



Clingendael

Netherlands Institute of International Relations

Cross-Strait Relations and Trade Diplomacy in East Asia

Towards Greater EU–Taiwan
Economic Cooperation?

Maike Okano-Heijmans

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Executive Summary

The aim of this report is to assess the consequences of change in cross-Strait relations and of the proliferating trade diplomacy in East Asia for EU-Taiwan economic cooperation. The report closes with policy recommendations for the Dutch and Taiwanese governments as well as for the European Union (EU) for strengthened EU-Taiwan economic ties, in particular by liberalizing trade through a Bilateral Investment Agreement (BIA) or a more comprehensive Economic Cooperation Agreement (ECA). It also touches on the consequences of recent developments on the attractiveness of Taiwan as a regional hub for European firms.

By the standards that the EU has set for itself, Taiwan – which is the Asia-Pacific region's fourth most competitive economy and the EU's seventh largest trade partner in Asia – should be high up on Brussels' wish list of partners with which to negotiate trade liberalization deals. This is all the more so since the EU inked its first free-trade agreement in Asia with South Korea back in 2011, and is negotiating economic deals with other countries in the region, including Japan, India, Malaysia, Vietnam and, of course, China. Furthermore, the EU has a stake in East Asia's stability – as shown by the September 2012 statement in which the EU expressed concern regarding rising tensions in East Asia's maritime areas, in which both China and Taiwan are stakeholders. Other EU statements in 2010 and 2012 welcomed the concrete and positive steps in cross-Strait relations.

As the authors of this report point out, the EU and its member states would be wise to initiate talks on economic agreements with Taiwan, provided that certain conditions are met. These conditions relate to timing – especially in relation to the EU-Taiwan-China triangular relations. The deepening of economic talks between China and Taiwan through the 2010 Economic Framework Agreement (ECFA) and subsequent cross-Strait agreements creates greater space for manoeuvre for Taiwan in its economic relations with other countries. The fact that the EU and China are negotiating a BIA constitutes a second crucial enabler, as third parties that wish to negotiate economic agreements with Taiwan should have similar trade agreements and good relations with China. Other preconditions relate to expected economic benefits – including a demonstrated willingness by the Taiwanese government to respond to European calls to reduce specific market barriers – as well as to political and normative considerations of the EU's role in the world.

Earlier studies have explicated the economic benefits for the EU and Taiwan of trade and investment liberalization. This report reviews these findings and places these in a comprehensive perspective, by pointing to several political and normative considerations that should follow economic considerations. Especially, there is value for the EU and its member states in recognizing the symbolically important role of Taiwan as a transparent and rules-based economic and democratic system, and in levelling the playing field for Taiwanese companies that (wish to) do business in Europe in an attempt also to attract more Taiwanese investment in the continent.

Third parties with an interest in stability and prosperity in the region have reason to see to it that the precarious status quo in cross-Strait relations is maintained. One way of doing so is to contribute to economic prosperity in Taiwan, which is also in the interest of mainland China. As Taiwan's third largest trade partner – after China and the United States – the EU is clearly a relevant player.

Summing up, there appears to be little reason why the EU should not open talks with Taiwan on a BIA, while talks on sectoral agreements or a full-fledged ECA may follow later. Brussels can make use of the diplomatic space provided by the ECFA and related cross-Strait agreements, while staying within the 'One China' policy and making sure that that Beijing is not opposed to the opening of such talks. Comparative cases of completed and ongoing economic negotiations between Taiwan and Japan, the United States and other countries that do not recognize it diplomatically, provide useful context.

While the Netherlands is unlikely to take the lead in this process, mainly for historical reasons that date back to the so-called 'submarine affair' of 1981, the Dutch government is in a position to support initiatives undertaken by the European Commission and/or other EU member states. Healthy commercial relations between the Netherlands and Taiwan are typical of the island's relations with other EU member states, sixteen of which now have representative offices in Taipei. The Taiwanese government, for its part, has reason to address the longstanding European calls for regulatory reform in Taiwan seriously, and to make a more compelling case as to why Taiwan is attractive as a regional hub for European and Dutch firms in particular.

Abbreviations

AEC	ASEAN Economic Community
ANZTEC	Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
ASEM	Asia-Europe Meeting
ASTEP	Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership
BIA	Bilateral Investment Agreement
CCP	Chinese Communist Party
CJK	China-Japan-Korea ('Trilateral')
CSCAP	Council for Security Cooperation in the Asia-Pacific
CSSTA	Cross-Strait Service Trade Agreement
D66	(Dutch) Democrats 66 Party
DG	Directorate-General
DPP	Democratic Progressive Party (of Taiwan)
EC	European Commission
ECA	Economic Cooperation Agreement
ECCT	European Chamber of Commerce in Taipei
ECFA	Economic Cooperation Framework Agreement
ECIPE	European Centre for International Political Economy
EEAS	European External Action Service
EEC	European Economic Community
EETO	European Economic and Trade Office
EP	European Parliament
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free-trade Agreement
FTAAP	Free-trade Area of the Asia-Pacific
GATT	General Agreement on Tariffs and Trade
I(C)T	Information (and Communication) Technology
IPR	Intellectual Property Rights
KMT	Kuomintang
MAC	Mainland Affairs Council (Taiwan)
MEP	Member of the European Parliament
MFN	Most-Favoured Nation
MOEA	Ministry of Economic Affairs (Taiwan)
MOU	Memorandum of Understanding
NTB	Non-Tariff Barrier
NTIO	Netherlands Trade and Investment Office (Taipei)
PRC	People's Republic of China (China)
PVV	(Dutch) Party for Freedom
RCEP	Regional Comprehensive Economic Partnership
R&D	Research and Development

ROC	Republic of China (Taiwan)
ROO	Rules of Origin
RVO	Dutch Enterprise Agency (in Dutch)
SGP	(Dutch) Reformed Political Party
SME	Small and Medium-sized Enterprise
SOE	State-owned Enterprise
SPS	Sanitary and Phytosanitary Measures
TAC	Treaty of Amity and Cooperation
TBT	Technical Barriers to Trade
TEM	Trade-Enhancing Measure
TIFA	Trade and Investment Framework Agreement (US-Taiwan)
TISA	Trade in Services Agreement
TPP	Trans-Pacific Partnership
TPR	Trade Policy Review
TRA	Taiwan Relations Act (US)
TRON	Taipei Representative Office in the Netherlands
TTIP	Transatlantic Trade and Investment Treaty
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
VVD	(Dutch) People's Party for Freedom and Democracy
WHA	World Health Assembly
WHO	World Health Organization
WTO	World Trade Organization

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1. Introduction

This report considers the consequences of change in cross-Strait relations and of the proliferating trade diplomacy in East Asia for EU–Taiwan economic cooperation. The key development justifying attention to this matter today is the signing in 2010 by China and Taiwan¹ of the Economic Cooperation Framework Agreement (ECFA) and subsequent agreements. The strengthening of cross-Strait economic relations creates new opportunities for Taiwan’s intra- and interregional trade diplomacy, making it easier to engage in negotiations on preferential trade liberalization with third parties, including the European Union (EU). Several bilateral economic agreements have been signed with countries in the region, and the Taiwanese government is attempting to gain formal consent from China to join regional cooperative efforts in East Asia and potentially also to link with countries/regions elsewhere. One important motivation for the Taiwanese government is that Taiwan is losing out economically as bilateral and (inter)regional negotiations on trade and investment agreements proliferate in East Asia and beyond, largely without Taipei being part of them.

Against this background, what can be said of the policies and strategy towards Taiwan of the European Union in general and of the Netherlands in particular? The EU and its member states have not yet shown themselves willing to take the necessary steps towards opening negotiations with Taiwan on an economic agreement of any kind, despite efforts on the part of the Taiwanese government to move in this direction. Should the EU respond more positively to calls from Taiwan? An answer to this question requires a comprehensive assessment of the expected opportunities and pitfalls – in an economic, political and geostrategic sense – of strengthened economic relations between the EU and Taiwan, as well as of the so-called ‘China factor’ by means of cross-Strait and EU–China relations. Ultimately, this also relates to the question of how the EU regards the future of cross-Strait relations – including whether it has a role in keeping Taiwan independent from the economic embrace of China – and whether its current policies are appropriate for achieving its objectives.

One key finding of this report is that there is value for the EU in recognizing the symbolically important role of Taiwan as a transparent and rules-based economic and democratic system. European governments and businesses would do well to make better use of the opportunities that exist to strengthen economic ties between both sides. This includes taking the necessary steps – slowly but steadily – towards opening negotiations on trade liberalization, in full consideration of the political sensitivities of such a move for China. Openness in this direction on the part of the EU should constitute a significant impetus for the Taiwanese government to address seriously the calls for regulatory reform in Taiwan – as long desired by the European public and private sectors – and to make a more compelling case as to why Taiwan is attractive as a regional hub for Dutch and other European firms.

1 Taiwan, officially the Republic of China (ROC), is referred to as Taiwan in most European member states and EU legislation and statements. Similarly, the People’s Republic of China (PRC) is commonly referred to as (mainland) China. The report will follow this practice.

About this Report

The findings of this pilot study are based on in-depth interviews with selected European and Taiwanese policy officials and business representatives, as well as on news reports, policy papers and scholarly work. The report follows on from earlier economic studies that were commissioned by the European Chamber of Commerce in Taipei (ECCT) and the Taiwanese government, and published by Copenhagen Economics (2008, updated in 2012); the Brussels-based European Centre for International Political Economy (ECIPE, 2010 and 2012); and the Chunghua Institution for Economic Research (2008), based in Taipei. While those studies considered the present and future of EU–Taiwan economic relations primarily from an economic perspective, analysis in this report takes a more comprehensive approach, placing the subject in its diplomatic, political–economic and geostrategic context.

The project of which this study is part² was funded by a group of government agencies and businesses, with half of the funding coming from Dutch and the other half from Taiwanese sources. More specifically, these are the Taipei Representative Office in the Netherlands (TRON), the Dutch Enterprise Agency (RVO, in Dutch), the Netherlands Trade and Investment Office in Taipei (NTIO), the Brabant Development Agency, the City of Eindhoven, Amsterdam Inbusiness (AIB, operated by the cities of Almere, Amsterdam, Haarlemmermeer and Amstelveen), Philips Taiwan and Netherlands Airport Consultants (NACO). Clingendael's project team and its main sponsors jointly defined the aims of this report, but Clingendael carried out the study independently. The views expressed in this report do not necessarily express those of individual sponsors.

In explicating important developments and the present state of affairs of the bilateral as well as triangular relations of the EU, Taiwan and China, the case of the Netherlands is singled out for special attention. As a general remark, it should be noted at the outset of this report that what holds for European companies commonly also holds for Dutch companies. The reasons for this are two-fold, involving constraints of time and – partly as an extension of this – a lack of sufficiently detailed, qualitative information about Dutch industries and companies operating in Taiwan. Throughout this report, no clear distinction will therefore be made between European and Dutch businesses, even if relations between Taiwan and the Netherlands are singled out for special attention.

This introduction continues by detailing key developments in the EU's trade diplomacy and East Asia policy of recent years. Chapter two explores how Taiwan's diplomatic space has been evolving in the post-war period. It does so by assessing EU–Taiwan relations – with particular focus on the Netherlands – in the context of developments in the EU's relations with China and of cross-Strait relations. Chapter three then presents an assessment of Taiwan's role in East Asian politics and economics, including in trade diplomacy and production networks in the region. Challenged by political limitations, while at the same time extensively participating in production networks in the region, Taiwan seeks to reduce its isolation and strengthen its hub function in the East Asian political–economic system. Chapter four analyses how cross-Strait developments are impacting upon EU–Taiwan relations. The question of whether the EU has reason to initiate negotiations on an economic accord with Taiwan is assessed from three angles: (1) economic opportunities; (2) political

2 Other output of this project includes the seminar 'Towards Greater EU-Taiwan Economic Cooperation?' held – under the Chatham House-rule – at the Clingendael Institute, The Hague, on 10 December 2014, as well as an opinionated article (Okano-Heijmans and Lee, 2015).

and normative considerations; and (3) the so-called 'China factor'. Concluding that the EU has reason to engage Taiwan more deeply in the economic field – focusing, for now, on negotiations on an investment agreement – the report ends with policy recommendations for the relevant parties involved.

The Evolving EU Trade Diplomacy

External trade policy has long been a core, exclusive competence of the EU. It is overseen by the European Commission (EC), in particular its Directorate-General for Trade, under strict oversight from the EU member states. The EU was entrusted with full powers in the fields of services, intellectual property rights (IPR) and foreign direct investment (FDI) only relatively recently, by the 2009 Lisbon Treaty.

For many years a guardian of multilateralism, the European Union has in recent years joined the bandwagon of bilateral and regional trade negotiations. Initial shifts in the EU's trade policies are explicated in the 2006 strategy document *Global Europe: Competing in the World*,³ with which Brussels essentially lifted the moratorium on launching new free-trade agreements (FTAs). Against a background of continuing economic and financial hardship in the majority of European countries, the European Commission in 2010 and 2013 followed up with more detailed trade strategy documents that explicate the role of trade policy to secure prosperity within the European Union.⁴ These documents highlight several trends and characteristics of EU trade diplomacy: (1) a shift away from 'multilateralism only' towards a more bilateral approach; (2) a growing recognition of trade policy as an instrument to promote growth at home; and (3) evolving thinking on the way in which the EU attempts to link political and economic issues in agreements with third countries.

When compared with other countries, the EU's trade diplomacy stands out for its formal, rather legalistic, approach to linking foreign politics and economics. The EU commonly requires third countries to sign a political agreement as a prerequisite for an FTA – essentially reducing FTAs to a subset of political agreements. What is more, such political agreements with third countries must include a predefined set of political clauses – a framework that has come to be labelled the '2009 Common Approach'. These political clauses relate to human rights, democracy and the rule of law, as well as the non-proliferation of weapons of mass destruction, among others.

Inarguably, this framework provides certain benefits – especially towards the domestic public, which wants the EU to speak out firmly on its norms and values. What commonly goes unnoticed, however, is that the framework also makes for a political straitjacket that limits the EU's ability to engage in a more flexible, strategic approach. Such room for manoeuvre is much needed – especially outside the context of the EU and its neighbourhood, where the attraction of EU membership cannot be used as a lever to lure others into concessions.

EU trade diplomacy is challenged by incoherence among its member states – which at times have diverging stakes in policy guidance and implementation – and by its protectionist tendencies, especially regarding agricultural products. In addition, the European Parliament (EP) in recent years has increasingly been making its voice heard on trade diplomacy,

3 European Commission, 2006.

4 European Commission, 2010a; European Commission 2010b; and European Commission, 2013.

employing its extended powers as defined in the Lisbon Treaty. The Lisbon Treaty grants the EP power to block the ratification of trade agreements. Additionally, individual EU member states – consciously and not – have put the brakes on a more strategic trade diplomacy by pursuing parallel trade policies in an effort to obtain competitive advantages.

Stepping up Activism in the Asia–Pacific Region

It is not just Brussels' trade policy that has been evolving in recent years. The EU is also displaying a growing preparedness to engage with the Asia–Pacific region more extensively on both economic and political matters. This trend is evident, among other things, from the publication in 2012 of Europe's first strategy document on East Asia,⁵ as well as from its steadily increasing attempts to engage countries in East Asia on practical issues of mutual interest.⁶ As an illustration of this, consider the EU's attention for maritime issues – especially in the 2014 Summit of the Asia–Europe Meeting – as well as in the renewed engagement with the Association of South-East Asian Nations (ASEAN) – as per the connectivity meeting in February 2014 – and its membership of the second-track dialogue on security issues in the Asia Pacific, the Council for Security Cooperation in the Asia–Pacific (CSCAP).⁷

Notably, none of the above-mentioned examples of the EU's stepped-up activism in East Asia involve Taiwan – neither its foreign policy, nor on the trade policy front. That is not to say, however, that the EU is not speaking out on Taiwan and on cross-Strait relations. In fact, on the foreign policy front, (then) EU High Representative Catherine Ashton issued statements in 2010 and 2012 welcoming the concrete and positive steps in cross-Strait relations. Furthermore, in September 2012 Ashton relayed the EU's concern regarding rising tensions in East Asia's maritime areas, in which Taiwan is a stakeholder. With regard to trade policy, (then) Trade Commissioner designate Cecilia Malmström, in September 2014 during her hearing at the European Parliament, commented that 'an agreement with Taiwan is on the agenda'.⁸

Clearly, the question of whether – as part of new thinking on the EU's relations with East Asia as well as on trade diplomacy – developments in cross-Strait economic relations could be a driver for deepened economic relations between Taiwan and the EU and its member states is relevant and topical. More than a few policy-makers and scholars in Taiwan – and East Asia more broadly – argue that the EU as a big power needs to be more engaged with East Asia and the Indian Ocean region. This should also have the EU thinking about reaping the economic benefits of improved economic relations across the Taiwan Strait.

5 This document, titled *Guidelines on the EU's Foreign and Security Policy in East Asia*, spends roughly three of its twenty pages discussing economic issues of trade, investment and trade diplomacy. Noting that major powers in the region – Japan, China and the Association of South-East Asian Nations (ASEAN) – are stepping up their trade diplomacy efforts, the document suggests that trade agreements concluded among East Asian countries 'could also significantly impact on EU interests'; see Council of the European Union, 2012, p. 4. How the EU is to respond to this proliferation of trade diplomacy in Asia remains somewhat ambiguous, however.

6 For a more detailed assessment of this trend, see Maaïke Okano-Heijmans and Frans-Paul van der Putten, 2014.

7 In December 2013 the EU was admitted to CSCAP, with the aim of contributing actively to its multilateral non-governmental activities by providing European expertise on key regional security issues. For more details, see <http://www.iss.europa.eu/regions/asia/cscap-eu/>.

8 European Parliament, 2014a.

2. Triangular Relations: EU–China–Taiwan

The European Union and its member states adhere firmly and consistently to what has been referred to as the ‘One China’ policy, which means that the government of mainland China is recognized as the sole legitimate representative of China. The EU and its member states thus maintain full diplomatic relations with China while having unofficial relations with Taiwan, although they do support Taiwan’s ‘meaningful participation in international organizations where this does not require statehood’.⁹ That being said, the surge of economic exchanges between Europe and Taiwan, in particular from the 1980s onwards, has facilitated the development of pragmatic working relations. Despite a consistent adherence to the ‘One China’ policy, relations between Taiwan and the EU and its member states have been continuously progressing over the past decades.

This chapter presents a brief history of the evolving relations between Europe and Taiwan, both at the EU and member state level. Special attention is given to the Netherlands, which is particularly restrained in its relations with Taiwan, and to the role of the European Parliament, which has displayed a very progressive stance on supporting the *de facto* independence of Taiwan. The chapter assesses developments in cross-Strait relations, with a focus on the deepening of economic ties after the Ma government took office in 2008. The chapter concludes with an assessment of how Taiwan’s diplomatic space has evolved in recent years and of Europe’s response to this.

