

The Influence of Cross-Strait Service Trade Agreement on Taiwan's Fastener Industry

by Wayne Sung

CSSTA (Cross-Strait Service Trade Agreement) is based on the structure of ECFA (Economic Cooperation Framework Agreement) and WTO's GATS (General Agreement on Trade in Services). It is a 24-article agreement negotiated between Straits Exchange Foundation and Association for Relations Across the Taiwan Straits, and was finally signed in Shanghai on June 21, 2013. It also comes with two appendices, one is "Schedules of Specific Commitments on Trade in Services", and the other is "Specific Provisions of Service Suppliers". On March 18, the so-called Sunflower Student Protest was triggered by the Legislative Yuan's controversial deliberation on CSSTA conducted in the same month. The protest drew the world's attention to Taiwan, making the public rethink and inspect CSSTA in different perspectives.

I once pointed out in the article "The Impact of Global Regional Economic Integration on Taiwan's Fastener Industry" (Fastener World Magazine #143, Nov. 2013), that under Taiwan's shallow-dish economy, maintaining long-term competitive advantages for products exported is a more effective way to improve the nation's economic momentum. As Taiwan's main trading partners are not its diplomatic allies, issues surrounding the contracting parties and signatory representatives have to be discussed first. Besides, at the moment Mainland China's mindset will be the critical and definitive factor. Without surprise, after signing CSSTA with China on June 21 of 2013, Taiwan signed ASTEP (Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership) with Singapore successfully on April 19 of 2014, which is regarded as a significant advancement in Taiwan's global allocation of FTA (Free Trade Agreement).

According to Ministry of Economic Affairs (Taiwan), Singapore is the 5th largest trading partner and the 4th largest export destination of Taiwan, and in 2013 the trading value between Taiwan and Singapore reached USD 28.1 billion. According to an official analysis from Taiwan, when ASTEP takes effect and completes its 15-year term, Taiwan's GDP will grow USD 701 million, and the total production value will grow NTD 42.1 billion with 6,154 job opportunities, which is a great help in boosting Taiwan's overall economic development. ASTEP is expected to effectively assist Taiwanese fastener industry in attaining fair competition in expanding business in Southeast Asian markets. So far, excluding Singapore and New Zealand, Taiwan has not established any bi-lateral FTA or official diplomatic alliance with members of TPP (Trans-Pacific Strategic Economic Partnership Agreement) and RCEP (Regional Comprehensive Economic Partnership). This will cast challenges to Taiwan when it starts to negotiate with potential partners on a whole new basis in the future. Particularly coupled with the intricate political and economic relationship between Taiwan and China, if Taiwan's internal communication cannot function well to cope with the impact brought by CSSTA, this will mean more difficulties in joining TPP and RCEP. For several years in the past, Taiwan has been able to provide excellent products at prices lower than the international levels by reducing costs with the vertically integrated production line. Taiwan's fastener industry proves to be the leader in domestic industries with its high export proportion, but if it cannot obtain the zero-tariff advantage as those attained by other competitors, it will gradually lose advantages and international competitiveness. That is a worrisome prospect.

According to the data about Taiwanese SMEs in 2012, Taiwan has 1,306,729 SMEs, and those in the manufacturing sector account for 19.07% while those in the service sector account for 80.02%. In terms of SME production value, the manufacturing sector takes 50.13%, and the service sector takes 49.63%. Regarding SME export value, the manufacturing sector takes 74.82%, and the service sector takes 25.08%. Although SMEs in the manufacturing sector only account for 19.07% of the total number of SMEs, their export value is as high as 74.82%. Statistics show that Taiwan's export and foreign exchange focus on industrial products. Excluding some of the fastener traders, for the most part of Taiwanese fastener industry belongs to the manufacturing sector and is based on export. The table below is the statistics of Taiwanese fastener export from 2012 to 2013, shown by HS7317, 7318, and 7415. In this table we see the export value of Taiwan's fastener export reaches as high as USD 3.7 to 3.8 billion, which signifies the importance of export for Taiwanese fastener industry, which highly relies on foreign trade. Given the current trend of global regional economy integration, to avoid unfair tariff or non-tariff barriers that weaken Taiwan's competitiveness in fastener quality, the industry should properly utilize the advantages of ECFA, support the government to sign agreements on economic and trading investment, make an effort to attain preferential tariffs, create export niches, promote domestic investment, and increase labor employment.

