

**Assessment of the Impact of
Direct Cross-Strait Transportation**

(Draft)

**Related Agencies
of
The Executive Yuan**

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Foreword

Since the government brought cross-strait economy and trade into formal regulation in 1991, the problems of “direct transportation” and the “three links” have been a focus of attention for all sections of domestic society as well as the international community. On September 13, 1992, the Mainland Affairs Council (MAC) released its report on “The Issues and Prospects of Direct Cross-Strait Transportation” (subsequently amended twice, in October 1992 and May 1994), to provide an analysis and explanation of the issues related to “direct transportation”. However, during the past decade, the economic situation at home and abroad has undergone rapid changes, and the cross-strait trade and economic relationship has taken on new aspects that have made the issues of “direct transportation” even more the focus of attention. After the transfer of political power in Taiwan, the government took into account the new situation created by the trend toward globalization and the entry of Taiwan and the PRC into the World Trade Organization (WTO), and accordingly took a more aggressively pragmatic attitude to handling cross-strait trade and economic policy and such issues as those related to “direct transportation”. On the basis of the consensus reached on the issues of “Entry to the WTO and the Cross-Strait ‘Three Links’” at the Economic Development Advisory Conference (EDAC) in August 2001 as well as the conclusions of the Tahsi Conference in August 2002 concerning “direct transportation”, the MAC was instructed to work with the Ministry of Transportation and Communications, the Ministry of Defense, the Ministry of Economic Affairs, the Council for Economic Planning and Development, and other related agencies, in continuing to carry out impact assessment and planning work on cross-strait “direct transportation”, and on November 30, 2002 completed the preliminary draft report on the “Assessment of the Impact of Direct Cross-Strait Transportation”. After holding further cross-ministerial talks and soliciting opinions from relevant quarters, the MAC has duly completed the report’s amendment and administrative procedures.

The purpose of carrying out this assessment is to make an objective presentation of the pros and cons of “direct transportation” so that all sections of society can more clearly recognize and understand the complex problems that it involves, and with a view to gathering a broader consensus concerning its economic, social, political, national security, and other impacts and repercussions, so that the whole of society can take a common stand in handling the issue of “direct transportation” and its related problems.

Direct cross-strait transportation would produce substantial changes in the network of economic exchanges and functions between Taiwan and mainland China. It would radically transform cross-strait flows of goods, people, capital, technology, and

information, business investment and industrial development, people's living and consumption patterns, and so on, and would thus exert a profound and extensive impact on all areas of Taiwan's national life, including politics, society, national defense, and cross-strait relations. Going as far as possible to bring all major related problems within the scope of its assessment, the report not only assesses the economic impact, national security implications, and technical aspects of "direct transportation", but also analyzes and explains the key questions to be taken into consideration in its implementation, as well as the direction that needs to be taken and preparatory efforts that need to be made. In view of the extensive scope of the assessment and the complexity of the matters involved, to enable readers to more easily digest its contents and better grasp the overall picture, the report is presented in itemized form with explanations of main points, omitting the fine details and parts that are not suitable for open disclosure.

The completion and release of this report demonstrates the government's prudent and responsible attitude toward "direct transportation", the "three links", and other such issues. The provision of this objective analysis of the pertinent pros and cons can create more room for rational debate and spur the pooling of wise, considered, and helpful opinions on how to handle and solve the related problems. The conclusions of the assessment also should help the government to more carefully and thoroughly carry out its planning and preparatory work for "direct transportation", so that its handling of related issues can be guided along a proper course that matches Taiwan's overall national interests and the welfare of all its people.

From the standpoint of cross-strait relations, this report clearly demonstrates that one of the keys for the implementation of "direct transportation" lies in whether there can be an improvement in cross-strait interaction. We hope that the authorities in Beijing can take an undistorted view of the majority opinion of the people of Taiwan, understand the impediments to the implementation of "direct transportation", and demonstrate a higher degree of goodwill and sincerity, so that through mutual recognition, mutual understanding, mutual respect, and mutual cooperation, we can together address and solve the problems of "direct transportation" and related matters, and open a new phase of peace and stability in cross-strait relations.