A Brief History of Europe–Taiwan Relations

In the early post-war period, substantial differences existed between European countries in their relations with Taiwan and China. The Scandinavian states, the United Kingdom, Switzerland and the Netherlands, for example, maintained diplomatic relations with China since the 1950s, while only having unofficial ties with Taiwan. The rest of Europe was divided on the issue along Cold War fault lines, with the majority of Western European countries following the United States in recognizing Taiwan, and Soviet allies standing by China. France broke away from the US-led camp in 1964 when it switched diplomatic recognition from Taiwan to China, and the rest of this group followed suit after China’s accession to the United Nations (UN) and its rapprochement with the United States in the early 1970s.¹⁰ The EU – then the European Economic Community (EEC)¹¹ – followed most of its member states when it, too, established diplomatic relations with China in 1975. At present, the Holy See is the only European entity that still maintains diplomatic relations with Taiwan.

9 European External Action Service, 2014, http://eeas.europa.eu/taiwan/index_en.htm.

10 Tubilewicz, 2007, p. 417.

11 When the European Union was established in 1993, the European Economic Community became one of its three main pillars, together with the Common Foreign and Security Policy, and the Police and Judicial Cooperation in Criminal Matters. For reasons of clarity, henceforth the EU will refer to both the EEC before 1993 and the EU from this moment onwards.

Despite the longstanding adherence to the 'One China' policy and the unofficial nature of relations, economic and cultural ties between European countries and Taiwan have continued to develop. This includes the establishment of trade offices, an increase in contact between legislators and government authorities on both sides, and the conclusion of several commercial agreements and memoranda of understanding. This has facilitated an institutionalization and certain 'administrative normalization' of relations between Europe and Taiwan over the course of the last four decades, even if no substantial policy shifts have occurred.

Economic rather than geostrategic considerations appear to be the key driver of European policies towards Taiwan at both the national and EU levels.¹² Governments in Europe were attracted to Taiwan's rapid economic growth from the 1970s onwards. Taiwan stimulated this interest by initiating a proactive economic diplomacy so as to counter its growing international isolation after it lost its seat as the representative of China in the UN to mainland China in 1971. By expanding its economic relations with Western European states and establishing commercial relations with Eastern European countries, Taiwan sought to develop substantive ties with countries that maintain diplomatic relations with China.¹³

The resulting deepening of economic ties informed pragmatic but progressive upgrades in European–Taiwanese relations. The most pronounced of these relates to the establishment of unofficial representative offices in Taipei and throughout Europe. These offices were set up as bureaus dealing with economic, cultural and technical exchanges – resembling the non-governmental organizations that had managed the working-level relations of Japan and Taiwan since 1972. Despite their unofficial status, some of the trade bureaus were increasingly staffed with diplomatic personnel and also began to issue visas, making them *de facto* consular offices.¹⁴ As of now, sixteen European member states have representative offices in Taipei.¹⁵

Another upgrade in European–Taiwanese relations concerns the increased level of contact between legislators and government authorities, especially since the late 1980s and early 1990s. Taiwanese ministers started visiting Europe during the 1980s, while France paved the way on the European side when it sent its Minister of Industry and Regional Planning to Taiwan in January 1991. France's example was followed by most other European member states, which also started sending government officials of similar levels. These visits, which were conducted in a private capacity, aimed to secure large commercial deals and brought about unprecedented levels of contact between Taiwan and China's diplomatic partners in Europe.¹⁶ The increased level of contact also facilitated the conclusion of various economic accords and agreements – a prominent example being the direct flight accord that Italy and Taiwan signed in 1995.¹⁷

Many European parliaments – both in the individual EU member states and at the EU level – have seen the establishment of significant pro-Taiwan groups, in part because of active lobbying and party diplomacy from the Taiwanese side. In addition, the 1989 Tiananmen

12 Tubilewicz, 2007, p. 416.

13 Tubilewicz, 2007, p. 417.

14 Mengin, 2002, p. 143.

15 European Economic and Trade Office, 2014.

16 Mengin, 2002, p. 143; and Tubilewicz, 2007, pp. 423–424.

17 Tubilewicz, 2007, p. 423.

crackdown in Beijing stood in stark contrast with Taiwan's democratization process at the time, thereby increasing Taiwan's international standing. The efforts of pro-Taiwanese parliamentarians have resulted in numerous resolutions expressing support for Taiwan's participation in international organizations, among other things. For example, resolutions passed in the Italian Chamber of Deputies and the Belgian Chamber of Representatives in May and July 2002 expressed support for Taiwan's bid for observer status in the World Health Organization (WHO).¹⁸ The Dutch Parliament also raised questions regarding Taiwanese WHO participation in 2002, but this yielded no resolution.¹⁹ Eventually, Taiwan was invited as an observer into the World Health Assembly (WHA) in 2010, albeit under the moniker of 'Chinese Taipei'.

There have been several occasions, however, when the gradual progression of relations between Europe and Taiwan crossed the red line imposed by the 'One China' policy. The most obvious examples of this are the arms deals between Taiwan and the Netherlands in 1981 and France in 1992. China responded fiercely to the deals with economic and political sanctions. Especially in the Dutch case, these retributions still significantly limit the perceived policy options with regard to Taiwan.²⁰ It seems that unofficial ties with Taiwan – in the form of the trade offices, ministerial-level meetings, and aforementioned commercial agreements – are reluctantly accepted by China, while explicit or implicit European support for Taiwan's claim to sovereignty is not. The latter includes arms' deals, as well as treaties and diplomatic or consular agreements with Taiwan, plus any visits by the Taiwanese president, vice-president, premier, and foreign and defence ministers to European countries are met with opposition by China.²¹ For example, when (then) Taiwanese President Chen Shui-bian was invited by the European Parliament to visit Europe, the Belgian government denied his request for a visa, even if the Belgian Parliament had urged EU member states to grant visas to high-ranking Taiwanese officials in accordance with the right to freedom of movement.²²

EU–Taiwan Relations

Although trade relations between European states and Taiwan have grown exponentially over the last three decades, they started out modestly. In the 1950s and 1960s, European countries mostly imported agricultural products and processed products from Taiwan, which was then in an early phase of industrialization, with manufacturing exports still low. The island imported mainly capital goods from Europe to invest in its manufacturing and exporting capabilities.²³

Like most European states, the EU established diplomatic relations with China in 1975 after Taiwan's seat in the UN was formally transferred to China in 1971. The EU had never maintained diplomatic relations with Taiwan before – despite Taiwan's request in 1961 – and it ostensibly renounced informal relations with Taiwan after forging ties with China. Much like EU member states, the change in Brussels' Taiwan policy has been spurred by economic considerations. The diplomatic ties with China were established as a continuation of Europe's commercial interest in the Chinese market. As a prerequisite of commercial relations, China insisted that the EU member states recognize the PRC as the sole legitimate government of China.²⁴

18 Tubilewicz, 2007, p. 424.

19 Tweede Kamer der Staten-Generaal, 2003.

20 Interviews with several Dutch policy-makers.

21 Tubilewicz, 2007, p. 433.

22 Tubilewicz, 2007, p. 424.

23 Lim, 2009, p. 188.

24 Laursen, 2006, p. 4.

After the EU established diplomatic relations with China, trade with Taiwan was conducted on an autonomous basis, meaning that there were no official consultations, negotiations or agreements with Taiwan. In the absence of official contact points for trade-related issues, which are usually found in embassies, private companies representing Taiwan in Europe took over this task. For example, the Far East Trade Service Inc. in Brussels was one such important contact point for businesses until the Economic and Cultural Office of Taipei was established in 1990 – which, in turn, was replaced by the current Taipei Representative Office in 1995.²⁵ Overall, the EU maintained a very restricted policy towards Taiwan throughout the 1970s.

Trade relations between European countries and Taiwan started to expand as Taiwan diversified its export and import markets in the 1980s. Closer economic ties with Europe expanded the range of products in Taiwanese exports, now also comprising light industrial products.²⁶ This marked the beginning of a period of exponential growth in trade flows between European countries and Taiwan during which Taiwan maintained a consistent trade surplus – a marked change from the 1950s and 1960s.²⁷ The continued intensification of economic relations between Taiwan and the European member states spurred the EU to initiate informal trade consultations with the island from 1981 onwards, yet because of Brussels' pronouncement of a 'One China' policy, these consultations were kept secret for many years, and initially did not take place in Taipei and Brussels.²⁸ It was only from the early 1990s that unofficial EU–Taiwan relations were acknowledged, and they have developed since.

During the 1990s, Taiwan firmly established itself as a key exporter of technology-intensive products. European investments in Taiwan increased, with the Netherlands and United Kingdom in the lead.²⁹ Its main trading partners, however, increasingly came to accuse Taiwan of being discriminatory in its trade relations and pressured it to apply for membership of the General Agreement on Tariffs and Trade (GATT) – renamed the World Trade Organization (WTO) in 1995 – so that it would adhere to the same international trade norms (see case study 2.1 below for more details on Taiwan's accession to the WTO). Bilateral negotiations between the EU and Taiwan on Taiwan's accession terms provided an opportunity for the development of a new economic framework in EU–Taiwan relations. The signing of the 1998 EU–Taiwan agreement – which encapsulated reductions in customs duties and import tariffs, and removed foreign equity from the services sector³⁰ – constituted the first significant agreement between the EU and Taiwan. Taiwan's eventual accession to the WTO in 2002 also provided justification for the opening of the European Economic and Trade Office (EETO) in Taipei in March 2003. The Taiwanese thereby accomplished their long-held goal of institutionalizing relations with the EU through bilateral offices and structured (albeit unofficial) communication.³¹

25 Lim, 2009, pp. 189–194.

26 Lim, 2009, pp. 192–194; and Tubilewicz, 2007, p. 430.

27 Tubilewicz, 2007, p. 429.

28 Dent, 1999, p. 165, as mentioned in Laursen, 2006, pp. 3 and 7.

29 Lim, 2009, p. 195.

30 Laursen, 2006, p. 10.

31 Tubilewicz, 2007, p. 427.

Box 2.1 Case Study: The World Trade Organization

On 1 January 1990, Taiwan formally submitted an application for membership of the GATT, the WTO's predecessor. Trade partners had accused Taiwan of being discriminatory and pressured it to apply for GATT membership, so that it would adhere to the same international trade norms. The Taiwanese government saw numerous economic and political benefits in GATT membership, most notably the opportunity to enhance its international position.¹ Taiwanese accession to GATT was difficult, however, because of its disputed political status, as well as the fact that China was at that time also in the procedure for accession. One complexity concerned the potential for either party to block the other's accession, if one was accepted before the other.²

Importantly, GATT/WTO membership is not only reserved for sovereign states. Article XXXIII of GATT stipulates that a customs territory – to be understood as 'any territory with respect to which separate tariffs or other regulations of commerce are maintained [...] with other territories' – can also be treated as a contracting party.³ Wanting to avoid any suspicion of trying to further its quest for independent statehood, Taiwan used the nomenclature of 'Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu' when submitting its application letter to GATT, as proposed by European Community Ambassador Paul Tran.⁴ This would bypass the issues surrounding Taiwan's independent statehood and offered a compromise that China might not agree with but could accept for moving forward. Beijing firmly denounced Taiwan's application even so, thereby hindering the proceedings for two years.

A separate working party was established for Taiwan's accession negotiations and it was decided that Taiwan would be referred to within the GATT as 'Chinese Taipei', following the nomenclature that had been used in the Olympics since 1984.⁵ The GATT members also decided that the Council 'should examine the report of the working party on China and adopt the Protocol for the PRC's accession before examining the report and adopting the Protocol for Chinese Taipei'.⁶ Taiwan's accession was thus practically linked with that of China. This meant that if China withheld its application for membership, Taiwan would not be able to enter either. However, since the Chinese government expected to gain much from WTO participation,⁷ it decided to relax its opposition. Also significant in this regard was the global outrage following the 1989 Tiananmen massacre, which necessitated the Chinese Communist Party to improve its international image in the early 1990s.

The Ministerial Conference eventually approved Taiwan's WTO membership on 11 November 2001, with China's membership already confirmed one day earlier. China subsequently acceded to the WTO in December 2001, with Taiwan following in January 2002. Taipei's negotiations were actually finished well before that time, but since its accession was conditional upon the entry of China, it had to wait until negotiations with Beijing were concluded.

1 Winkler, 2013, p. 290.

2 Vangrasstek, 2013, p. 141.

3 General Agreement on Tariffs and Trade, 1986, p. 41.

4 Winkler, 2013, p. 292.

5 Vangrasstek, 2013, p. 142.

6 Quoted from Laursen, 2007, p. 10.

7 Winkler, 2013, p. 293.

A more recent development that stands out in EU–Taiwan ties concerns the visa waiver for Taiwanese passport holders, which Brussels introduced in 2010. This allows Taiwanese citizens to travel freely to and throughout the Schengen zone. Several other countries in the East Asian region that have ‘a similar level of economic development, such as Hong Kong, Macao, Japan, South Korea and Singapore’ have also been given the same level of access.³² Chinese citizens, however, do not yet enjoy this privilege.

The European Parliament

It is safe to say that, despite the development of pragmatic working relations, the EU’s Taiwan policy – like those of the EU member states – is characterized by its firm adherence to the ‘One China’ policy. The European Council and Commission, in particular, tread lightly when dealing with cross-Strait issues, and the EU reiterated its commitment to the ‘One China’ policy when the current process of cross-Strait talks was established in 2008.³³

Although the European Parliament (EP) is also committed to the ‘One China’ policy, it has displayed more preparedness than the European Council, Commission and EU member states in speaking out in support of stronger ties between the EU and Taiwan. Already in 1985, when the EU–China Trade and Cooperation Agreement was under negotiation, the EP called upon the EU not to disregard economic relations with Taiwan.³⁴ Furthermore, the European Parliament Taiwan Friendship Group was established in 1991 to promote EU–Taiwanese relations. The EP has adopted numerous resolutions concerning the Taiwan issue over the past two decades, including: it expressed its disapproval of Beijing using military means to solve the Taiwan issue (1995/1996/1999/2002); commended Taiwan’s democratic achievements (2000); supported Taiwan’s efforts to join international organizations (in particular the Asia–Europe Meeting (ASEM) and the WHO, 1996/2002); stressed that any solution of the Taiwan issue must be achieved on a mutually acceptable basis (2002); defended the granting of visas for the Taiwanese president and other senior officials when travelling to Europe in a private capacity (2002); and called on the European Commission to start talks for investment and trade agreements with Taiwan (2013).³⁵ The EP first proposed establishing a European office in Taiwan in 1993, and repeated this call in 1996 and 2000. It was not until 2002, however, that a resolution on the establishment of a trade office was passed.³⁶

The European Parliament has thus developed a considerably more progressive – and Taiwan-friendly – approach to EU–Taiwan relations than the European Commission, European Council and individual member states. Its political stands display far greater concern for maintaining the current status quo of a *de facto* independent Taiwan than other organs of the European Union. The 2009 Lisbon Treaty gave new law-making capacities to the EP – including the right to veto international agreements – and there can be little doubt that the Parliament’s bigger say in EU policy is going to influence its Taiwan policy as well. EU foreign policy remains in the hands of the European Council and the EU member states, however. This holds true for initiating the negotiation of trade and investment agreements as well.

32 Council of the European Union, 2010.

33 Council of the European Union, 2008. This position was reiterated in various statements by EU High Representative Catherine Ashton (or her Spokesperson) afterwards.

34 European Parliament, 1985.

35 Shaocheng, 2003, pp. 517–521; Su, 2004, p. 1; and European Parliament, 2013b.

36 Shaocheng, 2003, p. 521.

Current State of Affairs

European trade flows with Taiwan have continued to expand steadily over the past decade, even if they were not significantly impacted by Taiwan’s 2002 accession to the WTO. Most notable is the increase of trade in services, which doubled between 2002 and 2012, going from € 3.8 billion to € 7.95 billion, thereby making for a fast-growing sector in EU–Taiwan trade relations.³⁷ The EU’s main export products to Taiwan comprise machinery and transport equipment, which make up over half of the total export volume.³⁸

In 2013, according to WTO statistics, the 27 EU member states together counted as Taiwan’s third largest trade partner after China (including Hong Kong) and the United States (see Figure 1 below). Taiwan, in turn, was the EU’s 21st largest trading partner worldwide and its seventh in Asia.³⁹ EU–Taiwanese trade in total amounted to US\$ 49.2 billion in 2013.⁴⁰ According to Eurostat figures, the EU exported € 16.5 billion worth of goods to Taiwan, accounting for 1 per cent of the EU’s total exports. EU imports from Taiwan amounted to over € 22 billion, which constitutes 1.3 per cent of total EU imports. The main goods imported from Taiwan are information and communication technology (ICT) products, such as office and telecommunication equipment.⁴¹

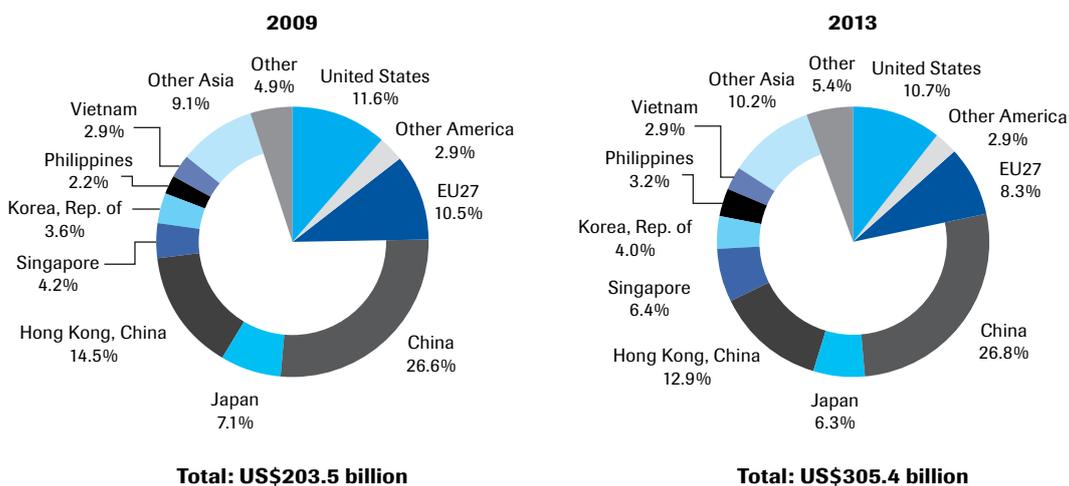


Figure 1 Taiwan’s Major Trading Partners in 2009 and 2013

Source: WTO / Lee (2014), p. 3.

