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NEW STUDY:

After Cross-Strait Rapprochement: A conceptual analysis of potential gains to Europe from China-Taiwan economic cooperation

Is it time for the European Union to revisit its trade policy strategy towards Taiwan? [This paper](#) takes a closer look at the potential effects on EU trade and investment that are likely to emerge as a consequence of deepened commercial relations between Taiwan and Mainland China. Although Taiwan is not one of Europe's top trading partners, it is an important trading partner and it plays a critical role in the Asia Pacific region, especially through its dense production networks that have spearheaded the explosion in intra-regional supply-chain trade. It is an export intensive economy with stable GDP growth – and now also with rapidly expanding trade relations with Mainland China. Taiwan also has a triangular trade relation with Europe and China as Taiwan has been a leading investor in assembly factories in China that export to Europe. Its close cultural ties with, and increasing economic presence in, Mainland China create interesting opportunities for European business to integrate with the larger Chinese market via Taiwan. Taiwan is increasingly also an innovation hub in other electronics, where it has a strong profile, and other sectors that are of interest to Europe. EU-Taiwan trade and investment relations have grown in the recent past. However, the growth potential remains significant and there are still barriers to trade and investment that prevent both sides from exploiting that potential.

Taiwan was not part of the group of countries that the European Union in 2006 invited to negotiate free trade agreements (FTA). To those versed in Europe's policy towards Taiwan – and, equally important, China – this did not come as a surprise. Even if the economic conditions for selecting Taiwan as a candidate for an FTA was as strong as those for other Asian countries that did get selected, cross-Strait politics (and interpretation of cross-Strait politics) stood in the way. Even if the legal issues of negotiating bilateral trade or commercial agreements with Taiwan never should have been a concern, the controversies in cross-Strait relations were seen by officials as reason enough to avoid deepening trade-policy cooperation through an FTA.

Yet the situation has changed. And the main change is that Taipei and Beijing in mid-2010 signed an Economic Cooperation Framework Agreement (ECFA), which has defrosted commercial and commercial-policy relations between Taiwan and Mainland China to a remarkable degree. Political relations are also improving steadily, and the recent re-election of President Ma in Taiwan has been interpreted as a reinforcement of the cross-Strait rapprochement. Notwithstanding uncertainties over China's political direction after

the change of Beijing's top leadership later in 2012, the approach on both sides is clearly to continue deepening commercial exchange through a raft of new agreements under the ECFA umbrella.

The EU is now being courted to start FTA negotiations, and the question that Europe needs to find an answer to is how it should respond. The conclusion of this paper is that there would be benefits to the EU from an FTA with Taiwan. Those benefits have become significantly bigger because of the ECFA and continued liberalisation of cross-Strait exchange. It is true that the estimated direct benefits for the EU of an EU-Taiwan FTA are modest in comparison with potential gains from trade agreements with bigger markets. Yet the factor that remains unaccounted for in these estimates is how the ECFA changes the conditions for integration with Taiwan. Such a trade accord is now, and even more so in the future, a strategic component in Europe's strategy to gain better market access in China.

The reality of Europe's strategy in concluding FTAs with Asian countries is that it needs to cast its net widely in order to reap the benefits. FTAs with small or mid-sized economies will themselves not generate substantial GDP gains for a big economy like Europe's. But the combination of FTAs, and the strategy's ability to capture regional supply-chain integration, expands the gains significantly. Europe has now made a strategic effort to get a better foothold on East Asian markets. An FTA with Korea has already been concluded. Together with Taiwan and Singapore, according to a study by the Citi, Korea is estimate to be the richest country by 2050. Improving market access now to ensure that it will be a part of the coming decades of rapid growth is important for Europe.

The EU is also discussing with Japan exactly how their trade relations in the future should evolve. China remains a big concern for Europe as it is already the biggest market for Europe's export and import with Asia – but also one that is mired with difficulties. In one way or the other, Europe needs to approach China for a cooperative approach to solving problems. In this context, it is critical for the entire strategy that Taiwan is not excluded by the EU – and that the EU uses the opportunities that Taiwan offers for dealing with China.

[Download the paper here](#)

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