1. The Relationship between the “Three Links” and “Direct Transportation”

(1) The “Three Links” as Equated to the Normalization of Cross-Strait Economic and Trade Relations

In its narrow sense, what is generally referred to as the “three links”, namely direct trade, transportation, and postal (communication) links, simply refers to direct trade, direct post and communications, and direct sea and air transportation. But in its broad sense, it also encompasses trade-related activities conducted under World Trade Organization (WTO) rules, including market-opening for industrial goods, agricultural products, and services, as well as related interflows of people, capital, information, shipping, and so on. In this broad sense, it can be considered as equivalent to the normalization of cross-strait economic and trade relations.

(2) “Direct Transportation” as a Catalyst for the “Three Links”

“Direct transportation” is the most complex of the “three links” and presents the greatest difficulties for the conduct of negotiations. If the two sides of the Taiwan Strait fully implement “direct transportation”, then difficulties involved in the negotiation of other aspects of the “three links” might also need to be dealt with and resolved across the board, thus making it a catalyst for the full implementation of the “three links”. Consequently, assessment of cross-strait “direct transportation” must also incorporate a complete assessment of the full scope of the impact that a breakthrough on this front would have on the “three links” as a whole.

2. Assessment of the Economic Impact of “Direct Transportation”

(1) Impact on Shipping Costs

- a. It is estimated that the opening of direct sea transportation would result in a reduction of shipping costs amounting to NT\$820 million per year (estimates vary between NT\$800 million and NT\$1.2 billion). It would also cut shipping times by about one half (bypassing Ishigaki Island could save an estimated 16 to 27 hours per voyage).
- b. It is estimated that the opening of direct air transportation would reduce air passengers’ travel costs by about NT\$13.2 billion per year (as implemented with multiple departure and arrival points), and reduce their travel time by a

total of 8.6 million hours. It would also yield annual savings of about NT\$810 million in the cost of transporting goods by air, and cut shipping time by a total of 260,000 ton-hours. (Because of variation in the postulated conditions for the opening of direct air transportation, cost estimates vary substantially.)

- c. For individual enterprises, it is estimated that direct sea and air transportation would reduce shipping costs by around 15% to 30%. Also, the shortening of shipping times would enable the reduction of product inventories and the enhancement of production efficiency, which would help to reduce overall operating costs.
- d. The benefits of “direct transportation” would be more substantial for air carriers and more limited for sea carriers.
- e. In terms of its potential economic benefits, by reducing shipping costs and shortening shipping times, “direct transportation” could greatly enhance the efficiency of goods distribution, increase freight volume at seaports and airports, and increase value-added activities in adjacent and connected areas.

(2) Impact on Taiwan’s Transportation Status

a. Sea Carriage

(a) Taiwan is located in a geographically strategic position and possesses excellent natural deep-water harbors. It enjoys significant competitive advantages and plays a major role in Asian sea transportation. But as Taiwan’s economy is undergoing a transition, with much of its goods manufacturing industry gradually relocating offshore, port and shipping operators need to develop entrepot activities in order to enhance their competitiveness. Given that mainland China is currently the source of one third of Asia’s freight traffic, direct sea transportation would certainly be beneficial to securing Taiwan’s position as a regional shipping hub.

(b) To maintain and enhance their competitiveness, international ports need to entice international shipping companies and foreign vessels (especially main line vessels) to operate in and call at their ports. That choice of ports will depend upon port operating costs, freight supply volume, and the extent of operational restrictions.

Compared with other ports in the Asia-Pacific region, Taiwan's ports have high operating efficiency, low costs, and a sure supply of cargo. If restrictions on "direct transportation" could be removed, it could strengthen international shipping firms' willingness to operate in Taiwan's ports and could also lessen the potential impact on Taiwan's shipping status after the completion of Shanghai's new deep-water port on Big and Little Yangshan Islands in 2005.

- (c) "Direct transportation" could stem the tide of Taiwan's shipping firms switching to foreign-flag registration of their vessels, and thereby halt the continuing shrinkage of Taiwan's merchant fleets as well as bolster the long-term cultivation of Taiwan's own-nationality merchant mariners.
- (d) The Beijing government's definition of and strict controls on cross-strait shipping greatly limit the benefits to be gained from "direct transportation", and constitute a problem that must be faced up to and dealt with in the implementation of "direct transportation".