Out of all the EU member states, Germany is Taiwan’s largest trading partner with 28 per cent of total EU–Taiwan trade (see Figure 2). Its large share of trade volume with Taiwan follows from Germany’s leading position in the world market in areas such as machine tools and other mechanical equipment.⁴² The Netherlands and the United Kingdom are Taiwan’s second and third largest EU trading partners, with shares of 19 per cent and 14 per cent respectively. Together, these three member states – Germany, the Netherlands and the United Kingdom – thus account for well over half of total EU trade with Taiwan.

37 European Economic and Trade Office, 2014, p. 15.

38 European Economic and Trade Office, 2014, p. 11.

39 European Economic and Trade Office, 2014, p. 3.

40 European Economic and Trade Office, 2014, p. 8.

41 European Economic and Trade Office, 2014, pp. 9–10.

42 European Economic and Trade Office, 2014, p. 13.

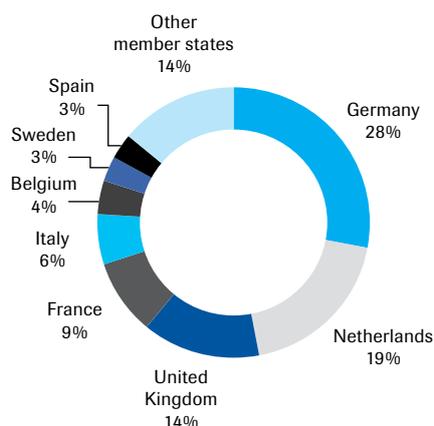


Figure 2 Share of EU Trade Volume with Taiwan in 2013 (Key EU Member States)

Source: Eurostat.

The EU was also the second largest provider of foreign direct investment (FDI) to Taiwan, providing 14 per cent of all FDI flows into Taiwan in 2013 – after the British Overseas Territories in the Caribbean (29.2 per cent).⁴³ European investments have risen steadily since the 1990s, with especially the Netherlands, the United Kingdom, Germany and France making substantial investments in Taiwan.⁴⁴ Dutch investments, in particular, have surged over the last few years, accounting for more than one-third of total EU investments (for more details, see below). Despite the large flow of European FDI in Taiwan, investments from Taiwan into the EU are lagging behind those of other Asian countries with economies of a similar size. Most of Taiwan’s investments are directed instead towards China, Vietnam, Australia, the United States and Hong Kong. Nevertheless, Taiwanese investments in the EU show a positive trend – almost tripling in 2012 from € 301 million to € 818 million.⁴⁵

Table 1 The EU’s Trade with its Main Asian Partners in 2013 (in Billions of Euros)

	China	Hong Kong	India	Japan	South Korea	Taiwan
Exports from EU	148.3	35.7	35.9	54	40	16.5
Exports to EU	280	10.2	36.8	56.5	35.8	22
Trade volume	428.3	45.9	72.7	110.5	75.8	38.5
Balance	-131.7	25.5	-0.9	-2.5	4.2	-5.5

Source: Eurostat/European Economic and Trade Office, 2012.

The EU and Taiwan hold annual consultations, alternating between Brussels and Taipei, to discuss issues of mutual interest – both economic and political. The annual talks involve officials from the EU (at the level of deputy director for DG Trade) and Taiwan. Trade consultations also take place in four working groups – namely sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), intellectual property rights (IPR) and pharmaceuticals – that meet in spring and autumn, and through active exchanges, including on other issues such as food safety, IPR, investment and services (market-access concerns).

43 European Economic and Trade Office, 2014, p. 16.

44 Lim, 2009, p. 2002.

45 European Economic and Trade Office, 2014, p. 17.

Exchanges between the EU and Taiwan are surprisingly active when compared to other partners in the region. Taiwan is the EU's seventh largest trading partner in Asia after China, Japan, South Korea, India, Singapore and Hong Kong (see Table 1). Even so, the EU's trade relations with Taiwan are said to be more developed than those with Hong Kong, and the level of detail is similar to consultations with Japan before FTA talks started. A positive result of all these efforts is that EU-Taiwan trade flows are rarely affected, even when trade frictions arise.⁴⁶

Focus on the Netherlands

Of all the European countries, the Netherlands has traditionally stood as Taiwan's second largest trade destination, after Germany, since at least the late 1990s. In 2013, when Europe was the second largest foreign investor in Taiwan, the Netherlands was the EU's largest investor, providing 34 per cent of the US\$ 237 million of European FDI.⁴⁷ As detailed in Figure 3, trade between the Netherlands and Taiwan was fairly balanced between 2010 and 2014, with the exception of 2013. During this period, exports to Taiwan ranged between € 2.25 and € 3.6 billion, while imports from Taiwan stood at, or slightly below, € 2.5 billion. Dutch trade to Taiwan largely encompasses machinery and devices for the production of elements of semiconductor materials – mainly reflecting activities by the high-tech company ASML, which in 2013 significantly expanded its production facility in Taiwan. Trade from Taiwan now chiefly consists of computers, telecommunication devices and vehicles – especially bicycles. Investment is still at a low level in either direction, although both sides are keen to attract more.⁴⁸

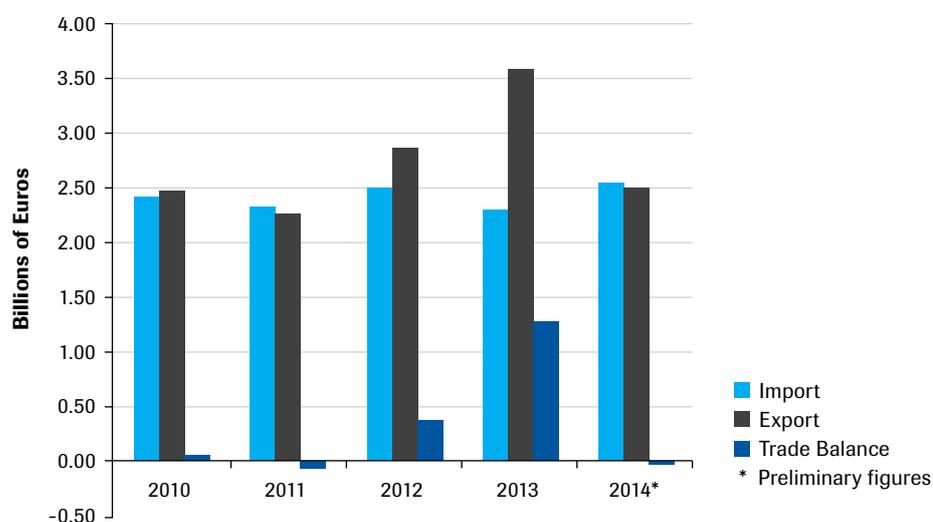


Figure 3 The Netherlands' Trade with Taiwan (2010–2014)

Source: CBS Statistics Netherlands.

46 Telephone interview with a Commission official, 1 December 2014.

47 European Economic and Trade Office, 2014, p. 16.

48 Taiwanese officials are making efforts on this front by promoting Taiwan as a hub. On the Dutch side, the wish to attract more Taiwanese investment was expressed by various government officials, especially at the local level.

Enhanced cooperation between the Netherlands and Taiwan appears to be particularly promising in the fields of high-tech systems and materials, green energy, ICT, greenhouse technologies and the bio-medical field.⁴⁹ For now, however, multinational companies are likely to opt for imports from South Korea, as products from Taiwan and South Korea possess a high degree of substitutability and because the EU–South Korea trade agreement entered into force in 2011. Goods of similar quality are thereby roughly 20 per cent more expensive from Taiwan than from South Korea, which obviously puts Taiwanese companies in a difficult situation.

In January 1981, the Netherlands opened the Netherlands Trade and Investment Office (NTIO) in Taiwan. This office currently houses fourteen employees, which is down from a staff of twenty in 2012, but which is projected to rise again in the future with specialized local staff in the areas of research and technology, as well as agriculture.⁵⁰ This includes the Dutch Representative – sent from the Netherlands Enterprise Agency (RVO), the executive branch of the Dutch Ministry of Economic Affairs – and one other government official. NTIO's activities focus on economics, trade, investment, agriculture and innovation, and the office also offers consular services. As such, NTIO provides assistance to Dutch companies that want to do business in Taiwan, while also acting as a contact point for Taiwanese companies that are considering trade or investment in the Netherlands. Taiwanese companies are traditionally interested in the Netherlands as a gateway to Europe, increasingly because of its technological knowhow, highly-skilled labour force, and 'soft factors' such as similarities between the Dutch and Taiwanese business cultures and shared history.⁵¹ At present, more than 200 Taiwanese companies are active in the Netherlands, clustering especially in the region of Eindhoven as well as around Almere and Rotterdam.

Illustrative of the well-developed trade relations between the Netherlands and Taiwan was the conclusion in 2001 of a double taxation agreement. This agreement was signed by the NTIO in Taipei and the Taipei Representative Office in the Netherlands, and concerns the territories in which the taxation law administered by the Netherlands Ministry of Finance and the Department of Taxation of the Ministry of Finance in Taipei, respectively, are applied. Further evidence is the Memorandum of Understanding (MOU) that was concluded in February 2011 between NL Agency – now the Netherlands Enterprise Agency – and the Department of Industrial Technology of Taiwan's Ministry of Economic Affairs (MOEA). This MOU, which was renewed on 21 November 2013, aims to promote practical cooperation among companies, knowledge institutions and other organizations from Taiwan and the Netherlands. Particular emphasis is placed on research and development (R&D) and innovation, with a particular focus on energy, especially wind energy.

Both the MOU and the double taxation agreement are evidence of how the 'One China' policy need not stand in the way of deepened economic ties with Taiwan. More specifically, pragmatic deepening of economic ties with Taiwan by third countries is possible as long as Taiwan is not treated as a sovereign entity. These examples of pragmatic commercial diplomacy by individual member states – of which the Netherlands is just one example –

49 These areas were identified in the November 2013 Memorandum of Understanding between Taiwan and the Netherlands, and during several bilateral working group visits.

50 Comment of a Dutch participant in the seminar 'Towards Greater EU–Taiwan Economic Cooperation?', Clingendael Institute, The Hague, 10 December 2014.

51 Authors' interview with several representatives of Dutch local governments, especially a representative of the City of Eindhoven, Eindhoven, 23 October 2014.

also hold relevance in the European context, as bilateral relations are said to form a basis for further EU–Taiwan cooperation.⁵² An example of this is the training of a Taiwanese National Contact Point by the Netherlands Enterprise Agency, with the aim of increasing Taiwanese participation in the EU Framework Programme for Research and Innovation, ‘Horizon 2020’.

On the political front, there can be little doubt that the Dutch government is still extremely restrained in its relationship with Taiwan, even when compared to other European member states. This stance can be traced back to the diplomatic stir caused by the arms deal of 1981. The Dutch government provided permission to a Dutch private company to export two submarines to Taiwan. Beijing responded unexpectedly strongly, referring to the Joint Communiqué of 1972 in which both sides had agreed to adhere to the ‘One China’ policy. China furthermore demanded that diplomatic ties be downgraded from the ambassadorial level to that of *chargé d'affaires*. The worst of this crisis was solved when the Dutch government in 1983 refused a second request to grant permission to sell more submarines to Taiwan. Even if this prompted Beijing to restore full diplomatic relations, neither side has forgotten the incident. What is more, until today Dutch officials appear extremely restrained in their relations with Taiwan because of this historical memory.

This was also shown in the most recent political debate on China in the Dutch Parliament’s Foreign Affairs Committee on 9 April 2014. The policy note on China that was prepared by the Netherlands Ministry of Foreign Affairs and that was under discussion during this debate⁵³ made no mention of Taiwan at all. Furthermore, the two ministers present at the meeting – (then) Minister for Foreign Affairs Frans Timmermans and Minister for Foreign Trade and Development Lilianne Ploumen – were extremely cautious not to be seen as deviating even slightly from the ‘One China’ policy.

For their part, several members of the Parliamentary Committee on Foreign Affairs did raise one or more issues in the relationship between the EU–Taiwan and China–Taiwan.⁵⁴ Repeated questions by a number of parliamentarians thereby appeared to suggest a strong Taiwan lobby in the Netherlands, including specific questions that addressed the political and economic effects of the Trade in Services Agreement between China and Taiwan; the question of whether the EU is willing to assist Taiwan in its aim to strengthen stability and economic development by concluding an EU–Taiwan investment agreement; and the potential role of Taiwan as a hub for China. More explicitly, one parliamentarian even raised the question of whether the EU/the Netherlands is perhaps too prudent in its relations with Taiwan. Examples that were put forward for how to develop better relations included exploring the possibility of having ministers visit Taiwan and concluding bilateral agreements, for example for student exchange. Both Ministers Timmermans and Ploumen, however, emphasized (Dutch adherence to) the ‘One China’ policy and showed no willingness to change current strategies.

Commenting on the EU–Taiwan investment agreement, Minister Ploumen said that the Dutch government ‘does not oppose’ such an agreement, as this could provide benefits. At the same

52 Comment of a Dutch participant in the seminar ‘Towards Greater EU–Taiwan Economic Cooperation?’, Clingendael Institute, The Hague, 10 December 2014.

53 Ministerie van Buitenlandse Zaken van Nederland, 2013.

54 Most outspoken on Taiwan during this debate were Raymond van Roon (Party for Freedom, PVV), Kees van der Staaij (Reformed Political Party, SGP), Sjoerd Sjoerdsma, (Democrats 66, D66) and Han ten Broeke (People’s Party for Freedom and Democracy, VVD); see Tweede Kamer der Staten-Generaal, 2014.

time, she emphasized that Dutch companies are aware of both the risks and opportunities of doing business in China. When pressed to comment on the willingness of the Dutch government to play a more active role – possibly together with other European colleagues – in convincing the European Commission of the benefits of an agreement and on whether the Netherlands would want the European Commission to take steps towards this end, Minister Ploumen merely responded by reiterating the position that the Dutch government wants the EU to take an active role in negotiating investment agreements, and that the EU is working towards this end in relation to Taiwan but that its capacity is strained.⁵⁵

This recent debate reflects policy discourse on Taiwan more broadly. Essentially, the Dutch government takes extreme care to stay within the ‘One China’ policy, while parliamentarians from time to time raise questions that can be seen to touch or to push the limits of this policy. For example, an inquiry by parliamentarians in 2003 about the possibility of Taiwan’s participation in the WHO met with a circumspect reply by (then) Minister of Foreign Affairs Jaap De Hoop Scheffer.⁵⁶ In 2009, a newspaper article by an NTIO official spurred parliamentary questions about missed economic opportunities for the Netherlands in Taiwan. Again, answers were extremely cautious. More specifically, (then) Secretary of State for Economic Affairs Frank Heemskerk indicated that he did not want to initiate official trade missions to Taiwan, arguing that this would conflict with the Dutch ‘One China’ policy.⁵⁷ Similarly, when (then) Minister of Foreign Affairs Uri Rosenthal was asked about Taiwan’s international position in 2011 after the European Parliament and US Congress had underlined Taiwan’s meaningful role in the international system, he replied that the policy outlook towards Taiwan remains unchanged. Rosenthal continued by saying that, in adhering to the ‘One China’ policy, the Netherlands and the EU do not support Taiwan’s membership in international organizations that require statehood.⁵⁸ Subsequent Ministers for Foreign Affairs Frans Timmermans (2012–2014) and Bert Koenders (2014–present) added a new element to this basic stance, however.⁵⁹ Their answers to parliamentary questions exhibit a willingness to facilitate pragmatic cooperation between Taiwan and international organizations – more specifically, the United Nations Framework Convention on Climate Change. Thus, while the Dutch government continues to adhere to its basic stance that Taiwan’s participation in international organizations is considered only when it concerns specialized international forums and when it clearly provides added value, it has shown itself open to pragmatic cooperation.

Relations between the Netherlands and Taiwan are not limited to the political capitals of The Hague and Taipei, however. At the local level, certain cities show particular activism towards Taiwanese companies and, as an extension of this, with Taiwanese officials. Private-sector investment from Taiwan is largely clustered in three regions – namely around Eindhoven, Almere–Amsterdam–Haarlemmermeer, and Rotterdam. Active promotion by the Dutch national government in recent years to cluster industries in specific regions only contributes to this clustering of Taiwanese companies, with Eindhoven and its surrounding region – home to the Dutch multinationals Philips and ASML – firmly establishing itself as a hub for the ICT sector. The willingness of the mayors of these cities – especially Eindhoven and Almere – to engage Taiwan is remarkable, especially when compared to the reluctance

55 Tweede Kamer der Staten-Generaal, 2014, pp. 27 and 31.

56 Tweede Kamer der Staten-Generaal, 2003, pp. 2797–2798.

57 Tweede Kamer der Staten-Generaal, 2010, p. 3619.

58 Tweede Kamer der Staten-Generaal, 2011.

59 Tweede Kamer der Staten-Generaal, 2012, 2013 and 2014.

displayed at the national level, and is said not to be at the expense of relations with mainland China, with Chinese companies also investing in the same region.

In conclusion, it can be said that while trade figures suggest that the Netherlands in particular stands to gain from an economic agreement with Taiwan, political history is keeping the Dutch national government from being more outspokenly in favour of an economic agreement with Taiwan in the EU context. The Dutch government does, however, have reason to oversee the European Commission's activities regarding investment negotiations and to join others in pushing the European Commission to pursue this road. At the local level, trade promotion agencies and individual politicians are less hesitant about engaging Taiwanese businesses and government officials. In doing so, they serve a purpose that resembles that of the European Parliament at the European level, albeit in a more practical way – that is, to explore the field and show that the deepening of relations with Taiwan is also possible within the limits imposed by the 'One China' policy.

Evolving Cross-Strait Relations

Developments in cross-Strait ties are influenced by a range of variables. Most importantly, these include domestic changes in Taiwan and in mainland China, as well as changes in the international environment, not least involving the United States. The following paragraphs present an overview of some key issues and developments, in turn facilitating an analysis of what all of this means for EU-Taiwan relations.

Basic Stance: The CCP, KMT and DPP

From the end of the Chinese Civil War in 1949 until the mid-1970s, both mainland China and Taiwan envisioned a military takeover of one by the other. While the Taiwanese Kuomintang (KMT) believed that they would one day retake mainland China – most likely with the help of the United States – the Chinese Communist Party (CCP) regarded Taiwan as a renegade province that should be 'liberated' for the sake of reunification. Today, the KMT is not interested in unification, even if it is also not for Taiwanese independence. Still, the KMT is much more acceptable to Beijing than the pro-independent Democratic Progressive Party (DPP) of Taiwan, which is hardly inclined to engage with the CCP. They argue that to 'demand that a political party must first abandon its main principles as a precondition for interaction is not in accord with democratic principles'.⁶⁰

60 Remark by (then) DPP Chairwomen Tsai Ing-wen, quoted in Hsiao, 2009.



Figure 4 Map of Mainland China and Taiwan

In a landmark strategy shift, the CCP in December 1979 abandoned its pledge for the ‘armed liberation’ of Taiwan – now calling for the island’s ‘peaceful liberation’ instead. This was Beijing’s first appeal to the KMT for an end to hostile confrontation and tension in cross-Strait relations. It also marked the beginning of its *‘peaceful unification’* strategy, which was explicated in 1983 by Chinese leader Deng Xiaoping. By putting forward the *‘One country, Two systems’* formula, Deng essentially initiated a new strategy of Taiwan’s incorporation into the mainland, not through armed force but via a negotiating process in which Taiwan is accommodating towards Beijing.

