



# Taiwan-Mainland China and Fujian/Cross-Strait Economic and Trade Cooperation

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## ***A brief history***

The trade between Chinese mainland and Taiwan had been cut off for 30 years from 1949. After the reform and opening-up in 1979, the cross-strait trade transited through Hong Kong gradually resumed, although the import from the Mainland in that year was merely 46 million U.S. dollars. Till 2007, the cross-strait trade has expanded to 102.3 billion U.S. dollars, 2224 times than 28 years ago, with an average annual increase of 31.93%. Taiwan's trade surplus with Chinese mainland continued to expand, from 159 million U.S. dollars in 1980 to 46.26 billion U.S. dollars in 2007. There were over 73,000 Taiwan invested projects in Chinese mainland, with the actual investment of 44.58 billion U.S. dollars.

In 2008, direct mail, transport and trade links (also known as the 'three direct links') were opened across the Taiwan Strait. From then on, the economic cooperation between the two sides continue to boom. The Chinese mainland approved 87,000 Taiwanese-funded programs and received 56.53 billion U.S. dollars in Taiwanese investments from December 2008 to October 2012. During the same period, 133 enterprises from the Chinese mainland set up subsidiaries or offices in Taiwan, with total investment reaching 722 million U.S. dollars.

## ***Achievements in 2012***

### Between the Mainland and Taiwan

Today, Chinese mainland is the largest export destination for Taiwan. Chinese mainland-Taiwan trade took up 4.4% of the Mainland's total imports and exports, reaching 168.96 billion U.S. dollars in 2012, up 5.6%. The mainland's exports to Taiwan rose 4.8 percent year on year to 36.78 billion U.S. dollars, while its imports from Taiwan reached 132.18 billion U.S. dollars, up 5.8 percent from a year earlier. Chinese mainland approved 2,229 new Taiwan-invested projects in 2012, down 15.5% year on year, with actually utilized investment of 2.85 billion U.S. dollars (consisting 3.0% of total foreign investment actually used). The total Taiwan-invested projects on Mainland added up to 88,001, with actually utilized investment of 57.05 billion U.S. dollars.

### Between Fujian and Taiwan

The Fujian-Taiwan trade gradually recovered from the January lows and reached a historical high of 1.2 billion U.S. dollars in October last year, in spite of the European debt crisis. The yearly total trade volume between Fujian and Taiwan was 11.96 billion U.S. dollars, up 3% than the previous year. Fujian imports from Taiwan grew by 3.1% to 8.87 billion U.S. dollars, and exports to Taiwan went up by 2.8% to 3.09 billion U.S. dollars, resulting in a trade deficit of 5.78 billion U.S. dollars.

The most important imports of goods from Taiwan to Fujian province are machinery, apparatus and electronics, which were 6.15 billion U.S. dollars, consisting of 69.3% of total imports. Exports from Fujian province to Taiwan are mainly machinery, apparatus and electronics, which were 1.31 billion

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U.S. dollars, consisting of 42.4% of total exports. The exports of agricultural products to Taiwan reached 0.93 billion U.S. dollars, 32.4% higher than the previous year.

At present, Fujian ranks the third among all Mainland provinces in terms of actual utilizing Taiwan capital, with over 6,000 Taiwan enterprises in Fujian. Fujian is also the largest investor from the Mainland in Taiwan, and there are 35 Fujian enterprises in Taiwan, with a total investment of 163 million US dollars. Taiwan is Fujian's largest import origin, as well as the second largest trade partner. The cooperation in agriculture between Taiwan and Fujian ranks the first on the Mainland. Xiamen is the largest port of importing fruit and rice from Taiwan.

### **Highlights of the ECFA**

Economic Cooperation Framework Agreement (ECFA) was signed on June 29, 2010 and took effect on September 12, 2010. On the same day, a separate agreement on intellectual property rights protection (IPR) was signed by the Association for Relations Across the Taiwan Straits (ARATS) and the Taiwan-based Straits Exchange Foundation (SEF). On August 31, 2012, monetary authority from Chinese mainland and Taiwan signed the Cross-Straits Memorandum of Understanding on Currency Liquidation, and agreed to set up currency settlement mechanism.