b. Air Carriage

- (a) Taiwan enjoys an outstanding geographic location, occupying a pivotal position on air routes between Asia and North America. In particular, it possesses evident advantages in the area of air-cargo transportation. If direct air transportation could be implemented, Taiwan should have the potential to develop into an Asia-Pacific hub for transit of air cargo and passengers.
- (b) From the standpoint of responding to industry's global positioning, given Taiwan firms' finely interwoven network of trade links and production bases around the world and especially in the Asia-Pacific region and mainland China, direct air transportation would help those firms grasp commercial opportunities in goods sourcing and travel, and would further consolidate Taiwan's position in international air transportation.
- (c) Whether Taiwan can enhance its position in air transportation and become a regional air hub must depend to a certain extent on international carriers being able to use it as a relay station for flights into and out of Asia. However, this involves not only being able to provide attractive conditions in Taiwan, but also the negotiation of

international air traffic rights and Beijing's definition of cross-strait air routes, and therefore could not be resolved by "direct transportation" alone.

(3) Macroeconomic Impact

- a. The macroeconomic impact of "direct transportation" would have both upside and downside. From the perspective of simple economic analysis, it would reduce transportation distances, shorten transportation times, and lower costs. It could also be beneficial to the efficiency of business operations and overall utilization of resources. In these respects, according to the rules of free market operations, it should have a positive economic impact. However, because of the differences between the two sides' systems and economic scales, as well as Beijing's political interference and other such matters, cross-strait economic problems are beset by imbalances and uncertainties, making simple market rules and normal economic assessment inapplicable. If, after opening "direct transportation" and related trade and economic contacts, the imbalances cannot be corrected and the uncertainties cannot be removed, then the impact on domestic industry is very likely to be exacerbated, with a speedup in the outflow of capital, technology and human resources to the mainland, resulting in slower economic growth and rising unemployment.
- b. The economic benefits of "direct transportation" would include:
 - (a) In the short term, the direct benefits would be reflected in a lowering of goods shipment and personnel travel costs together with a rise in business operation efficiency. It would also have indirect benefits in terms of having a positive effect on improving cross-strait relations as well as in exerting some stimulus effect on domestic financial markets.
 - (b) In the medium to long term, "direct transportation" and the "three links" could enhance efficiency in resource deployment and utilization, boost the cross-strait division of labor in industry, and expand bilateral trade.
- c. The possible negative impacts of "direct transportation" and the "three links" would include:

- (a) A larger influx of imports from mainland China and the backflow of goods manufactured by Taiwanese firms in the mainland, which could deal a heavy blow to domestic industry, cause factory closures and higher unemployment, and generate deflation in Taiwan.
 - (b) Increased Taiwanese business investment in mainland China could exacerbate the lopsidedness of capital flow into the mainland, drain industrial technology and high-tech personnel from Taiwan to the mainland, further squeeze out domestic investment, and slow down industrial upgrading.
 - (c) Increases in travel, consumption and purchase of real estate in mainland China by Taiwanese could result in falls in domestic consumption and real estate prices in Taiwan.
 - (d) If the aforementioned negative impacts could not be prevented, it would lead to a long-term slowdown in domestic economic growth and a continued worsening of the unemployment problem.
- d. Macroeconomic models used by academic institutions to simulate the economic impact of “direct transportation” have mostly yielded positive results. (For example, a number of recent domestic research reports have found that “direct transportation” could increase GDP by 0.03 to 0.04 percentage point within the first year, and by 0.4 to 1.19 percentage points in the long term.) But as such projections are founded upon premises that differ markedly from actual circumstances, they can only be considered as a kind of ideal scenario. Also, if assessment is made on the basis of complete market opening to imports from the mainland (which is one part of the broad meaning of the “three links”), the economic impact would be more on the negative side (one academic body estimates that, in a worst-case scenario, it could increase the number of unemployed workers by fifty to eighty thousand).

(4) Impact on Trade

- a. In the short term, the reduction of merchandise shipping costs would have the effect of boosting Taiwan’s two-way trade with the mainland. Because Taiwan currently enjoys a substantial surplus in cross-strait trade, and as it still imposes restrictions on the importation of sensitive products from the mainland, it is expected that Taiwan’s exports to the mainland

would be likely to increase a lot more than shipments in the other direction after the opening of “direct transportation”, further widening the trade gap in Taiwan’s favor.