The 1992 Agreement to Disagree

A significant breakthrough in relations across the Strait came with the ‘1992 Consensus’, which was reached during talks in Hong Kong in November 1992. Although no written agreement was signed, both sides agreed that there is ‘One China’, with each side having a different interpretation of what ‘One China’ means.⁶¹ This agreement to disagree became the foundation of cross-Strait relations thereafter, even if Taiwan’s DPP tried to deny its existence, while the KMT put it at the centre of its new cross-Strait rapprochement.⁶² In the following years, various Chinese leaders made new statements and policy proposals to Taiwan, constituting subtle changes to this course. As a general trend, the two sides grew closer economically, but moved further apart politically.

61 While the CCP and the KMT agree that there is one, undivided sovereignty of China, the two sides disagree on who is its sole legitimate representative – that is, the PRC or the ROC.

62 Zhao and Liu, 2010, p. 199.

A next turning point in cross-Strait relations came with the proclamation by Chinese leader Hu Jintao on the Taiwan issue, which followed on from the Anti-Secession law in February 2005. This law, which explicitly aims at Taiwan, legitimizes Chinese military intervention in the case of Taiwan declaring independence or when all peaceful options for reunification are exhausted. Complementing this hard line, Hu took active steps to improve cross-Strait ties, both politically and economically. On 31 December 2008 – the 30th commemoration of the 1979 strategy shift – Hu proposed a six-point policy to improve cross-Strait relations. In doing so, he essentially introduced a more pragmatic, flexible and people-oriented approach to cross-Strait relations of setting aside difficult disputes and focusing on cooperation in economic and other areas.⁶³ The six points outlined in Hu's speech are: (1) firm adherence to the 'One China' principle; (2) strengthening commercial ties, including negotiating an economic cooperation agreement; (3) promoting personnel exchanges; (4) stressing common cultural links between the two sides; (5) allowing Taiwan's 'reasonable' participation in global organizations; and (6) negotiating a peace agreement.⁶⁴ Hu also called on Taiwan's opposition DPP party – with which Beijing had refused to deal during its time in power in Taiwan from 2000–2008 – to accept the 'One China' principle and to change its pro-independence stance. DPP Chairwoman Tsai Ing-wen was, however, quick to reject this symbolic gesture.

Of particular importance to the ruling KMT was the fact that Hu's speech made no mention of the KMT's oft-stated position that the resumption of cross-Strait negotiations is based on the '1992 Consensus'. No reference was made to the 'different interpretation', while the 'One China' principle did get mentioned. This put the administration of Taiwan's President Ma Ying-jeou 'between a rock and a hard place', as Russell Hsiao observes, 'as on the one hand Ma wants to keep the positive momentum, but on the other hand Hu's omission of "different interpretations" negates the value of the "1992 Consensus", which was the justification that the KMT used to engage in cross-Strait negotiations while maintaining Taiwanese sovereignty'.⁶⁵

Economic and Political Breakthroughs

Taiwan's President Ma never responded comprehensively to Beijing's appeal. His comments and actions, however, were overwhelmingly positive, signalling an intention to maintain the political status quo – that is, no independence and no reunification – and to initiate talks on an economic cooperation agreement in an attempt to break through diplomatic isolation with third countries. A first significant step in this direction was taken at the April 2009 Boao Forum for Asia, where the Taiwanese delegation met with Chinese Premier Wen Jiabao. One week later, the first three cooperation agreements were signed – on launching additional regular cross-Strait passenger flights, establishing a financial cooperation mechanism, and joining forces to combat crime. These led to the conclusion in 2010 of the Economic Cooperation Framework Agreement (ECFA), which has come to involve many more sectoral agreements. The most recent of these is the Cross-Strait Service Trade Agreement (CSSTA), which was signed in June 2013 and aims to liberalize substantially trade in services between mainland China and Taiwan. Under the terms of the treaty, service industries such as banking, health care, tourism, film, telecommunications and publishing will be opened to bilateral investment.

63 Zhao and Liu, 2010, pp. 185–186.

64 *Straits Times*, 2 January 2009.

65 Hsiao, 2009.

As cross-Strait economic relations featured by a rapprochement process continued to deepen, another 'first' came with the meetings in February and June 2014 between top officials from China's Taiwan Affairs Office and Taiwan's Mainland Affairs Council (MAC), which were held in Nanjing and Taoyuan respectively. These meetings were the first of their kind in 65 years, since the separation of the two sides of the Taiwan Strait. Both sides reportedly addressed one another as 'Minister' during the meeting, a sign interpreted by some in Taiwan as a move towards 'non-denial of each other's authority to govern'.

Not long after the first meeting between senior officials from China and Taiwan, however, a general lack of confidence in Ma's domestic policies and anger over insufficient transparency and the one-sided attempt to promote the CSSTA triggered an angry backlash from voters. During March and April 2014, demonstrators – mainly students and civic groups – occupied Taiwan's legislature, the Legislative Yuan. This so-called 'Sunflower Movement' signalled growing public concern over Chinese influence, among other things. Many Taiwanese people are concerned about whether and how the economic cooperation arrangements will benefit them, arguing that they are a stepping-stone for Beijing to open political discussions on unification.⁶⁶ At the same time, they worry that over-dependency on China may put Taiwan's hard-won democracy at risk. Importantly, an overwhelming 76.8 per cent supports the status quo, with only 1.4 per cent desiring unification as soon as possible.

Responding to these calls for improved and more transparent communications and consultations with the public on cross-Strait negotiations, the Ma government has since then promoted legislation for supervision on agreements, 'so as to further institutionalize the executive branch's communication with both congress and the public, and thus satisfy public expectations'.⁶⁷ This includes the postponement of the CSSTA until legal reviews of all cross-Strait agreements are passed.

In an attempt to appease potential worries from foreign partners about stability across the Taiwan Strait, Taiwan's President Ma addressed leading US opinion leaders in April 2014, stressing Taiwan's contribution to regional peace and stability in East Asia on the one hand, and Taiwan's determination to participate actively in regional and global economic integration on the other.⁶⁸

Ma called renewed attention to Taiwan's contribution as a 'responsible stakeholder' in the region, mentioning territorial disputes, fishery crisis situations, the Sichuan and Philippine earthquakes, and the Malaysia Airlines missing flight. At the same time, Ma pointed out that in order to achieve greater trade liberalization, Taiwan is engaging in domestic economic reform and is fast-tracking implementation of the Free Economic Pilot Zones. This should, in turn, also pave the way for Taiwan's entry into the Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP). In doing so, Ma essentially reiterated that his government's current course in cross-Strait relations aimed to expand Taiwan's international space, while also contributing positively towards a peace agreement and domestic economic revitalization.⁶⁹

66 Lee, 2015.

67 Mainland Affairs Council, 2014.

68 Ma, 2014.

69 Wu Yu-shan argued several years ago that these are the three major goals of the Taiwanese government; see Wu, 2009; and Zhao and Liu, 2010, p. 193.

Hardening Stances across the Strait?

The Taiwanese people, however, remain unconvinced. The local elections held in Taiwan on 29 November 2014 resulted in a staggering defeat for the ruling KMT, underlining the growing unpopularity of the Ma government. In the elections – which also acted as a barometer for the upcoming national elections in 2016 – the KMT lost control of districts across Taiwan, including the symbolically important mayor's office in Taipei. The defeat was generally interpreted as reflecting dissatisfaction with the handling of food safety scandals, low wages and the widening wealth gap, as well as the Ma government's pro-China policy of forging closer ties with the mainland. Trade deals with China under the ECFA were seen as not benefiting ordinary people, but instead mostly helping the Taiwanese private sector. Clearly, the election outcome constitutes a long-term challenge for both Beijing and the currently ruling KMT, as also illustrated by the resignation of the Taiwanese premier and his cabinet shortly after the election results came out.

While some emphasize that Taiwan's relations with China were not a key point of contention in the elections and that cross-Strait relations will stay their current course, others have highlighted that the election results demonstrate growing popular unease with the way in which the rapprochement process is being handled. In particular, the lack of transparency is often critiqued. At the moment, it appears that both views hold some truth in them. Taipei may well choose to shape its policies towards Beijing differently in the near future. For the moment, however, it seems that the relationship remains stable. An indication of this is the fact that both parties have announced their intention to conclude an agreement on cross-Strait trade in goods before the Taiwanese presidential elections in 2016.⁷⁰ What is more, in January 2015 the two sides commenced discussions in Beijing on joint research for closer cross-Strait economic cooperation and greater regional integration.

For its part, Beijing – under the current leadership of President Xi Jinping – seems to be running out of patience with Taiwan. The 'go slow' approach to unification of Xi's predecessor Hu Jintao is being replaced by a more assertive stance. Having been unsuccessful in its aim to initiate *political* talks about Taiwan's future, and with Taiwan's President Ma unlikely to deliver more to Beijing than he has so far, Xi is adopting a tougher line. In a first-ever meeting between a Chinese leader and pro-unification politicians in Taiwan on 26 September 2014, Xi suddenly insisted on a formula that has no traction in Taiwan, not even within Ma's KMT and much less within Taiwanese society in general.⁷¹ The Chinese leader explicated his view that 'one country, two systems' was Beijing's 'guiding principle' in solving the 'Taiwan issue'. Setting aside the 1992 Consensus formula, Xi affirmed that Taiwan and China belong to 'the same China', expressed impatience with the 'status quo' and argued that secessionism was 'intolerable'. He furthermore stated that both sides must curb forces that stand in the way of the dream of unity, stressing that China understands and would presumably respect the 'social system' and 'living style' of the Taiwanese people. Left unsaid was whose dream he was speaking of and what China would do with Taiwan's political system – that is, its democracy.⁷² Thus, unlike President Hu, who was content with neutralizing Taiwan, Xi may have decided to 'draw lines in the sand, regardless of the political mood in Taiwan'.⁷³

70 This was the gist of discussions during the seminar 'Towards Greater EU-Taiwan Economic Cooperation?', held at the Clingendael Institute, The Hague, on 10 December 2014.

71 Cole, 2014b.

72 This gist of Xi's speech is taken from Cole, 2014a.

73 Cole, 2014a.

Summing up, it can be said that while Beijing appears confident that growing economic interdependence and China's growing military capabilities will translate in its favour in the long run,⁷⁴ Taiwan seems intent on buying time to strengthen its economic and international political position. Beijing is walking a fine line in balancing domestic developments with its national interests towards Taiwan. While reunification is at the top of China's national goals, modernization is also a priority. Taiwan plays a role in both, but in vastly different ways: while rising nationalism in China makes it more difficult to compromise on the Taiwan issue, China can make good use of Taiwanese capital, technology, markets and capitalist know-how.⁷⁵ Furthermore, armed conflict with Taiwan could derail China's path towards modernization and internationalization, even if it could at the same time stimulate certain (military) industries of its domestic economy. For its part, Taiwan's leadership tries to buy time to revitalize the economy, maintain a level of healthy diplomatic relations – ideally leading to a peace agreement – and to expand its international space. This means strengthening Taiwan's links with foreign countries and embedding itself in the international system in a way that would make it more difficult to be incorporated into mainland China.

Expanding Diplomatic Space?

What do recent developments in cross-Strait relations mean for Taiwan's international space in general and for the potential to deepen EU–Taiwan economic relations in particular? Answers to these difficult questions require careful consideration of the state and sensitivities on each side of the triangular relationship between the EU, China and Taiwan, as explicated above. Also required is an understanding of the aims of both Taiwan and the EU in pursuing closer economic relations, as well as of the EU's general stance on negotiating preferential trade agreements with third parties.

With regard to Taiwan's diplomatic room for manoeuvre in general terms, several things need to be mentioned. The first point concerns one of the new elements introduced in a policy proposal to Taiwan by then CCP General Secretary Jiang Zemin in January 1995. This proposal stated that 'the mainland would not take issue with Taiwan's non-official economic or cultural exchanges with foreign countries'. In line with this principle, many countries – including sixteen EU member states – have opened economic and cultural representative offices in Taiwan. The MOU signed between the Dutch and Taiwanese institutions also fits into this framework.

Taiwan's 'Reasonable' Participation in the International Economic System

There can be little doubt that cross-Strait relations are of key importance to Taiwan's economic relations with foreign partners. While this is less the case for commercial relations – that is, business-to-business relations and trade promotion activities by countries that may or may not recognize Taiwan diplomatically – the willingness of third parties to engage in negotiations on economic agreements with Taiwan largely depends on the existence of similar agreements between Beijing and Taipei. Taiwan's room for manoeuvre in trade diplomacy is thus largely decided by China.

All of this mattered less when trade liberalization still took place largely in the context of the WTO, of which Taiwan is also a member. Like any other member, Taiwan thereby benefits from

74 Zhao and Liu, 2010, pp. 201 and 204.

75 Zhao and Liu, 2010, pp. 196–197.

the liberalization of trade through WTO agreements. The failure of multilateral negotiations in the current ongoing Doha Development Round of the WTO, however, has been one reason for many governments throughout the world to embark on the negotiation of bilateral and (inter-)regional economic agreements.⁷⁶ Clearly, the negotiation of such preferential trade agreements is much more challenging for Taiwan.

Countries that maintain formal diplomatic ties with mainland China and not with Taiwan are generally unwilling to negotiate such agreements with Taiwan – unless they have a similar deal with China *and* Taiwan has a similar deal with China. As detailed in Box 2.1, Taiwan's path to WTO membership set another useful example for how economic deals with the island can be negotiated – namely, by treating Taiwan as a customs union rather than as a sovereign entity.

Obviously, the fear of being cut off from participating fully in East Asian production networks is one important reason why Taiwan's President Ma made improvement of cross-Strait relations and the conclusion of the ECFA and sectoral agreements priorities for his government, while at the same time attempting to participate more fully in regional trade initiatives.⁷⁷ Things moved quickly after the opening provided by Hu Jintao in December 2008. Between May 2008 and July 2014, the two sides signed 21 agreements and reached two consensuses through institutionalized cross-Strait negotiation channels.

Even so, the interpretation of what all this means differs on either side. From Taipei's perspective, the economic agreements are further proof of Taiwan's distinct administrative jurisdiction and a signal that Beijing is becoming more accommodating on Taipei's trade deals with other countries. Beijing, however, regards the cross-Strait accords as steps forwards in the 'irresistible historical process' leading to 'complete reunification of China'.⁷⁸ Furthermore, Hu's 2008 pledge to allow Taiwan's 'reasonable' participation in global organizations is sufficiently vague so as to allow changes to exactly how much Beijing will tolerate.

EU–Taiwan Relations in the Context of EU–China Relations

Several points stand out as aims for Taiwan in pursuing an agreement with the European Union. These include improvements to the level playing field, especially with an eye to the fierce competition that Taiwan faces from South Korea, which is operating in many of the same sectors but already has a trade agreement with the EU. In addition, Taiwan wishes to boost its status as a gateway to China, alongside, for example, Hong Kong. Taiwanese government officials are eager to point out that Taiwan's own economic agreements with China only strengthen this argument. Some even add that a 'parallel interest' exists between deepened EU-Taiwan economic relations and China's own economic and political interests.⁷⁹ The economic benefits for China of an EU-Taiwan economic agreement are explicated in the 2008 report by Copenhagen Economics, which showed that China's economy is slightly positively affected by EU-Taiwan trade-enhancement measures. On the political front, Beijing stands to gain from greater confidence among the Taiwanese public in developments in

76 For more on this trend, in particular in the EU–Asia context, see Okano-Heijmans, 2014.

77 Rather than pursuing preferential trade deals with other countries, it has been argued that Taiwan should prioritize a multilateral trade strategy and focus on domestic reforms. As will be elaborated below, however, it is not so clear that Taiwan could avoid the political risks to the cross-Strait relationship associated with preferential deals. See Armstrong, 2013.

78 Hu Jintao's report at the 18th Party Congress, quoted in European Parliament, 2013b, p. 5.

79 Communication with Taiwanese officials, January 2014 and February 2015.

cross-Strait relations that would flow from Taiwan's deepened interaction and participation in bilateral economic agreements with countries other than China – and, for that matter, in regional economic integration. An EU-Taiwan economic agreement could thus contribute to the lowering of Taiwanese public concern about the speed and depth of closer cross-Strait relations – as illustrated by the Sunflower Movement and the local elections, which backfired on the ratification of the services agreement.

Clearly, there are practical economic and political arguments for the EU and its member states to raise with Beijing when discussing a deepening of EU-Taiwan economic relations, including the benefit of an EU-Taiwan economic agreement for China itself. In some respects the EU may be in a better position to do so than other big Taiwanese trading partners. For Japan, for example, its relationship with China complicates its relationship with Taiwan, while in the case of the United States, political considerations feature large in its trade and investment negotiations. However, the EU has so far shown itself largely unwilling to move towards the opening of trade negotiations with Taiwan, while the Japanese did conclude an investment agreement with Taiwan and are using Taiwan as a hub for economic activities in China.

3. Taiwan's Role in East Asian Politics and Economics

Taiwan currently maintains official diplomatic relations with 21 states and the Holy See, and has signed and ratified five free-trade agreements as well as several other economic agreements. With trade diplomacy proliferating throughout the world, and particularly in neighbouring East Asia, Taiwan clearly has something to worry about. Largely for political reasons, the island is largely excluded from East Asian regionalism at both the bilateral as well as at the regional level. Not only is it excluded, but it is also harmed by the trade diversion effects of these FTAs, as Taiwanese exports lose out in foreign markets because of increased competition from imports from other FTA partners.⁸⁰ As economist Roy Lee points out, Taiwan faces a catch-22 situation, meaning that it 'can only avoid being captured economically by China through taking the risk of being captured first'.⁸¹

This chapter provides a brief overview of key developments in trade diplomacy in East Asia. This is followed by an assessment of Taiwan's trade diplomacy in particular, which considers the importance for Taiwan of economic agreements, while also touching on the attractiveness of Taiwan as a hub for businesses operating in East Asia.

Trade Diplomacy in East Asia

Governments in East Asia have followed the wider global trend in recent years, wherein trade policy shifted from non-discriminatory unilateral liberalization (domestic reform) backed up by multilateral commitments in the context of the World Trade Organization (WTO) to preferential liberalization through FTAs.⁸² This applies to countries in North-East Asia – China, Japan, South Korea and Taiwan – as well as in South-East Asia – both individually and united in ASEAN. A variety of economic and political motivations explain the proliferation of FTAs in the Asian region, particularly in the new millennium. These include the slow progress of the WTO's Doha Round, the scare of the Asian crisis in the 1990s, and more recently the economic and financial crisis in developed countries of the West, which are key export destinations for many Asian countries.

