHT OF THE CROSS-STRAIT AGENDA

WTO Will Enhance Peace and Stability in the Relations

Globalization has proved to be a major stabilizing factor in cross-strait relations and this trend will be furthered when the WTO moves forward with its trade liberalization agenda. Taiwan's economy has integrated into the international trading system for decades and its economy cannot sustain without changing with the global trend. The opening of China to the world in the last two decades has also made it a significant part of the world economy. Both sides will deepen their integrations with their respective WTO entries. The freer flow of goods, personnel, capital, and services between the two sides is not only bilaterally meaningful; it also has its multilateral dimension. The international business community will find the cross-strait interactions very relevant to their interests, trade/commercial and otherwise. The two sides of the Taiwan Strait cannot simply ignore what the international community has to say as they rely on the world market for their exports, and foreign capitals for developing their economies.

The international community also has an interest in keeping peace and stability in the Taiwan Strait and peaceful resolution of the problem facing the two sides. This common expectation and interest of all parties concerned serves as a very important stabilizing factor in the relationship.

WTO Will Help Balance the Relationship Through its Multilateralism

It is obvious that Taiwan's economy is a much smaller one than China's, despite the fact that Taiwan's industrial development and level of technology are much more advanced. There is no doubt that China is trying to catch up. Also, Taiwan is a much smaller player in international politics, and presumably a politically weaker party in the bilateral relations. If both sides engage in trade and investment only in a bilateral setting, Taiwanese products and investors are very vulnerable to the likely discriminatory practices of the PRC authorities. The multilateralism of the WTO, as embodied in its most-favored-nation (MFN) principle and national treatment principle, offers protection to members who are smaller or weaker parties in bilateral relations or in the multilateral setting. MFN would mean whatever treatment, market access or otherwise, China offers to other members of the WTO is to be offered to Taiwanese traders and investors, and *vice versa*. National treatment would mean once Taiwanese products and services get into China's market, they will be granted treatment no less favorable than that the Chinese authorities offered to their own traders and investors.

WTO Will Provide a Structure and Regulatory Framework for Cross-Strait Trade Flows

Both sides have not had a real opportunity to jointly develop a framework and a set of rules between themselves in regulating the cross-strait trade and investment. This is so, despite the fact that both sides had limited dialogue on the so-called "functional issues" in the 1990s. The intensity and volume of trade and investment flows between the two sides today are such that without proper joint efforts, there is always a danger of disorder and therefore, damage to the interest of traders and investors. The set of trade rules of the

WTO developed over the course of a few decades can to a large extent apply to the cross-Strait trade, as both parties have made adjustments or committed to make adjustments to their trade regimes, to make them compatible with WTO standards. However, in certain areas such as SPS (sanitary and phyto-sanitary measures) and the recognition of standards, bilateral processes are still required to make the respective trade regimes of both sides compatible with each other. A transition is also required to bring the bilateral trade relations fully in line with the WTO requirements. Arrangements to be made for this transition also require consultation between the two sides.

WTO Will Provide Opportunities for Trade Officials to Interact in a Multilateral Context

WTO has a culture of its own and has its own language when trade officials communicate among themselves. Over the past ten years, the trade officials of both sides have had plenty of opportunities to interact with other members in their respective accession negotiations and therefore, have learned the culture and the language of the WTO. To many of them, what WTO symbolizes, such as trade liberalization, is a belief and a mission to achieve. I am sure trade officials on both sides responsible for the trade negotiations in the past few years share, to a certain extent, this feeling towards WTO. And these common background and feelings are exactly what is lacking in the cross-Strait relations today. This, I would hope, could help to initiate a process of confidence-building that will eventually make possible for both sides to have meaningful dialogue on a wider spectrum of issues in a perhaps non-WTO context.

The WTO could provide the opportunity for trade officials of both sides to discuss multilateral issues, together with other members. We will also have an opportunity to hold bilateral meetings which are a part of the multilateral market access negotiations; or bilateral meetings that would address difficulties arising from the application of WTO rules in a bilateral context, which may lead

to a trade dispute. Of course, we do not rule out the possibility of facing China's trade officials in a dispute settlement proceeding of the WTO. These encounters could be driven by common interest on particular trade issues, *e.g.*, we may be working with China's trade officials in the next multilateral round of agricultural negotiation, because we have common interest in a number of agricultural items, such as rice. We may be facing each other in an adversarial context when we have difficulties in each other's application of WTO rules, which may have the potential of developing into a dispute. The different encounters under the WTO and the intensity of contacts offer a great opportunity for each side to understand each other and to build trust and confidence.

CONCLUSION

China is a source of military threat, and a force that tries to undermine our political status. But, at the same time, China is our partner/competitor in businesses. The relationship is complicated and requires careful handling. WTO deepens the integration of both parties to the international community. Therefore, cross-Strait interaction is to be constrained by the common expectation of the international community. WTO accession also brings massive changes to domestic economies, politics, and social structure; the two governments will be facing unprecedented challenges. If the governments fail to meet the challenges, the WTO will bring more harm than benefit. A stable cross-Strait relationship is essential for the pursuit of domestic agendas. WTO offers a forum for both sides to interact in a multilateral context and try to learn to live with each other under one roof, as competitors, business rivals, or even partners. This, in my view, would be a good exercise for both sides to build trust and confidence and develop rules of engagement for themselves. Taiwan is prepared to make best use of this opportunity and hopes that China would do the same.

—*Ing-wen Tsai, Ph.D., is Chairwoman of the Mainland Affairs Council of the Executive Yuan of the Republic of China.*