- b. In the mid to long term, “direct transportation” and the “three links” would be favorable to Taiwan’s exports of high-end industrial materials and key components, such as petrochemicals, synthetic fibers, electronic components, and so on. On the other hand, Taiwan’s restrictions on the importation of mainland products will eventually have to be removed, which will result in a large increase of imports from the mainland, especially agricultural products, household appliances, consumer electronics, foodstuffs, tobacco, and wine. These are likely to supplant imports from other countries or a part of domestic production, and are bound to substantially diminish Taiwan’s trade surplus with the mainland.

(5) Impact on Investment

- a. Because of the time needed to adjust plans for investments that are already in the pipeline, “direct transportation” would not have much short-term impact on investment. But direct air transportation could spur air carriers to substantially increase their investment and purchase of aircraft.
- b. In the mid to long term, “direct transportation” and the “three links” would be likely to prompt Taiwan’s manufacturers to expand their existing system for division of labor in production on the two sides of the Taiwan Strait, while manufacturers that enjoy favorable conditions for production in Taiwan would look to trade in lieu of investing in the mainland. Conversely, they might shift their production bases across the Strait and increase their investment in the mainland. Given the growing magnetic attraction of the mainland China economy and the mainland’s gradual development into the “factory of the world”, manufacturing and service industries alike might all increase the scale of their investment there (a trend that is clearly demonstrated in the results of questionnaire surveys conducted by research institutions), and so speed up the flow of capital, industrial technology, and human resources to the mainland. Therefore, it would be necessary to achieve a relative rise in domestic industrial upgrading and attract more foreign and mainland investment into Taiwan to counter this negative impact.

(6) Impact on Movement of Personnel

- a. On the tourism side, “direct transportation” would be likely to increase the number of Taiwanese visiting mainland China as tourists. According to the characteristics of the tourism market, in the short term many of Taiwan’s outbound tourists would likely choose to take trips to the mainland instead of other overseas destinations such as Thailand and Hong Kong, while some would do so instead of spending their tourist dollars in Taiwan. But in the medium to long term, given the shared language and common cultural background on the two sides of the Taiwan Strait, as well as the difference in consumer prices, mainland China would become much more attractive as a tourist destination for Taiwanese, sharply increasing its supplanting effect on Taiwan’s domestic tourism. Therefore, efforts would have to be made to attract at least a corresponding flow of foreign and mainland Chinese tourists to Taiwan, to rectify the longstanding imbalance between outbound and inbound visits across the Taiwan Strait.
- b. On the business visitor side, because “direct transportation” and the “three links” would be likely to generate a large increase in cross-strait economic and trade dealings, the number of visits by Taiwanese to the mainland to engage in business activities would continue to rise substantially. Correspondingly, it would be necessary to smooth the way for mainland Chinese to come and conduct business in Taiwan, in order to maintain some degree of balance.
- c. On the employment side, after the implementation of “direct transportation”, Taiwan’s structural unemployment stemming from its economic transformation would be likely to get worse. It could also induce a part of the domestic workforce, especially some mid- to high-level technicians, to go to the mainland in search of a “second spring”. And there would inevitably be an increase in the number of Taiwanese moving to work and live in the mainland following investments by their companies there.

(7) Impact on Industry

- a. In the short term, the impact of “direct transportation” would mainly be felt by some industries that are relatively sensitive to shipment times

and costs:

- (a) Industries that would be impacted most unfavorably include: producers of fresh fruits & vegetables and meat, fish and other agricultural products that have a limited shelf life or are highly perishable; and manufacturers of industrial products that carry high shipping costs and are produced under favorable conditions in the mainland, such as home appliances, machinery, building materials, automobiles and spare parts, and so on.
 - (b) Industries that would have a favorable opportunity for expansion of exports are mainly those producing materials or components, such as petrochemicals, textiles, and information and electronics.
- b. In the long term, “direct transportation” and the “three links” would have a structural impact on industrial development:
- (a) “Direct transportation” would have the effect of reducing the GNP shares of the agricultural and industrial sectors while correspondingly increasing that of the service sector.
 - (b) The agricultural and fishery sectors would be relatively hard hit. It would be necessary to negotiate for the establishment of long-term cooperative relations with the mainland in order to secure their survival and maintain space for their development.
 - (c) The structure of manufacturing industry would undergo substantial change, with relatively uncompetitive traditional industries and those dependent on domestic sales experiencing contraction, and high value-added and high-tech industries increasing their share of manufacturing output.
 - (d) The service sector would become the main recipient of resources shifted out of the agricultural and manufacturing sectors. With the scope of their operations extended to encompass the mainland China market, and with potential for the development of regional operations centers, service industries would have comparatively greater room for development.
 - (e) Overall, the results of various assessments show that, under the impact of “direct transportation” and the “three links”, there would be comparative beneficiaries, especially the petrochemical, textile,

and information & electronics industries; comparative losers, such as the agricultural products, processed foodstuffs, home appliance, ready-made garments and accessories, leather, wood and bamboo product industries; and other industries that would experience a fairly even balance of gains and losses.