Trade is not just about trade, however. As well as economic factors, geopolitical and foreign policy considerations also inform the growing popularity of trade diplomacy as a policy instrument, and not least concerns about an increasingly stronger China. East Asian countries and the United States generally understand this better than European countries, which have placed FTA negotiations with third countries into a political straitjacket that is hardly suitable in the Asian context.⁸³

80 Bush and Meltzer, 2014, pp. 10–11.

81 Lee, 2014.

82 Sally, 2013, p. 321.

83 For more on this, see Okano-Heijmans, 2014, as well as the introduction of this report.

For now, most of the roughly 75 FTAs that have been concluded between two or more Asian countries are bilateral, with many more deals proposed and under negotiation. This proliferation of agreements has resulted in a problem that is often referred to as the 'noodle bowl', meaning that one product is often subject to different tariffs, tariff reduction trajectories, as well as rules of origin (ROOs) for receiving preferences. This disordered situation increases transaction costs for companies that do business in the region, and many actors have emphasized the need to work towards an integrated regional FTA.⁸⁴

The heyday of bilateral FTAs may indeed be passing, as attention is increasingly shifting to several mega-FTAs, some of which are mutually exclusive. The most important trade deals currently being negotiated in the Asia-Pacific region are the US-led TPP, the ASEAN-led RCEP, the China-Japan-South Korea 'Trilateral' (CJK) and the ASEAN Economic Community (AEC).⁸⁵ The APEC-led initiative of a Free-Trade Area of the Asia-Pacific (FTAAP), which would encompass all of the countries involved in the TPP and RCEP, is in a much earlier phase. As detailed below, Taiwan is at present excluded from most bilateral and all of the multilateral initiatives, other than the FTAAP.

Taiwan's Trade Diplomacy

Even if Taiwan's trade diplomacy has had some success stories in recent years, a significant gap exists between where achievements have actually been accomplished and where the greatest political and economic urgencies exist. That is to say, Taiwan's Ma government failed to secure significant gains in relations with several key partners in economic – and in some cases politico-strategic – terms. Taipei has been successful, however, in signing free-trade agreements with its diplomatic allies in Latin America, even if these are of much less economic significance.

Bilateral Talks

In 2012, the Ma government defined its priority targets in trade diplomacy as involving the United States, Singapore, New Zealand, Japan, the EU and Indonesia – referring to these (groups of) countries as the 'lifelines of Taiwan'. As elaborated in separate case studies below, economic deals have so far successfully been concluded with Singapore, New Zealand and Japan. Negotiations on an economic agreement with the United States have halted, while no formal talks have yet been launched with the EU and Indonesia.

More than half of Taiwan's official diplomatic relations are with Latin American countries, making Latin America vitally important for the island's international standing. Taiwanese foreign officials have taken extreme precautions to hold on to their Latin American diplomatic allies. Taiwan inked its first trade agreement with Nicaragua as early as 1967 and has consulted frequently with other countries in the region on economic matters. Following its official entry into the WTO in 2002, Taiwan first initiated talks on potential free-trade agreements with its diplomatic allies in Latin America. Within a few years, Taipei managed to conclude agreements with Panama (2004), Guatemala (2005), Nicaragua (2008), El Salvador (2008) and Honduras (2008). The first agreement with Panama was hailed as 'a milestone' by

84 Das, 2014.

85 Note that European countries are not involved in any of these negotiations. The EU did conclude a landmark trade agreement with South Korea in 2011 and is currently negotiating a major deal with Japan, as well as several other economic deals with other East Asian countries.

Box 3.1 Case Study: Japan

In 1972 Japan severed its ties with Taiwan to switch diplomatic recognition to mainland China instead. In the Joint Communiqué between Japan and China issued that year, Japan set out its basic stance on its relationship with Taiwan, proclaiming that it would maintain its relationship with Taiwan ‘on the basis of non-governmental, working-level relations’.¹ This basic stance still shapes Japan’s policies towards Taiwan, making it hard for the two countries to negotiate agreements on trade liberalization or economic cooperation directly. Given this difficulty, Taiwan has employed what it calls a ‘block-building strategy’ in its trade diplomacy *vis-à-vis* Japan. Instead of pursuing a comprehensive agreement, this strategy aims to reach agreement in specific sectors and industries in an attempt to lay the foundations for a more inclusive pact in the future.

Several of these foundational ‘blocks’ have already been built. Taiwan and Japan signed a first investment arrangement in September 2011. Under this agreement, Taiwan and Japan agreed to freedom of capital and people associated with an investment in each other’s country, and investment protections, such as against expropriation. In addition, both sides decided to accord national treatment and most-favoured nation (MFN) status in terms of market access for new investments. Japan and Taiwan have since then also concluded agreements and memoranda on the opening of their skies (2011); exchange of financial information (2012); designating fishing areas in disputed waters (2013); and strengthening cooperation in areas such as industry (2012), electronic commerce (2013) and protection of patent applicants (2013).

The agreements between Taiwan and Japan were all signed by Taiwan’s Association of East Asian Relations and Japan’s Interchange Association. These organizations were established in December 1972 for handling working-level relations between Japan and Taiwan. Technically speaking, the pacts are thereby agreements between non-governmental organizations.

China never publicly commented on the signing by Taiwan and Japan of their first arrangement in September 2011. There are, however, a few hints of China’s displeasure with the new level of cooperation between its runaway compatriots and its foremost rival. First, the annual *Report on the Work of the Government* of March 2012 stated that ‘relations across the Taiwan Straits withstood serious tests’ in 2011, despite the apparent breakthrough in relations following the ECFA. Second, Taiwan and Japan were initially planning to sign both the investment arrangement and the aviation arrangement in September 2011, but Japan unexpectedly rescheduled the conclusion of the latter at the last minute. This aroused Taiwanese allegations that China had been interfering with the negotiations.²

By comparison, China did explicitly comment on Taiwanese–Japanese relations after both sides in April 2013 concluded a fishing agreement for the seas around the disputed Senkaku/Diaoyu islands in the East China Sea, which have been at the centre of an increasingly hostile stand-off between Beijing and Tokyo. Chinese Foreign Ministry spokesman Hong Lei expressed China’s serious concern and urged Japan to ‘earnestly honour the one-China principle and its stated commitment on the Taiwan issue to properly and prudently deal with Taiwan-related issues’.³

1 Ministry of Foreign Affairs of Japan, 2013.

2 *Taipei Times*, 2011.

3 Ministry of Foreign Affairs of China, 2013c.

Taiwan's Minister of Economic Affairs at the time, Lin Yi-fun, and economic experts argued that the deal provided a precedent that would enhance the willingness among other countries to sign trade agreements with Taiwan.⁸⁶

Clearly, Latin America is one strategic battlefield where Taiwan and mainland China vie for diplomatic recognition, international legitimacy, and political and economic influence.⁸⁷ These battles are mainly fought out through economic and trade diplomacy. As Taiwan negotiated its first bilateral free-trade agreements with its diplomatic allies in Latin America, China also gradually deepened its engagement with the region, including through military and cultural ties.⁸⁸ Beijing tried to entice Latin American states into abandoning their relationships with Taiwan in favour of cementing diplomatic ties with China, by offering governments substantial economic partnership and investments deals.⁸⁹ Even if the most intense tug of war seems to have cooled down with President Ma's re-election in 2012,⁹⁰ Taiwan has seen its number of Latin American allies being whittled down gradually over the past two decades. It risks losing even more allies in the years to come, as China continues to increase its economic and strategic capabilities.

Looking at Taiwan's trade diplomacy in its own backyard, what stands out is that Taiwan has negotiated its latest agreements with neighbouring countries in Asia that do not recognize it diplomatically. The Economic Cooperation Agreement (ECA) with New Zealand was signed in 2013 and a deal with Singapore was concluded in 2013. Undoubtedly, the twenty or so cross-Strait agreements have been instrumental in this regard, as is the fact that both New Zealand and Singapore also have FTAs in place with Beijing. The same can be said for Japan, with which Taipei has negotiated a Bilateral Investment Agreement (BIA) and several sectoral agreements. Furthermore, Taiwan has investment guarantee agreements with most ASEAN countries – including Indonesia, Malaysia, the Philippines, Thailand and Vietnam – and is currently negotiating a BIA with South Korea.

In South-East Asia more broadly, the Taiwanese government appears to be on the verge of opening talks on economic agreements with several countries. Feasibility studies of ECAs with India, the Philippines and Indonesia have been completed, while similar studies for agreements with Israel and Malaysia are reportedly being discussed. The cases of the Philippines, Indonesia and Malaysia are particularly notable, as these ASEAN members – unlike Singapore – do not have a stand-alone, bilateral FTA with China to complement the broader China–ASEAN FTA. The assumption that China may, accordingly, be less accepting of these countries' agreements with Taiwan appears from the comment by Chinese Ambassador to Malaysia Huang Huikang in August 2014 that China opposes any move by Malaysia to sign an FTA with Taiwan.⁹¹ The exact meaning of his words is not immediately clear, however. It is indeed likely that he meant that a China–Malaysia FTA should precede any economic agreement between Malaysia and Taiwan, as it did in the case of Singapore and for other countries that negotiated economic agreements with Taipei. Alternatively, his words could be interpreted to mean that Malaysia cannot sign an FTA in name (as this would imply Taiwanese sovereignty), while it could also be that Beijing insists that more cross-Strait agreements

86 *Taipei Times*, 9 August 2003.

87 Li, 2005; Erikson and Chen, 2007, pp. 69–70; and Jenkins, 2011, p. 1337.

88 Ellis, 2011.

89 Erikson and Chen, 2007, esp. pp. 76 and 78.

90 Council on Hemispheric Affairs, 2012.

91 Kong See Hoh, 2014.

Box 3.2 Case Study: Singapore and New Zealand

In accordance with the ‘One China’ principle, Singapore and New Zealand, like most countries, do not maintain official diplomatic relations with Taiwan. Following the conclusion of the cross-Strait ECFA in 2010, however, Taiwan opened formal negotiations for a comprehensive economic cooperation agreement with Singapore and New Zealand. This is markedly different from the ‘block-building’ approach that it adopted *vis-à-vis* other countries, including Japan. The signing in 2013 of agreements with Singapore and New Zealand marked the first time that Taiwan had concluded comprehensive agreements on economic cooperation and trade liberalization with countries that do not recognize it diplomatically. Notably, all three are members of the WTO.

After the Taiwan–New Zealand ECA was signed, China reconfirmed its position on Taiwan’s foreign exchanges. On behalf of China’s Foreign Ministry, spokesperson Hua Chunying declared that China has ‘no objection to non-governmental business and cultural exchanges between foreign countries and the region of Taiwan, but oppose[s] the development of any official ties between them. Fair and reasonable arrangement[s] could be made for Taiwan’s participation in international activities through practical consultation across the Strait on the premise of not creating “two Chinas” or “one China, one Taiwan”’.¹ A similar statement was given in response to the signing of the Taiwan–Singapore ECA.²

Still, the negotiation of an agreement between Taiwan and these diplomatic allies of China required a flexible approach, both in terms of who undertook negotiations and of the official title of the final agreement. The agreement between Taiwan and New Zealand is formally called the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation (ANZTEC). Representatives of the New Zealand government were not directly involved in the negotiations and signing of the agreement. Instead, the signatory party on behalf of New Zealand was its Commerce and Industry Office in Taipei, which is a subsidiary of the Wellington Employers’ Chamber of Commerce. Furthermore, ‘a private sector negotiator with relevant skills and experience’ was commissioned for the negotiating procedures on behalf of New Zealand.³ Finally, the signing was concluded via webcast, so that Taiwanese ministers did not have to set foot in New Zealand, so as to avoid provoking China.⁴

Similarly, the ECA with Singapore is called the Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP). In the case of Singapore, the agreement was also technically between non-government organizations. The final agreement was signed by the trade representative of the Singapore Trade Office in Taipei and the representative of the Taipei Representative Office in Singapore. In addition, similar to the agreement with New Zealand, the signing of the agreement was a subdued event.⁵

1 Ministry of Foreign Affairs of China, 2013b.

2 Ministry of Foreign Affairs of China, 2013a.

3 Young, 2014, p. 14.

4 Fensom, 2013.

5 *Wall Street Journal*, 2013.

– notably, the CSSTA – be passed before Taiwan signs additional bilateral agreement with others.⁹² This latter possibility would signal a modest change in Beijing’s approach – perhaps an extra precondition to Taiwan’s trade diplomacy with third parties – although there is still little reason to assume that Xi’s government is changing course beyond this.

In the meantime, the successful conclusion of ECAs with Singapore and New Zealand has set meaningful precedents for Taiwan’s international trade aspirations. Similarly, ongoing talks with the United States are illustrative of both the possibility of having talks, but also of the challenges along the way.

Box 3.3 Case Study: The United States

The most important framework for high-level economic and trade consultations between the United States and Taiwan is the Trade and Investment Framework Agreement (TIFA), which was signed in 1994. This agreement also serves as a primary platform for bilateral trade dispute resolution, trade promotion and investment cooperation. The TIFA talks were suspended from 2007–2013, however, because of disputes over access to the Taiwanese market for US beef and pork. These same issues have also sown significant doubts in the US administration and in Congress over the capacity of the Taiwanese government to undertake the type of economic reform that membership in the TPP would require.¹

The most recent TIFA meeting in March 2013 marked the resumption of bilateral trade talks. The United States and Taiwan then agreed to establish working groups on investment and technical barriers to trade (TBT) issues. Importantly, both sides are also laying the groundwork for a possible BIA. This development has been hailed by the US-Taiwan Business Council as ‘an essential building block to a more robust and ambitious trade relationship, and [...] a welcome indication that both sides are prepared to press for significant outcomes’.² Still, it is uncertain whether the two can move past previous setbacks on trade. More specifically, the Ma government aims to rebuild confidence in the United States that Taiwan can be a reliable trade partner with which to negotiate a trade agreement.

TIFA talks do not stand in a vacuum, however. Of crucial importance when assessing US policy – including its economic policy – towards Taiwan is the Taiwan Relations Act (TRA). This Act was passed in the US Congress in 1979 after the establishment of diplomatic relations with mainland China and the accompanying breaking of formal diplomatic relations between the United States and Taiwan. Importantly, section 3.1 of the TRA states that ‘the US will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability’.³ This means that the TRA potentially requires the

1 Bush and Meltzer, 2014, p. 10.

2 Hammond-Chambers, 2013, p. 1.

3 Official text of the Taiwan Relations Act, available at <http://www.ait.org.tw/en/taiwan-relations-act.html>.

92 Jennings, 2014.

United States to intervene militarily in the case that mainland China attacks or invades Taiwan. As such, it is designed to keep Beijing from unilaterally unifying Taiwan with mainland China, while at the same time dissuading Taiwan from a unilateral declaration of independence. The so-called 'strategic ambiguity' detailed in the TRA meant that the passage of the Act severely damaged Sino-American relations in the eyes of the Chinese leadership. Notwithstanding demands from Beijing that Washington follow the Three Joint Communiqués as well as the 'One China' policy, successive US administrations have improved arms sales to Taiwan. Furthermore, (then) US Secretary of State Hillary Clinton affirmed in February 2009 that US policy on arms sales to Taiwan under the Obama administration 'remains as it has been'.

Clearly, developments in the economic and security fields are in many ways related. For example, the Obama administration in 2013 undertook to improve US-Taiwan relations – by means of reopening TIFA talks – at least in part to reward Taipei for successfully reducing tensions with China – which obviously constitutes a security benefit to Washington.⁴ Taiwan's liberalization effort, which resulted in more market access for American products, including beef, provided the necessary economic trigger towards this end. Indeed, there can be little doubt that the United States expects Taiwan to give in economically more than it otherwise might because of the security umbrella that Washington provides to the island. In other words, the United States can benefit from Taiwan's precarious position by trying to extract more economic concessions out of Taipei than it otherwise might, even though Washington is eventually likely to go ahead with the agreement for strategic reasons.

⁴ Bush, 2014, p. 4.

Assessing Taiwan's bilateral trade diplomacy comprehensively, Jason Young argues that the agreements with countries that do not recognize Taiwan diplomatically demonstrate the prospect of an 'alternative pathway' in Taiwan's trade diplomacy. Enablers that are of crucial importance in this regard are: (1) the new pragmatic cross-Strait understanding marked by the ECFA; (2) Taiwan's use of its WTO nomenclature in trade negotiations; and (3) other parties having existing trade agreements and good relations with China.⁹³ Under these conditions, Taiwan has been able to conclude comprehensive trade agreements with states that do not formally recognize it as a diplomatic partner.

Multilateral Engagement

Complementing its bilateral strategy, the Taiwanese government also aspires to participate in regional initiatives to spur economic integration in the Asia-Pacific region. Key attention in this regard goes to the Trans-Pacific Partnership (TPP), the US-led initiative for a 'next-generation' trade agreement. Talks currently include twelve Asia-Pacific countries and notably exclude China, which is also considering seeking participation. In November 2011, Taiwan's President Ma for the first time announced that Taiwan wishes to join the TPP within ten years. Even if several high-level officials have reiterated this hope in the years since, Taiwan is very cautious about the issue, as Beijing opposes Taiwanese participation in the talks. Putting it more clearly than Beijing's official statements, Chinese scholar Sun Zhe

⁹³ Young, 2014.

commented early on that ‘Taipei must reconsider the idea of forming closer political ties with the United States and Japan through the negotiations. Taiwan’s participation in the TPP would be harmful to its trade pact with China’, adding that for Taiwan, the ECFA and TPP would be mutually exclusive.⁹⁴ As well as these obvious political challenges, the economics of joining the TPP may also prove to be difficult for Taiwan. Both domestic observers and US officials have raised doubts that the Taiwanese economy will be ready any time soon for reasons of protectionism – suggesting that it is not (just) a matter of whether Taiwan *can* join, but whether it is *willing* to join the TPP.

In April 2013, Taiwan also signalled its intention to take part in the Regional Comprehensive Economic Partnership (RCEP). Negotiations for this ASEAN-led agreement, which now includes all ten ASEAN nations as well as its six FTA partners – China, India, Japan, South Korea, Australia and New Zealand – started in early 2013. Taiwan hopes that there may be room to welcome other members to join, if negotiations are indeed completed by the end of 2015, which is the stated aim. While Taipei’s intentions are clear, its competent agencies are still assessing the mode of participation and its impact on industry.

Finally, the regional trade agreement for which the political challenge to join may be lowest for Taiwan is the Free-Trade Agreement of the Asia-Pacific (FTAAP), which is led by the Asia-Pacific Economic Cooperation (APEC). That being said, FTAAP is also the least developed in comparison with the TPP and RCEP, with membership involving all of the countries negotiating the two other initiatives. As a formal member of APEC, it would be only natural for Taiwan to join this FTAAP initiative, the roadmap for which was one of the highlights of the latest APEC meeting in Beijing in November 2014. (Then) Taiwanese Premier Jiang Yi-huah stressed Taiwan’s commitment to join the FTAAP, while adding that Taiwan must be included in the initiative’s strategic study.