Regarding the 24 articles and two appendices of CSSTA, I think the first appendix "Schedules of Specific Commitments on Trade in Services" is where the controversy is aroused. The enclosed "Commitment of Taiwanese Non-financial Service Sectors" lists various industries in the service sector and corresponding details of commitment for free



Taiwanese fastener export from 2012 to 2013

(Unit: USD)

HS Code	2012	2013
7317 Steel & Iron Nails, etc.	142,570,599	124,035,870
7318 Steel & Iron Screws, Nuts, etc.	3,586,618,369	3,679,741,858
7415 Copper Screws, Nuts, etc.	55,674,086	61,584,352
Total	3,784,863,054	3,865,362,080

trade. This list is what most people are questioning among the Taiwanese service sector. The government should communicate with involved industries, go through each and every part of the appendix with them, and elaborate to them on the government's reactions to offset the impact. If the government can reach the public consensus, the whole nation can start to work together for the entire economic development.

The appendix "Commitment of Taiwanese Non-financial Service Sectors" has its positive function in improving Taiwanese fastener industry. An example is the technical inspection and analysis industry (CPC8676) that involves automobiles, machinery, electrical engineering, electronics, chemical engineering, measurement, alcoholic products, and environmental inspection. The appendix states, "The agreement allows bilateral service providers to set up business operations in China and Taiwan in the form of proprietorship, joint venture, partnership, and franchise, and provide with technical inspection and analytical service. Based on mutual trust and mutual benefits, the agreement allows China's and Taiwan's testing and certification bodies to share and collaborate on mutual test figures."

Taiwan's fastener industry stands a good chance in automobiles, machinery, electrical engineering, and electronics which use lots of fasteners. In the 21st century, China has transformed from a "world factory" into a "world market" and has become one of the regions with the largest fastener demand. If testing and certification bodies can be established in both China and Taiwan, Taiwanese fastener industry can effectively reduce the cost and time for testing and certification. Taiwan's Executive Yuan explains in its report "Evaluating the influence of CSSTA on Taiwan's overall economy and sectors", that China will provide more specific protective measures for Taiwanese companies which are often regarded as foreign entities and which are often subject to different extent of restrictions. One measure is to allow Taiwanese companies, which have set up inspection bases in China, to offer trade and local inspection service. Another measure is to allow Taiwanese companies to share the same qualification with China's bodies when Taiwanese companies go through China Compulsory Certification or apply for inspection and certification voluntarily. Taiwan and China can cooperate on inspection



activities (including China Compulsory Certification), so that Taiwan can finish inspection at home before exporting products to China, expand business opportunities for Taiwanese inspection industry, and reduce the inspection cost for manufacturers that have to meet China's regulations. This is a benefit to the fastener industry of Taiwan. Through the inter-connection of CSSTA, Taiwan's certificates and inspection reports will be granted and recognized by China, and Taiwanese fastener makers can utilize this advantage to supply the vast demand for high quality fasteners in China.

Taiwan must be active to join the world and its fastener industry must continuously expand overseas sales to survive. As a result, it has to understand GATS, which is the treaty of liberalizing local service sector among WTO members. The range of the service sector is so vast that almost all service industries are included by GATS. The goal of the treaty is to eliminate all trade restrictions, and every nation has to fully open its market for global competitors. The goal of GATS is to progressively liberalize global trade in the service sector and foster global economic growth and development. As different members have different economic developments and different extent of service sector liberalization, GATS does not require every member to open up its service sector in a unanimous extent, but it regulates that members will be reviewed for the level of liberation to ensure their service sectors head for liberalized trade. GATS also requires all members to submit a list of commitment regarding the liberalization of service sector, and after negotiation and determination the list becomes the obligation for each member. The Marrakesh Agreement establishing the World Trade Organization states in article XVI that "Each Member shall ensure the conformity of its laws, regulations and administrative procedures with its obligations as provided in the annexed Agreements."

Although Taiwanese fastener industry belongs to the manufacturing sector and "seems to" have nothing to do with the service sector, it still needs foreign export markets. The territory of international trade includes product trading, shipping, insurance, financial service, product inspection and certification, all of which belong to the service sector. Strictly speaking, no industry can do without the service sector. Under the structure of GATS and ECFA, the signing of CSSTA is necessary, considering the long-term competitiveness of Taiwanese fastener industry. No doubt partial impact is inevitable to the Taiwanese service industries involved in the first appendix of CSSTA. That is why Taiwanese government should immediately communicate with the public regarding the first appendix, minimize public worries, articulate what the government will do to cope with the influence on the service sector, and earn public support to expand business altogether in the global trade market. ■