Starting from 2013, with the launching of the **3rd Tier tax reduction on the early harvest goods trade**, all items on the early harvest list enjoy zero tariffs, which covers 806 goods from both sides. Last year, the mainland imported goods worth 8.43 billion U.S. dollars from Taiwan under ECFA, a jump of 105 percent from the previous year. The ECFA already helped traders save 3.97 billion U.S. dollars in tariffs in 2012, 3.3 times than a year ago.

According to the first meeting of the financial supervisory platform for securities and futures across the Taiwan Strait in January this year, several measures will be taken by both sides for further cooperation.

The mainland will consider a pilot project of **Renminbi Qualified Foreign Institutional Investor (RQFII) program** with a quota of 100 billion yuan, amendment of regulation policies of QFII, facilitating Taiwan financial institutions in their applying for qualification of QFII in the mainland. The shareholding ratio of Taiwan capital in mainland-based mainland-Taiwan joint venture fund management companies will be raised from the current no more than 49 percent to 50 percent and higher. Qualified mainland-Taiwan joint ventures will also be allowed to establish one full license securities company in Shanghai, Shenzhen and Fujian province, respectively, with the ceiling shareholding ratio for Taiwan capital as 51 percent, and 49 percent for other cities.

Taiwan will raise the investment ceiling on the amount mainland's QDII funds may invest in Taiwanese shares from 500 million U.S. dollars to 1 billion U.S. dollars. Taiwan will adjust the qualification of mainland-based financial institutions establishing representative offices on the island from five years of international securities and futures experience (except Hong Kong and Macao) to two years of the experience, including in Hong Kong and Macao. Taiwan's financial regulatory body is considering increasing the shareholding ratio of mainland-based securities and futures institutions joining stock in their Taiwan counterparts, as well as allowing qualified mainland natural persons to invest in Taiwan's capital market. High-quality mainland-based enterprises will also be encouraged to go public in Taiwan's stock market.

On June 21, the **Cross-Straits Agreement on Trade in Services** was signed. Both Parties have totally made 144 commitments on opening concerning more than 100 service sectors covering commerce, communication, construction, distribution, environment, health and society, tourism, entertainment, culture and sports, transportation, and finance. The Agreement has laid the foundation for the final realization of liberalization of trade in services between both sides of the Strait. The Agreement also helps to accelerate the integration and complementation of cross-strait service sectors and enhance international competitiveness of cross-strait service sectors.

However, the service trade pact has triggered disputes in Taiwan. According to a survey, 47.4% respondents thought it might bring more harm than good to the local service industry. Some people think the Mainland capital which has government background may seriously hit the local SMEs; since the investment threshold is not high, Mainlanders can take huge capital to invest in Taiwan, and have negative impact on the employment in Taiwan.

## ***Opportunity for Fujian-Taiwan cooperation***

**Haixi Economic Zone**, commonly known as the western coast of the Taiwan Strait, has become the center of attention in recent years. With a population of about 80 million, it covers the entire Fujian province (nine cities) and 14 adjoining cities in the neighboring provinces of Zhejiang, Jiangxi and Guangdong. China's State Council formally declared its support for the creation of the Fujian Haixi Economic Zone in the 12th Five-year Plan (2011-2015). It promotes cross-straits economic integration, as well as serves as the link between the Pearl River Delta and Yangtze River Delta, two of China's most populous and advanced markets.

According to the plan, Fujian has been delegated special authority to experiment with pilot programs aimed at deepening cross-straits integration. In approving cooperative projects with Taiwan in sectors such as trading, shipping, tourism, postal services, cultural services and education services, the government will adopt an open and flexible policy and allow for the trial implementation of new initiatives. The Central Government gives preference to Fujian's coastal airports and ports for implementing the "three direct links" across the Straits. It will boost the development of a globally competitive advanced industrial center that focuses on high-value production in the electronics and industrial equipment sectors. The region will foster the growth of the three pillar industries: electronic information, equipment manufacturing and petrochemicals. The region will capitalise on its marine resources to develop port-related industries, fisheries and new marine industries. It will also accelerate the development of modern service sectors.

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