The rival mega-agreements that are now under discussion in East Asia – on the TPP, RCEP and FTAAP – are clearly not just about trade, but essentially are very geopolitical in nature. The United States, ASEAN and China have each chosen one venue to bolster their broadly defined national interests, and to lure others into standards that can be expected to bring them most economic benefits in the long term. In addition to the above, the Japan–South Korea–China ‘Trilateral’ is also of importance – if anything just for the simple reason that it involves the three biggest economies in the region. Excluded from all of these agreements, Taiwan risks being left behind because of an overly – although inevitable – focus on China. This is all the more important as Taiwan stands to lose most from any hiccup in China’s economic and political development.

Taiwan as a Hub

Attempts by Taiwan’s Ma administration to reap the benefits of the ECFA, not just in cross-Strait relations but also in its relations with third countries, are not limited to the field of trade diplomacy. In particular, they are also apparent in Taiwan’s commercial diplomacy. In other words, Taiwan not only uses the ECFA to persuade others to conclude preferential trade agreements with the island; it also engages in a massive campaign to promote trade and investment in Taiwan by appealing to its attractiveness as a gateway for foreign firms into

94 *Asia Sentinel*, 2012.

China, and even the East Asian market more broadly.⁹⁵ In doing so, the Taiwanese government is pointing to the benefits provided by the ECFA, which also extend to foreign companies operating in Taiwan. These mainly relate to the confidence with which one can do business – such as higher production quality, protection of intellectual property rights, and transparent and trustworthy business procedures – which is greater in Taiwan than in China. In addition, it is appealing to the strengths of its investments in mainland China, which amount to roughly US\$ 150 billion by some 80,000 companies – as well as its cultural competence – that is, its affinity with Chinese business culture – and the extremely well-networked Taiwanese business community. With about one million Taiwanese either residing or travelling in mainland China at any given time, and with Taiwan Business Associations present in almost every province or major city in mainland China, Taipei certainly seems to have a good business case. As one study put it, the Taiwanese are ‘the foreigners who understand the Chinese best and also the Chinese who understand the foreigners best’.⁹⁶ This is complementary to Taiwan’s established credential as the ‘king-maker’ – that is, contributing to China’s success – in ICT and other sectors.⁹⁷ Finally, the highly educated workforce and the fact that Taiwan’s industry structure, with its many small and medium-sized enterprises (SMEs), is rather similar to Europe’s appear to add to its attractiveness.⁹⁸

Against this context, it may come as a surprise that the United Nations Conference on Trade and Development’s (UNCTAD) *World Investment Report 2014* does not mention Taiwan either as a destination for the headquarters of transnational companies that are targeting the Chinese market (‘such as Beijing and Shanghai’) or as a major destination for the headquarters of companies that are targeting the markets of Asia and the Pacific at large (such as Hong Kong and Singapore). It does, however, mention that in 2013, FDI inflows to Taiwan grew by 15 per cent, to US\$ 4 billion, as economic cooperation with mainland China helped to improve business opportunities in the island’s economy. At the same time, the report adds a note of caution about the fact that ‘the controversy and political turmoil related to the Cross-Strait Service Trade Agreement have cast doubt on the prospects for FDI in services’.⁹⁹

Regional Production Networks

Taiwan’s potential as a hub for multinational companies doing – or wanting to do – business in China may be all the more appealing because of the structure of East Asian regionalization. Especially from the 1980s onwards, regional integration has become much more than just growing levels of trade and investment flows,¹⁰⁰ and now also includes the development of regional business systems and operations, with China at its centre.¹⁰¹ The manufacturing of the multi-component goods that form the greatest part of East Asia’s intra-regional trade – electronics, machinery, automobiles, transport equipment and ICT products – is thus

95 As an example, consider the fact that Taiwan engages with Japan in cooperation on third markets, including on Vietnam, Indonesia and Myanmar. Comment of a Taiwanese participant in the seminar ‘Towards Greater EU-Taiwan Economic Cooperation?’, Clingendael Institute, The Hague, 10 December 2014.

96 Thelle and Mekonnen, 2012, p. 24.

97 See also Okano-Heijmans and Lee, 2015.

98 Thelle and Mekonnen, 2012, slide 30.

99 UNCTAD, 2014, pp. 47–48 and 101 (footnote 12).

100 East Asia’s overall intra-regional trade ratio rose from around 25 per cent in the early 1960s to 35 per cent by 1980 and then to 54 per cent by 2007. In the EU and North America, respectively, this same figure stood at 67 per cent and 43 per cent in 2007. See Dent, 2009, p. 118.

101 Dent, 2009, pp. 118–119.

fragmented into various sub-assembly production operations. Production of each component is situated in the most advantageous locations around the region, together making for regional production networks for any one such product.¹⁰²

Free from the political constraints involved in integration efforts at the governmental level – that is, negotiations on not only trade agreements but also financial agreements – Taiwan is participating extensively in various forms of regionalized business and other activities at the business-level of regional integration. It has been able to do so by implementing industrial cluster policies and creating particular industrial zones, especially for the ICT and electronics sectors.¹⁰³

Considering the fact that many Japanese manufacturers in particular are at the heart of these production networks, it is hardly surprising that they – supported by the Japanese government – have been the first to make use of the opportunities that Taiwanese regulations and businesses provide. Already from 2006, and more vigorously since the launch of the ECFA negotiations, the benefits of joint ventures with Taiwanese companies have been communicated to Japanese businesses. As pointed out by Shingo Ito several years ago, such joint ventures improve local access for Japanese partners by making it easier to: (1) access Taiwanese affiliates with a large economic presence in China; (2) facilitate smooth entry into the local market by utilizing distribution networks that Taiwanese parties possess there; and (3) gain local information from Taiwanese partners whose language and culture are similar to China's. Furthermore, Ito suggests that joint ventures help to reduce organizational costs thanks to the mutual trust that has been built as a result of the long history of collaboration between Japanese and Taiwanese partners.¹⁰⁴ More recently, the 'Taiwan route' is getting quite a bit of attention in the Japanese media as well, which have reported that the success rate of Japanese businesses that team up with Taiwanese partners when investing in mainland China is 10 per cent higher than for Japanese companies that go alone.¹⁰⁵

There should be little doubt that the tense political relations with China – largely stemming from historical and territorial disputes – make the 'Taiwan route' more attractive for Japanese businesses than for others. The immense manufacturing power of Japanese businesses, as well as their geographical closeness – as per the gravity model of trade – only add to this. That being said, the benefits reaped by these pioneering Japanese companies hold similar attraction to specific European companies – at least in theory. It would certainly not be the first time that Japanese companies explore innovative business opportunities in Asia that are also attractive for others – after all, Japanese companies were in Vietnam, the Philippines and even Myanmar long before European companies went there. As one European DG Trade official with extensive experience in Japan and East Asia succinctly commented: 'If it makes sense for Japan, [...] so it should also for European companies'.¹⁰⁶

102 Dent, 2009, p. 118.

103 For example, the core of Taiwan's computer industry is located at Hsinchu Science Park, established in 1980 south-west of Taipei.

104 Ito, 2009.

105 According to a 2011 study by Japan's Mizuho Bank, the success rate for Japanese companies investing in mainland China alone is 68.4 per cent. If they cooperate with Taiwanese companies, however, the success rate of their investment in mainland China increases by about 10 per cent to 78 per cent; see also Ito, 2009.

106 Telephone interview with a DG Trade official, 1 December 2014.

Adding to Taiwan's power of attraction as a hub is the fact that the 'red-carpet treatment' towards foreign investors in China seems to have passed its heyday, as also illustrated by statements by various Chambers of Commerce in China, as well as economists and practitioners. Consider, for example, the fact that tax preferences for foreign companies are decreasing and that the investment climate for foreign companies in China is worsening. At the same time, Beijing appears increasingly to be taking aim at individual companies. While the cases of Wal-Mart, Starbucks and Microsoft have been widely reported, private discussions with business representatives testify to similar hardships felt by other, smaller businesses. In particular, the so-called 'political-regulatory risks' are increasing, as several Chinese regulators have started to enforce anti-bribery and anti-monopoly rules with unprecedented vigour – targeting not only, but especially foreign companies.¹⁰⁷ In the eyes of more than a few Dutch and European officials, the idea of Taiwan as a hub could be a 'serious option' because of the stability of its economic and political system, as well as its transparency. At present, however, Taiwan's credentials in this regard are hardly recognized as such by the private sector. As noted by a representative of the Netherlands Enterprise Agency, 'for now, we hardly manage to arouse interest for Taiwan among new Dutch companies – especially small and medium-sized enterprises which, instead, mostly enter the Chinese market directly'.¹⁰⁸ This same pattern probably goes for European companies more generally.

Complicating matters in the European context is the fact that an assessment of the actual gains of Taiwan as a hub for European firms is not so much at the remit of DG Trade, but rather of individual EU member states and the European Commission's Directorate-General (DG) for Enterprise and Industry. The same goes for the responsibility to promote awareness of this fact, if Taiwan's role as a hub is indeed assessed positively. After all, trade and investment promotion – both incoming and outgoing – is primarily undertaken by EU member states themselves, even if DG Enterprise and Industry has a role in this as well.¹⁰⁹

From Isolation to Participation?

The fact that Taiwan maintains no official diplomatic relations with its primary trading partners is causing immediate and increasing challenges. While the Taiwanese government is challenged in its bilateral efforts and excluded from most regional trade initiatives, Taiwanese businesses and the public suffer the negative consequences of being excluded from most preferential trade agreements. Domestic industries are subjected to substantial competitive pressure, not just because of market opening, but also because of the emergence of new manufacturing bases, including in China and other emerging countries. Taiwan's trading partners ask for 'gold standard' – that is, that sets the standard for other future trade deals – and comprehensive trade agreements, which would likely erode the position of some Taiwanese manufacturers within the industrial value chain.¹¹⁰

This is thus sufficient reason for the Taiwanese government to engage in domestic reform and to rethink the way in which it interacts with the wider global economy, including by strengthening Taiwan's role as a hub for China and by working actively to negotiate economic

107 Control Risks, 2014, pp. 54–55.

108 Comment of a Dutch participant in the seminar 'Towards Greater EU-Taiwan Economic Cooperation?', Clingendael Institute, The Hague, 10 December 2014.

109 Telephone interview with a DG Trade official, 1 December 2014.

110 Liu and Shih, 2013, p. 7.

agreements. As Beijing's cooperation is essential for Taiwan's ability to participate in regional economic activity, Taiwan's Ma government has since 2008 attempted to make progress on this path by deepening cross-Strait economic relations. The signing of the ECFA and other agreements since 2010 has indeed improved the atmosphere for Taiwan to pursue agreements with other partners in the future, as illustrated by the successful conclusion of economic cooperation agreements with Singapore and New Zealand.¹¹¹ Writing at the beginning of 2015, however, Taiwan's government appears to have reached the limits of what it can do and is now operating under serious constraints imposed by Beijing as well as by its increasingly sceptical domestic population.

During the historic China–Taiwan meeting in February 2014, Beijing made it quite clear that finishing the post-ECFA agenda – that is, the four ‘mini-FTAs’ on investment promotion and protection, trade in services, trade in goods, and on dispute settlements¹¹² – takes precedence over Taiwan's interest in participating in regional organizations such as the RCEP or TPP.¹¹³ This is important, since the services agreement (that is, the CSSTA) still awaits parliamentary ratification in Taiwan, while negotiations on the last two agreements are still ongoing. To the extent that Beijing continues to insist on this so-called ‘sequencing approach’, Taiwan's trade diplomacy at large is thus significantly impaired. For their part, the Taiwanese argue that it may be unwise for Beijing to insist on such a rigid stratagem, as this will add to fear and opposition from the Taiwanese public to further cross-Strait economic cooperation.

The ECFA and subsequent cross-Strait agreements thus provide increased feasibility for greater economic cooperation between Taiwan and its trade partners, including the European Union – even if China's approval for any one agreement at a particular time is not a given. At the moment, Brussels is negotiating a Bilateral Investment Agreement with China that will tie the bilateral investment agreements that most EU member states have with China into one EU–China deal. Looking at earlier precedents, this offers a real possibility for the EU and Taiwan to conclude a similar agreement, provided that: (1) EU–China relations, as well as cross-Strait relations, do not deteriorate; (2) Taiwan employs its WTO nomenclature, as it has done in its agreements with New Zealand and Singapore; and (3) the negotiations are carried out by the respective representative offices of the EU and Taiwan. In a technical sense, the EU–Singapore and EU–China BIAs may serve as a model for the potential EU–Taiwan BIA. The EU and its member states could – like the United States – use Taiwan's eagerness to open negotiations to gain more economic concessions, provided that they develop a long-term comprehensive strategy on how to deal with both Taiwan and China.

111 Ministry of Economic Affairs of Taiwan, 2013, p. 2.

112 Authors' discussion with Taiwanese scholar Roy Lee, The Hague, 9 December 2014. The cross-Strait Investment Promotion and Protection Agreement entered into force in February 2013.

113 *Taiwan Today*, 23 February 2014.

4. Cross-Strait Developments and EU–Taiwan Relations

The EU has displayed a tendency of growing preparedness in recent years to engage with the Asia–Pacific region more extensively on both economic and political matters. While this also goes to some extent for the EU's relations with Taiwan – as evidenced by the fact that annual consultations have intensified in recent years – there are few signs that Brussels and other EU capitals are critically assessing their relationship with Taiwan, or their interest in cross-Strait relations, for that matter. Indeed, it has been said that relations between Europe and Taiwan – at both the EU and member state level – have changed little throughout the past three decades. The EU has opted for 'quiet diplomacy' on China and on Taiwan, and China's rise has weakened Taiwan's position in the EU's common foreign and security policy.¹¹⁴

Does the EU have reason to adopt a more progressive economic policy towards Taiwan in the years to come, and how should developments in cross-Strait relations influence thinking on this matter? This chapter discusses these questions in greater detail. It starts out with an assessment of the economic and political considerations with regard to an EU–Taiwan economic accord. Next comes an analysis of the role played by China and the thoughts of the EU and its member states about initiating talks on such an agreement with Taiwan. Finally, key considerations about the future of EU–Taiwan economic relations are summarized.

Economic Opportunities

Various studies by European and Taiwanese institutions have sought to analyze the potential gain of deepened EU–Taiwan economic relations. A pioneering study by Copenhagen Economics, which was published in 2008, finds that trade enhancement with Taiwan makes good economic sense, holding the potential to deliver considerable and fast economic gains to European businesses and consumers.¹¹⁵ The report proposes that the full set of trade-enhancing measures (TEMs) will yield more gains to Taiwan than to the European Union, both in absolute terms and as a percentage of GDP.¹¹⁶ Not unimportantly, it also argues that – on balance – also China's economy would be positively affected by EU–Taiwan TEMs. Another report published in 2008, by Taiwan's Chunghua Institution for Economic Research, similarly concludes that both sides stand to gain from a preferential agreement.¹¹⁷ However, its assessment of who benefits most differs from that of the Copenhagen Economics study, suggesting that an ECA would provide greater benefits for the EU than for Taiwan with regard to, especially, tariff concessions and services liberalization. For its part, a 2010 report by the European Centre for International Political Economy (ECIPE) argues in favour of comprehensive liberalization, pointing to the diversity of sectoral gains for individual member

114 Cabestan, 2011, pp. 2 and 18.

115 Thelle *et al.*, 2008.

116 It is suggested that introducing the full set of trade-enhancing measures will yield gains to Taiwan that are equivalent to a real income gain of € 3.78 billion measured in 2001 (1.2 per cent of GDP). For the EU, these same figures amount to of € 1.59 billion (about 0.02 per cent of GDP); see Thelle *et al.*, 2008, p. 65.

117 Wang *et al.*, 2008.

states.¹¹⁸ Apart from these differences, all studies share the expectation that the biggest benefits can be reaped from a services agreement.¹¹⁹ More specifically, a 2012 ECIPE study argues that roughly 60–90 per cent of trade gains from an EU–Taiwan trade accord are likely to come from services, including in banking, retail and real-estate sectors.¹²⁰ This same study also concludes that the expected benefits from an EU–Taiwan trade accord would be equally distributed across ‘key EU member states’, including France, the United Kingdom and Germany.¹²¹

Moreover, all of the studies point to the economic benefits for the EU of the ECFA process, which is said to: (1) confirm that Taiwan can sign bilateral trade accords with other WTO members; (2) make Taiwan a more interesting destination for European investors that seek improved access to China’s market; and (3) establish institutions and procedures for settling disputes.¹²² Other implications and opportunities of ECFA for the EU include a likely further increase in EU exports to Taiwan and a possible decline in EU exports to mainland China. Also benefiting from ECFA are Taiwanese-based EU-owned firms, which could gain improved possibilities for investing in mainland China, as well as EU multinationals with production value chains and sales in Taiwan.¹²³

Summing up, economic arguments for EU–Taiwan trade accords are diverse – all boiling down to the point that closer economic relations between the EU and Taiwan create mutual benefits at both the bilateral and the regional levels.¹²⁴ Existing levels of trade and investment between the EU and Taiwan would be elevated, delivering growth and jobs. The euro crisis and low economic growth in the EU, combined with the increased (economic) importance of Asia, add to the urgency. The fact that the EU has concluded an economic deal with South Korea and is negotiating more with other trade partners adds importance to an EU–Taiwan trade accord, as does the fact that Taiwan has inked the ECFA and several other liberalization deals, and is exploring the potential of yet more agreements. Furthermore, European consumers stand to gain from enhanced competition between Taiwan and especially South Korea in the EU, as products from the two countries possess a high degree of substitutability.

At the regional level, Taiwan has proven its credentials as a gateway and springboard to China for Japanese businesses, and could play a similar role for European companies. For the Netherlands, which is by far the biggest European investor in Taiwan today, the example of Dutch investment is illustrative of how investment in Taiwan can reap opportunities not just from being close to the Taiwanese market, but also from the industrial landscape and proximity to mainland China.¹²⁵ Taiwan’s potential as a hub for doing business in China has garnered little attention in Europe, however. Even if this strength appears to make economic sense, the Taiwanese government and/or trade promotion agencies have so far largely failed to get the message across to European governments and businesses in particular.

118 Dreyer *et al.*, 2010; and also Krol and Lee-Makiyama, 2012, p. 10.

119 Erixon, Krol and Macyra, 2012, p. 19; and Thelle and Mekonnen, 2012.

120 Krol and Lee-Makiyama, 2012, pp. 5–6.

121 Krol and Lee-Makiyama, 2012.

122 Erixon, Krol and Macyra, 2012.

123 Thelle and Mekonnen, 2012, esp. pp. 7 and 26–27, and slide 31.

124 Thelle and Mekonnen, 2012, pp. 4–5 and slides 2 and 15.

125 Krol and Lee-Makiyama, 2012, p. 10.

In addition to trade-related concerns, expected benefits relating to investment appear to be further economic reasons for the EU to embark on negotiations for an economic accord with Taiwan. In 2013 Taiwan ranked nineteenth in the list of home economies for FDI outflow, thereby entering into the global top-20 list for the first time.¹²⁶ This list is dominated by developed countries of the West and also includes Japan, China, Hong Kong, South Korea and Singapore. If the EU is serious about gaining a greater share of the growing Taiwanese investment flow to Europe, it has reason to take seriously the call from the Taiwanese side to level the playing field, which – from a Taiwanese perspective – is increasingly uneven, as the EU is concluding deals with other countries, including in East Asia.

Finally, based on the EU's own (economic) criteria for deciding its FTA partners, Taiwan should be high on the agenda.¹²⁷ Strategy documents published by the European Commission in 2006 and 2010 analyze the criteria for determining whether to pursue free-trade agreements with a particular country or entity.¹²⁸ Taiwan meets several but not all of these criteria. The first criterion concerns market potential, which definitely applies to Taiwan as the fifth biggest market in Asia, its fourth in terms of purchasing power per capita – according to IMF figures in 2013 – and one of the biggest with which the EU has not started negotiations. Even if the Taiwanese economy is smaller than South Korea's or India's, Taiwan fulfils the criteria of market size if the strategic triangular relationship of the EU–China–Taiwan and the effects of access to the Chinese market are taken into account. Taiwan also meets the second and fourth of the EU's criteria: the level of protection, which is still quite high. Although Taiwan currently has very low initial tariff barriers, non-tariff barriers provide a powerful reason for negotiations on possible trade enhancement.¹²⁹ Finally, the risk of erosion accompanying an economic agreement is low. After all, there is little competition between Taiwan and EU neighbours or developing countries. Two criteria that Taiwan does not meet, at least not for now, are ongoing negotiations with EU competitors – as negotiations with the United States have proceeded little over recent years – and being a strategic partner.

...Really?

Notwithstanding the sizable expected benefits of EU–Taiwan economic agreements that are proclaimed by each of these studies, this report's authors find that the debate is still ongoing – among policy-makers, at least – about the economic benefits of such agreements, as well as on the existing barriers to trade. Most officials at the local, national and EU levels are open to the idea of Taiwan as a hub and of the need to invest in the negotiation of EU–Taiwan economic agreements, but more than a few remain to be convinced of what their real value is. That is to say, private-sector representatives themselves are not yet making a strong and convincing enough case to officials to warrant the substantial investments in time and capacity that are required for negotiations. This goes for economic agreements as well as Taiwan's potential as a hub for European businesses' economic activities in China.

Consider, for example, the results of a seminar held in Taipei in November 2014 with the aim of assessing the potential gain in the area of services – the sector that, according to various reports, is to bring the most substantial economic benefits. Participants in this particular seminar were unable to list a significant number of trade barriers. Obviously, not all of

126 UNCTAD, 2014, pp. xv and 7.

127 Thelle and Mekonnen, 2012, slide 32.

128 European Commission, 2006; and European Commission, 2010.

129 Rezkova, 2013.

the sector's representatives were present, so the EU's DG Trade does not want to jump to conclusions. It has asked, however, that relevant industries report back so that officials can better assess the expected benefits in the field of services between the EU and Taiwan.¹³⁰ At the same time, it should be noted that benefits in this field will also be reaped, at least in part, through the Trade in Services Agreement (TISA) that is currently being negotiated between 23 WTO members, including the European and the Taiwanese Chambers of Commerce.

This raises the question of whether reports such as those by Copenhagen Economics and ECIPE may be copying the 'Taiwanese mantra' – to use the words of an EU official – of Taiwan's potential as a hub for China and East Asia more broadly a bit too easily. In other words, does this proposition hold relevance for European companies in particular and, if so, why is the European private sector not reaping the benefits of this potential? Undoubtedly, insufficient knowledge on the finesses of East Asian production networks plays a role in this, as does geographical distance. The structure of European economic engagement with Asia, which is dominated by SMEs, may be a further explanatory factor. This is all the more reason for the Taiwanese government to develop its case for Taiwan as a springboard for European companies more clearly, by highlighting success stories and giving more explicit reference to opportunities for European industries. The European Union and governments of EU member states could build on this in their commercial diplomacy outreach towards domestic industries.

The Political and Normative Dimension

A potential agreement with Taiwan is a very sensitive issue, as there is a widespread belief among policy-making establishments in European capitals that such a move would upset the EU's political and economic relations with China. While nobody should be naïve about Beijing's sensitivity, there is reason to believe that politicians in the EU and EU member states are overly worried about crossing Beijing's 'red lines'. After all, several precedents have shown that Beijing does allow Taiwan some international space for manoeuvre – provided that certain conditions are met. The EU and its member states have reason to make use of this space, for economic reasons and also in light of the goals, norms and values that Europe has set for itself.¹³¹ These largely relate to stability, democracy, rule of law, human rights and regional cooperation. Complementing economic motivations, the move to open talks on an economic accord with Taiwan could thereby also serve to reward it for significant progress made in these fields during recent decades.

Key Considerations

While EU officials say little publicly on the motivations – especially as concerns the political and strategic dimension – for initiating negotiations with Taiwan, a closer look at some of the European Parliament's documents is insightful. For example, the European Parliament's resolution of 9 October 2013 on 'EU-Taiwan trade relations' proposes the idea that doing so is desirable 'in order to consistently pursue the path of giving support to Taiwan's democratic system, social pluralism and good record in respecting human rights and the rule of law'.¹³²

130 Telephone interview with a European Commission official, 1 December 2014.

131 In the 1970s, norms and values began distinctly to permeate European foreign policy documents and declarations. See, for example, Hill and Smith, 2000.

132 European Parliament, 2013a.

The European Parliament is very explicit about its view that an EU–Taiwan economic agreement does not contradict the EU’s ‘One China’ policy, pointing to the fact that ‘China and Taiwan respectively joined the APEC in 1991 and acceded to the WTO in 2002’.¹³³ Taking this one step further, the 2013 resolution also holds that the decision to start negotiations with Taiwan for bilateral agreements on investment protection and market access ‘should be based on economic reasons, and should not be interlinked with an assessment of relations between the EU and the People’s Republic of China’. Clearly, the European Parliament perceives the constraints of the ‘One China’ policy to be less than do policy-makers in Brussels and in other European capitals.

Even if motivation to initiate talks should be economic, this ought not to imply that the bigger context that shapes EU–Taiwan ties – including in relation to China – can, or should not, be considered prior to or during negotiations. One consideration in this regard is to restore the level playing field for Taiwanese companies, which are losing out in the EU to competitors – in particular South Korea – that do have an agreement in place. This economic reason is also an ethical motivation for the EU to move towards an EU–Taiwan economic agreement – as explained by some local officials.¹³⁴ As mentioned earlier, it would also help to build a positive environment for increased Taiwanese investment in Europe, which would contribute to growth and jobs within the Union.

A second strategic reason for the EU to initiate talks with Taiwan while negotiations with China are still under way is the opportunity to gain further concessions in the bilateral deal with Taiwan, including on domestic regulatory reform. As illustrated by the ongoing negotiations on various competing deals, the United States and Asian countries themselves know how to play this game better than the EU and its member states. For example, Washington DC makes good use of Beijing’s fear of exclusion from the TPP, which aspires to set tomorrow’s global standards in important fields, including investment, intellectual property rights, government procurement and state-owned enterprises. At the same time, the United States is trying to get more concessions from Taiwan by delaying further negotiations on a trade deal. That being said, the history of the ‘carrot’ of WTO accession suggests that the power of attraction is more effective in encouraging deep-seated domestic reform than implied ‘sticks’. Access to the European market should thus be presented primarily as such, with requests for reciprocity – for example on market access and participation in government procurement – serving as deal-makers rather than deal-breakers.

The opening of talks with Taiwan also constitutes an expression of support to Taiwan for upholding standards on the rule of law, human rights and democracy that the EU holds high. More than a few European interlocutors for this study have pointed to the importance of Taiwan in Asia – and more specifically, as a member of the ‘Chinese family’ – as an example of a democratic and open, rules-based economic system. This is said to be all the more remarkable as Taiwan does not participate in the UN Human Rights Committee, meaning that it is not bound to those standards.¹³⁵ The EU thus has reason to grant support, including to the democratic Sunflower Movement that emerged during the course of 2014. The sensitivity of such a move and the difficulty for EU member states to speak this support with one voice are illustrated by the fact that the European External Action Service (EEAS)

133 European Parliament, 2013a.

134 Interview with a representative of the City of Almere, 27 October 2014.

135 Telephone interview with an EEAS official, 18 December 2014.

kept silent, also about demonstrations by the so-called Umbrella Movement in Hong Kong in late 2014. Notably, the United Kingdom issued a statement in support of the demonstrations for democracy, while leaders of various countries – including France, Germany and Italy, as well as Australia, Canada, the United States and Japan – supported the protesters' right to demonstrate and their cause of universal suffrage, while at the same time urging restraint on all sides.

A fourth non-economic reason for the EU to engage Taiwan economically has to do with regional stability and cooperation in East Asia. As political tensions in the region have risen in recent years – including on territorial issues – Taiwan has shown itself to be a responsible player in regional security issues, including on the South China Sea issue.¹³⁶ Against this context, it is not in the interest of others to see Taiwan isolated, or forced to make dramatic moves that may spark conflict. Furthermore, the economic marginalization of Taiwan, or the cross-Strait trade balance weighing too heavily towards China, could create a domestic political and cross-Strait imbalance that would raise tensions should Beijing try to use Taiwan's precarious position to coerce political concessions.¹³⁷ Clearly, instability in the region is thus a real concern for any third party with economic interests in the region – including the EU and its member states.

There are thus reasons – also beyond the economic field – to make use of the existing space for diplomatic manoeuvring with Taiwan, while not being inconsiderate or naïve about China's response. To be sure, the deepening of cross-Strait economic relations of recent years constitutes a positive driver for strengthened economic relations between the EU and Taiwan. Moreover, Taiwan's success story in the economic field, as well as its democracy and human rights record, should have the EU – as a promoter of common values in these fields – thinking about its role and responsibility towards Taiwan. Furthermore, clever use of the 'Taiwan card' could even benefit the EU in its talks with China. In the words of a Dutch official, a good argument can be made to 'normalize' EU-Taiwan relations in all but diplomatic terms, meaning that relations with Taiwan should not be made more difficult than they are.¹³⁸ Remaining considerate of Beijing's concerns and not making sudden changes in the EU's Taiwan policy need not imply that Beijing is consulted at every single step. Now may see a window of opportunity to move to a next phase, as negotiations on an EU-China BIA are ongoing and because the KMT is still in power. After all, it is not unlikely that the opening of talks will become more sensitive if a DPP government takes the helm in Taiwan after the presidential elections in 2016.

Political Process

Even if no formal steps have been taken towards opening negotiations on an investment deal or a more comprehensive trade accord with Taiwan, willingness to consider serious steps in this direction seems to be increasing in Brussels, although not explicitly among EU member states. Notably, several EU officials have recently spoken out in favour of an economic accord with Taiwan. This includes European Economic and Trade Office (EETO) representative Frédéric Laplanche, who in May 2014 was quoted as saying that the EU is likely to consider a BIA with Taiwan 'in due course'.¹³⁹ Most authoritatively, Trade Commissioner-designate at

136 Telephone interview with an EEAS official, 18 December 2014.

137 Hammond-Chambers, 2013, p. 2.

138 Interview with a Dutch official, The Hague, 14 November 2014.

139 *EU Reporter*, 2014.

the time, Cecilia Malmström, in her hearing at the European Parliament in September 2014, suggested that the EU could pursue a bilateral agreement with Taiwan *after* the EU–China investment agreement had been concluded (emphasis added).¹⁴⁰ For their part, several EU officials commented that nothing would prevent the EU, if it wished, from initiating agreements, as talks with China are under way.¹⁴¹ As one EEAS official put it very clearly: ‘no one in Brussels is saying that we should wait until the EU–China deal is concluded’,¹⁴² thus suggesting that the EU is open to a process resembling China’s and Taiwan’s parallel talks on WTO accession. A Commission official did add, however, that readiness on the part of the Taiwanese government for a deep and comprehensive agreement would be a precondition, as it is for the initiation of any talks, while recalling that Beijing took months to agree to negotiate market access as part of the EU–China BIA.¹⁴³

Even if the European Commission was convinced of the benefits of a potential EU–Taiwan agreement, vocal support from EU member states in favour of negotiations with Taiwan would help to make this a priority. Here lies another difficulty in EU–Taiwan relations: all EU member states are relatively quiet on trade matters related to Taiwan. This stands in stark contrast to EU member states’ positions on China, with the UK prime minister openly calling for an FTA, the German government expressing its opposition to sanctions on solar panels, and some EU member states – including France, Spain and Italy – asking for reciprocity, for example in the procurement initiative and more generally in EU–China trade and investment relations, and others not.¹⁴⁴

For its part, the European Parliament in recent years has made increasing use of its new powers of oversight and decision, as mandated by the entry into force of the Lisbon Treaty in 2009, to push the EU and its member states towards closer economic relations with Taiwan. In various ways, the European Parliament has spoken out in favour of the enhancement of EU–Taiwan economic ties and the signing of an EU–Taiwan ECA. The Parliament has done so in annual reports, as well as in resolutions and questions to the European Commission.¹⁴⁵ Since 2010, the European Parliament has addressed the issue of Taiwan in every consecutive publication of its Annual Report on the Common Foreign and Security Policy. Most recently, a 2013 Resolution urged the European Commission and the European Council to take concrete steps to enhance EU–Taiwan economic relations further. Following up on this, questions were asked in February and October 2014 about the Commission’s commitment to opening trade relations with Taiwan on investment protection and market access and, subsequently, about when the Commission will start such talks with Taiwan. The Trade Commissioner’s answers remained rather open-ended on both instances, stating most recently that ‘the Commission will continue exploring how further to develop EU–Taiwan trade relations, without excluding any options from the start, taking into account the progress in the EU’s already intense and resource demanding trade negotiating agenda in Asia, including the important

140 European Parliament, 2014a, p. 24. Malmström’s exact words read as follows: ‘China is an important but complicated partner. The priority there will first of all be to make sure that we complete our investment agreement with them. That is the priority with China. When that is done we will see how we can pursue other possible agreements, and I think we need to see Taiwan in that light as well’.

141 Telephone interviews with officials at the Commission and the EEAS, November–December 2014.

142 Telephone interview with an EEAS official, 18 December 2014.

143 Telephone interview with a Commission official, 1 December 2014.

144 Telephone interview with a Commission official, 1 December 2014.

145 European Parliament, 2011; and European Parliament, 2013.

investment negotiations that started recently with the People's Republic of China.¹⁴⁶ Finally, some members of the European Parliament have also made their voices heard individually. For example, Dutch representative Hans van Baalen told *China News Network* in June 2011 that he considers an FTA between the EU and Taiwan viable within the next two years.

Clearly, even if (members of) the European Parliament do not always show full realism with regard to Taiwan, it is not unlikely that – by speaking out – the European Parliament can change things over time. Members of the European Parliament (MEPs) are playing the political role that EU member states are not taking up, at least not now. While some point out that this may at times result in the European Parliament being tempted to make big declarations, as it is *de facto* testing the reach of its power and sometimes lacks clear vision of how far it will go, others are more positive about the Parliament's power to move things forward.¹⁴⁷ Indeed, relations between the EU and Taiwan stand out as one example where the European Parliament is trying to push the European Commission and the Council to do more. The jury is still out on the why and on the effects of this activism.

China as a Maker or Breaker

As the above analysis has shown, both EU–China relations and relations between mainland China and Taiwan act as key intervening variables in the EU's policy-making on Taiwan. For one, cross-Strait rapprochement – in particular the signing of the ECFA – has created a positive environment and more room for manoeuvre because of Beijing's consent to allow Taiwan's 'reasonable' participation in international organizations. In addition, the EU has made significant steps in its relationship with China, including the launch in November 2013 of EU–China negotiations on the Bilateral Investment Agreement. Brussels seems to have taken up the call 'to shift from a confrontational to a pragmatic trade policy with respect to China'¹⁴⁸ – a move that is also of importance for its relations with Taiwan. As one interlocutor succinctly put it, 'by opening talks with China first, the EU has already saved China's face – so now the move to Taiwan is open'.¹⁴⁹

Considering the important role played by China in EU–Taiwan relations, it is useful to recall that mainland China is also said to benefit economically from an EU–Taiwan trade agreement.¹⁵⁰ The 2008 study by Copenhagen Economics argues that growth of the Taiwanese economy as a result of EU–Taiwan trade-enhancement measures will benefit mainland China, even if Chinese exports to the EU will face more direct competition. Furthermore, China will also benefit from the further lifting of cross-Strait restrictions.

Even if two important preconditions for opening economic talks with Taiwan are met, the EU still has reason to act carefully. After all, Beijing has shown itself willing to flex its economic muscles for political purposes, especially where it concerns adherence to the 'One China' policy. China's response to any foreign government that receives the Dalai Lama illustrates this very clearly, although earlier precedents – including Taiwan's WTO accession and its economic accords with Japan and others – suggest that there is reason not to be too worried

146 European Parliament, 2014b.

147 Interviews with various EU officials, November–December 2014.

148 Messerlin, Lee-Makiyama and Krol, 2012.

149 Comment of a participant in the seminar 'Towards Greater EU–Taiwan Economic Cooperation?',

Clingendael Institute, The Hague, 10 December 2014.

150 Thelle *et al.*, 2008; and Thelle and Mekonnen, 2012, slide 11.

about China's response to the opening of trade talks with Taiwan. Importantly, as a way to assuage Beijing, the EU does need to be clear and consistent about its policies and the reasoning behind them.

Timing is also of fundamental importance. With BIA negotiations with China now well under way, Brussels seems open to the idea of negotiating an investment agreement with Taipei, although not necessarily also a full-fledged FTA. The EU is correct to take the prudent approach of advancing with China first, and talks on a trade agreement with China are simply not yet on the table.

So why have negotiations with Taiwan not started yet? Some at the EEAS argue that the main reasons for this are economic and that solutions lie in the hands of both the EU and Taiwan. The EU is clearly challenged because of ongoing talks with major trade partners, resulting in capacity constraints of its trade negotiators.¹⁵¹ The timing is thus not good, as the EU is in the process of negotiating two mega-deals – the Transatlantic Trade and Investment Treaty (TTIP) and the EU–Japan Economic Partnership Agreement (EPA). On the economic front, Taiwan is said 'not to have shown itself ready to conclude a full and high-quality investment agreement of the sort that the EU usually pursues'.¹⁵² This in turn suggests that the decision to open talks is largely political, and one that requires substantial financial and political investments from both sides, which the executive branches are at this time simply unwilling to make.

In the end, the decision to initiate talks on an economic agreement with Taiwan needs to be taken at the political level. Most importantly, this involves European Trade Commissioner Cecilia Malmström, European Commission President Jean-Claude Juncker and EU member states.¹⁵³ While Brussels itself is displaying a certain willingness to act, it obviously does not want to be seen as acting on its own – that is to say, an outspoken, positive stance by one or two EU member states is desirable, if not required. Looking at historical precedents, France may be in such a position and willing to do so. If history is any guide, little should be expected of the Dutch government in comparison with other EU member states. The Netherlands may be taking a prudent approach in its relations with Taiwan for reasons that date back to the submarine affair of 1981. This means that the Netherlands is unlikely to be an early-mover in deepening EU–Taiwan ties out of consideration for Chinese sensitivities. However, the Dutch government is in a position to support initiatives undertaken by other EU member states. For their part, the European Parliament and EU member states' national parliaments are contributing to a more favourable context for opening talks with Taiwan.

What Paths Ahead?

The EU and its member states thus face a complex set of push-and-pull issues when contemplating whether and how to deepen economic relations with Taiwan. The expected direct and indirect economic benefits are the first key consideration. While these appear to be substantial, they are not yet beyond any doubt. A variety of second-tier political motivations, which are related to timing and the EU's foreign policy and diplomacy in East Asia more broadly, could make up for such doubts. Finally, the political nature of the decision to open

151 Interviews with various EU officials; and European Parliament, 2013b, esp. p. 17.

152 Interviews with various EU officials; and European Parliament, 2013b, esp. p. 17.

153 Telephone interview with a Commission official, 1 December 2014.

talks is a challenge, and even if Brussels appears to be more open to talks, EU capitals remain reluctant to promote action. Last but not least, trade negotiators in Brussels are already stretched by ongoing trade talks, especially with the United States, as well as with Japan. At the same time, the EU has reason to invest now if it wants to remain the economic and standard-setting powerhouse that it is today.

Policy-makers who worry that any move towards opening trade talks with Taiwan will upset political and economic relations with China should note that Taiwan in recent years has successfully concluded economic agreements with a range of countries – including some that do not recognize it diplomatically. These include Japan, New Zealand and Singapore, while negotiations with the United States have been under way for several years now. At the same time, policy-makers need to consider recent political change in Taiwan and in mainland China – that is, a hardening of stances on both sides. They should also take note of the recent comment by China's ambassador to Malaysia on a potential Taiwan–Malaysia deal, which seems to confirm that other parties should have a trade agreement and good relations with China before proceeding on economic talks with Taiwan, but – alternatively – could suggest that Beijing's thinking may be evolving because of the delay in the CSSTA.

Finally, the fact that Brussels is now negotiating a BIA with Beijing acts as an important enabler for EU–Taiwan talks, essentially creating room to initiate similar talks with Taipei. Talks on sectoral agreements could follow, even if the discussion above also suggests that talks on a full-fledged trade agreement with Taiwan should wait until these have also been initiated with China.

This raises the issue of whether the EU and Taiwan should in the future aspire to a 'block-building' approach,¹⁵⁴ or alternatively should wait until a comprehensive trade agreement can be negotiated. To be sure, the 'block-building' has enabled Taiwan to conclude a significant number of specific arrangements and memoranda with Japan, without either side suffering consequential setbacks in their relations with China. This approach could thus be a viable option for the EU's trade diplomacy with Taiwan. Considering the fact that EU–Taiwan relations currently comprise annual consultations and regular exchanges in specific sectors such as research and technology, information, investment, and education and culture, negotiating specific arrangements with Taiwan in such sectors would be a feasible way to enhance EU–Taiwan cooperation. On the other hand, there are clear arguments against a block-building approach, which is a cumbersome process that requires more negotiations than a comprehensive agreement, and makes it difficult for either side to exchange concessions on products in different sectors. Furthermore, earlier research found that EU member states stand to benefit only from broad and comprehensive trade liberalization, given the diversity of sectoral gains.¹⁵⁵ These are arguments for a full-fledged Economic Partnership Agreement (EPA), of the sort that Singapore and New Zealand have with Taiwan. While it is certainly too soon to undertake action in either direction, it is in the EU's benefit to consider where its interests lie.

154 For more on this, see Ministry of Economic Affairs of Taiwan, 2014.

155 Krol and Lee-Makiyama, 2012, p. 10.

5. Conclusion

By the standards that the EU has set for itself, Taiwan – which is the Asia-Pacific region's fourth most competitive economy according to the World Economic Forum and the EU's seventh largest trading partner in Asia – should be high on Brussels' wish list of partners with which to negotiate trade liberalization deals. This is all the more the case since the EU inked its first free-trade agreement in Asia with South Korea back in 2011, and is negotiating economic deals with other countries in the region, including Japan, India, Malaysia, Vietnam and, of course, China.

A key reason why negotiations with Taiwan have not started relates to mainland China, which is extremely sensitive about Taiwan's international manoeuvring. While the EU and its member states thus have reason to be cautious, this report's findings suggest that they need not be excessively worried. What is more, improvements in cross-Strait relations and Taiwan's economic accords with other countries that do not recognize it diplomatically suggest that the EU is losing out both economically and politically by not responding positively to Taiwanese calls to initiate economic talks. Importantly, such talks should move on a par with EU-China talks – meaning that for now, they should address investment talks, while talks on a more comprehensive deal could follow later.

The potential gains of negotiating an economic agreement with Taiwan should be sought first of all in the EU-Taiwan economic relationship. While the jury is still out on the exact economic benefits of an accord – including the existing barriers to trade that it is supposed to undo and the possibilities for European companies to use Taiwan as a hub – there should be little doubt that both sides stand to gain from an economic agreement. This includes elevating existing levels of trade and investment between the EU and Taiwan, delivering growth and jobs in the Union. Furthermore, European consumers stand to gain from enhanced competition between Taiwan and South Korea for the European market. Finally, European investors in Taiwan can reap the opportunities not just from being close to Taiwan's domestic market, but also from Taiwan's industrial landscape and its proximity to mainland China.

Supplementing economic motivations, closer EU-Taiwan economic cooperation should also be considered for political and normative reasons. One such reason is to help restore the level playing field, as Taiwan is losing out in the EU to competitors – in particular from South Korea and soon from Japan as well – that do have an agreement with the EU in place. An economic accord to help Taiwan would also create a positive environment for increased Taiwanese investment in Europe, which is desirable to spur growth and jobs. Separately, one strategic reason for the EU to initiate talks with Taiwan now that negotiations with China are under way is the prospect of gaining more concessions from both parties, which could bring both accords to a higher level. Third, the EU and its member states have an interest in furthering regional cooperation and maintaining regional stability – that is to say, to maintain the status quo in cross-Strait relations. Finally, there is value for the EU and its member states in recognizing the symbolically important role of Taiwan as an open, rules-based economic and democratic system. This means rewarding Taiwan for the significant process throughout recent decades with regard to its political system, the rule of law and human rights. In addition, the movements for democracy – such as the Sunflower Movement in Taiwan –

should have the EU thinking about its own role and responsibility as a self-proclaimed normative actor.

If the EU and its member states are thus true to the norms that they have set for themselves and others, there is ample reason for the EU to assist Taiwan in maintaining its economic competitiveness. European governments and businesses would be wise to make better use of the opportunities that exist to strengthen economic ties between the EU and Taiwan. These include taking a closer look at cross-Strait developments, at precedents of Taipei's economic negotiations with others, and thinking through seriously the EU's role as a promoter of self-proclaimed European values and norms.

Final Reflections and Policy Implications

The deepening of cross-Strait economic relations – based on the ECFA and subsequent economic agreements between mainland China and Taiwan – constitutes one important driver for strengthened relations between the EU and Taiwan. The staggering defeat of the ruling KMT in Taiwan's local elections of November 2014, however, suggests that the window of opportunity to initiate negotiations on an EU-Taiwan investment agreement may be narrowing. After all, it is the opening – as well as closing – of talks that is particularly politically sensitive. This may be to the EU's benefit, however, in the sense that Brussels stands to gain strategically if it acts now. After all, Taipei is more likely to act now – because the window of opportunity is still open – to address calls for regulatory reform seriously, as long desired by European businesses. In this regard, improved articulation by both the European and Taiwanese sides of the existing barriers to trade and investment for businesses would be meaningful.

Timing is also of importance in relation to the recent statement from the Chinese ambassador to Malaysia against a Taiwan-Malaysia deal, which could suggest that Beijing's approach is evolving because of the recent set-back in the post-ECFA process – that is, the delay in Taiwan's ratification of the services agreement. With more certainty, however, it can be said that the Chinese ambassador's remark confirms China's stance that third parties should have deals in place with China before negotiating with Taiwan, and should also refrain from any move that suggests recognition of Taiwan as a sovereign entity.

Importantly, mainland China in recent years has not obstructed the conclusion of economic deals by Taiwan with Singapore, New Zealand, Japan and several Latin American countries, while negotiations with the United States have stalled. At the same time, Taipei is working formally to gain Beijing's consent to join regional cooperative efforts in East Asia and potentially also to link with countries and regions elsewhere. These precedents and agreed principles between Taipei and Beijing should serve as a guide to policy officials in Brussels and other EU capitals that now appear to be overly sensitive to Beijing. Thus, while the 'red lines' imposed by the 'One China' policy are real, these should not be entrenched by making economic relations with China too much of a political issue.

The opening of talks on an EU-Taiwan trade accord fit well with the broader trend in trade diplomacy and in EU-Asia relations of recent years. The EU has shown increasing activism in negotiating preferential trade agreements with third parties, and at the same time has displayed growing preparedness to engage with the Asia-Pacific region more extensively on both economic and political matters. This goes also for the EU's relations with Taiwan, to the extent that annual consultations have intensified in recent years, thus serving to illustrate that

EU-Taiwan relations can and do evolve, even within the constraints of the 'One China' policy. A next step may now be warranted, particularly because external preconditions have been met – including the fact that the EU and China have been negotiating a Bilateral Investment Agreement for some time now. Talks on sectoral trade accords or a more comprehensive deal may be considered in due time, if and when EU-China talks move in that same direction.

In this context, it is notable that several interlocutors also pointed out that the EU has reason to be more confident in its negotiations with China, also in its bilateral BIA negotiations. More than a few even highlighted the point that the EU should demand reciprocity from China – that is, be brave enough to set demands in negotiations, for example. While China may have little to gain from an FTA with the EU under current market conditions – which are very forthcoming to third countries, including China – Beijing should be wary of the possibility that the EU market may be less welcoming of foreign investment, especially from state-owned enterprises.

While the Netherlands is unlikely to take the lead in this process – for historical reasons dating back to the submarine affair of 1981 – the Dutch government is in a position to support initiatives that are undertaken by other EU member states. This report's findings suggest that the Dutch national government has reason to take a closer look at Taiwan's relations with other countries and entities, as well as at the policies of some cities at the local level. This would provide guidance on how to add some flexibility in its relations with both mainland China and Taiwan. That means exploring the room for manoeuvre in its policies towards both sides across the Strait and supporting initiatives by other EU member states to strengthen economic ties with Taiwan.

Turning from trade diplomacy to commercial diplomacy, the often-heard call from local governments and businesses is to ensure that staff at representations abroad, including in Taiwan, are well informed and up-to-date about both the home and local economy. This means daring to make choices – such as on which industries to prioritize and on where to cluster them – and being able to act swiftly, for example on start-ups. In this context, it should be taken as a promising sign that the Netherlands Enterprise Agency is already strengthening its presence in Taiwan.

Many Dutch companies still disregard Taiwan as a business partner, in part because of fixed assumptions of the political issues that might hinder commercial dealings with the island. It has been noted that when it comes to doing business with Taiwan, companies often have no grasp of the range of possibilities and that they lack sound business strategies. Various levels of government can play a crucial role in breaking this cycle, by informing and supporting entrepreneurs and companies that are interested in doing business with Taiwan more proactively and strategically.

The Taiwanese government, in turn, would do well to make a more compelling case as to why Taiwan is attractive as a regional hub for Dutch and other European firms in particular. More than a few policy-makers at the local, national and EU levels are open to the idea of Taiwan as a hub and of the need to invest in negotiating EU-Taiwan economic agreements, but remain to be convinced. This goes for economic agreements, as well as the potential of Taiwan as a hub for European businesses' economic activities in China. More specifically, European companies would benefit from a strengthened position and improved practice of Taiwan's trade and investment promotion agencies. These are said to be rather weak at present, while

there is reason to make sure that they play a positive role in finding the right partners for European companies.

Finally, European trade promotion agencies, as well as the private sector, would benefit from more transparent and detailed information about Taiwan's industrial policy. In particular, which sectors are prioritized and to what extent/under what conditions can foreign parties participate in joint ventures? Such knowledge will help their assessment of market potential and thereby strengthen the ability to move quickly.

Chronology of Events: EU–Taiwan and EU–China Relations

1949		Separation of the People's Republic of China (PRC) and the Republic of China (ROC)
1950–1951		Switzerland, the Netherlands, Liechtenstein and the Scandinavian states recognize the PRC, but maintain unofficial relations with the ROC
1961		The ROC seeks diplomatic relations with the European Community
mid-1960s		European countries start direct investments into Taiwan
1971		The PRC is admitted to the UN
1972		Sino-US rapprochement
1975		The EEC establishes diplomatic ties with the PRC; the ROC is cut off formally and informally – no working relations, thus no development assistance
1975		All European states now recognize the PRC
1979		The US de-recognizes the ROC
1981		Belgian private firms and their Taiwanese counterparts set up a bilateral commission to promote economic cooperation
1981		First arms deal with the ROC: the Netherlands sells submarines
1981	Dec	The EEC initiates informal talks with the ROC on economic issues of relatively minor importance, leaving big problems unresolved, such as tariffs and NTBs to trade
1983		Direct air link established between the Netherlands and Taiwan
1985		The European Parliament adopts a 'Resolution on Trade with Taiwan' and calls for stronger relations
1988		ROC authorities allow direct trading with Eastern and Central European states
1988		Eleven West European states have by this time institutionalized relations with the ROC (along the lines of the 'Japanese formula')
1989		Tiananmen Square protest, sparking a shift in international opinion against the PRC
1989		France upgrades its mission in Taipei to the French Institute in Taipei, making it a de facto embassy
1991		Direct air link established between Taiwan and Austria
1991		Association of Friends of Taiwan formed in the European Parliament
1992		France sells 60 fighter jets to the ROC
1992	May	EC Vice-President Martin Bangemann visits ROC for the first time
1992	Sep	GATT working party was established to consider entry of the ROC
1993		Direct air links established between Taiwan and the UK, Germany and France
1993		The ROC launches a campaign to return to the UN
1995		Italy signs a direct flight accord with the ROC

1995–1996		Third Taiwan Strait Crisis; PRC stages missile testing
1996		Belarus reaches an agreement with Taipei on the opening of Taiwanese representative offices in Minsk
1996		The European Parliament issues three resolutions, all calling on the PRC not to carry out any aggressive acts against Taiwan
1998	Jul	EU–Taiwan agreement on WTO accession is signed; first significant and official agreement between the EU/EC and Taiwan
2001	Dec	The PRC enters the WTO
2002	Jan	The ROC enters the WTO as a customs territory
2002		Fourteen West European parliaments have by now established ‘Taiwan friendship groups’
2003	Mar	The EU establishes the EETO in Taipei following the ROC’s WTO accession
2006		The European Commission launches the Global Europe strategy, including an ambitious plan to conclude a new generation of FTAs with Asian markets
2008	Sep 19	The EU reiterates the ‘One China’ policy; welcoming the efforts undertaken by the PRC and ROC to improve cross-Strait relations; and reiterating support to Taiwan’s participation in specialized multilateral forums
2010	Jun 30	EU High Representative Catherine Ashton welcomes the concrete steps taken at the fifth round of cross-Strait talks, which resulted in the signing of the cross-Strait ECFA
2010		Jul 5–7 Second Trade Policy Review (TPR) of Taiwan by the WTO Trade Policy Review Body
2010	Nov 25	The European Council approves an amendment to Regulation (EC) No 539/2001, which makes it possible for holders of a Taiwanese passport to travel to and throughout the Schengen area without a visa
2011	May 11	The European Parliament says it ‘strongly supports’ the enhancement of EU–Taiwan economic ties and the signing of an EU–Taiwan ECA in its annual report on the Common Foreign and Security Policy
	Jun 16	Hans van Baalen tells <i>China News Network</i> that he considered an FTA between the EU and Taiwan viable within the next two years
	Jul 20	Frédéric Laplanche takes up the post of Head of EETO in Taipei
2012	Jan 14	Catherine Ashton issues a statement welcoming the elections held in Taiwan and the improvements in cross-Strait relations over the preceding four years
	Jun 15	The EU revises its Guidelines on the EU’s Foreign and Security Policy in East Asia
	Aug	The Second EU–Taiwan Judicial Exchange on Human Rights takes place in Taipei and Tainan
	Sep 20	Mayors from across the EU and China sign an agreement on promoting sustainable cities at the first EU–China Mayors’ Forum, held at the Committee of Regions
	Sep 25	Catherine Ashton issues a declaration in which she expresses the EU’s concern regarding rising tensions in East Asia’s maritime areas
2013	Jan 16	The EETO, Department of Investment Services, Taiwan Institute of Economic Research and CIER hold the EU–Taiwan Academic Forum on Investment in Taipei
	Oct 9	The European Parliament passes a resolution on EU–Taiwan trade

- 2014
- The ROC and PRC begin substantive discussions on joint research on cross-Strait economic cooperation and regional integration participation (Feb–June–Nov)
- April 9 Several Dutch MPs raise questions on strengthening Dutch–Taiwanese trade relations in the political debate on China in the Dutch Parliament’s Foreign Affairs Committee
- May 15 Frédéric Laplanche says the EU is likely to consider a BIA with Taiwan ‘in due course’
- Aug MOEA of ROC welcomes 28 European Commission officials to exchange views on future educational and academic cooperation possibilities
- Sep 2 Ma Ying-jeou states his support for Hong Kong’s quest for universal suffrage at a KMT party meeting
- Sep 4 The EETO and European Business Regulatory Cooperation host a field of distinguished micro- and nano-electronics experts at its Silicon Europe Taiwan Day Forum
- Sep 10 The PRC and ROC reopen talks on a merchandise trade pact after negotiations had been shelved for ten months because of controversy over a trade-in-services pact that the two sides had signed in June 2013
- Sep 29 EU Trade Commissioner-designate Cecilia Malmström in the European Parliament suggests that a bilateral economic agreement with Taiwan may be pursued after the EU–China agreement is concluded
- Nov 19 A Dutch MP raises questions on strengthening Dutch–Taiwanese trade relations
- 2015 Jan The Mainland Affairs Council (ROC) and Taiwan Affairs Office (PRC) commence communication in Beijing on joint research preparations for cross-Strait economic cooperation and regional integration participation

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