(8) Impact on Asia-Pacific Regional Economic Development

- a. The scale of the mainland China economy is expanding day by day (it is now the world's sixth largest economy and sixth largest trading nation; according to some experts, with its GDP estimated on the basis of real purchasing power, the scale of its economy is about equivalent to that of Japan; and by 2020, it could be close to matching the scale of the U.S. economy), and growing more and more influential. In particular, the mainland economy's magnetic effect and gradual development into the "factory of the world" is exerting tremendous competitive pressure on neighboring countries and changing the structure of regional economic strategy. But the mainland economy is also facing many short-term, medium-term, and long-term problems (including deflation, worsening unemployment, banks saddled with excessive ratios of bad loans, loss-making state-owned industries, a widening gap between rich and poor, corruption and economic crime, political reform, and so on), making its economic potential subject to many latent variables. The outbreak of SARS this year (2003) also dealt a blow to the mainland economy and added another element of uncertainty. The general view derived from a broad spectrum of analysis is that, prior to 2010, because the Beijing government can still maintain stability, and because of the Beijing Olympics and Shanghai Expo, the mainland economy can on the whole be kept stable. But more and more experts are voicing strong doubt as to whether the stable development of the mainland economy can be sustained. In particular, if another SARS epidemic breaks out, it will inevitably have an extremely negative impact on the mainland's economic development.
- b. From the perspective of regional economic strategy, "direct transportation" would be beneficial to strengthening Taiwan's strategic economic position. In particular, with all the countries of Asia and the members of ASEAN strengthening cooperation with the mainland, and

with the sweeping away of economic barriers as a gathering trend, the implementation of “direct transportation” could reduce the relative cost of mobilizing cross-strait economic resources, and avoid the negative impact of economic marginalization. But at the same time, Taiwan would have to contend with the negative impacts of an influx of mainland products and an exodus of capital and talent to ensure that “direct transportation” had a beneficial effect overall.

- c. “Direct transportation” would have varying effects on the economies of different countries in Asia. On the whole, it would be favorable to the mainland China economy, but in the short term would be unfavorable to the Hong Kong economy. It would have only a limited impact on Japan’s economy, would generate competitive pressure for the South Korean economy, and would have a greater long-term than short-term impact on the ASEAN economy.

(9) Overall Assessment

- a. Viewed overall, it can be seen that “direct transportation” would have both favorable and unfavorable impacts on Taiwan’s economy. From the perspective of the workings of the free market, “direct transportation” and the “three links” would be helpful to reducing costs and raising resource-utilization efficiency, bringing benefits to business management and economic development. However, given the uncertainties and peculiar economic structure in the cross-strait equation, “direct transportation” and the full “three links” could lead to the hollowing out of Taiwan’s industry, speed up the flow of capital, technology and human resources to the mainland, retard domestic investment, and worsen unemployment. Therefore, the bottom line of gains and losses to Taiwan’s economy would ultimately depend on the extent to which we could construct an economic environment and objective conditions conducive to making the most of those benefits and minimizing those adverse effects.
- b. In the next five to ten years, Taiwan’s economic development will be affected by several key factors, including changes in the internal economy, movements in the international economy, the state of the mainland China economy, and the development of cross-strait relations. We cannot close our eyes to the fact that the continued strengthening of the “China

factor” and the deepening of existing cross-strait trade and economic ties will increase the demand for “direct transportation” and the “three links”. But we must also pay heed to the gulf between the two sides’ political and economic environments, and the very different nature of systems on either side of the strait. Furthermore, we must keep in mind the plethora of variable factors at work within the mainland economy as well as the possible heavy impact of SARS. Therefore, the government must fully grasp all the positive and negative impacts of “direct transportation” and the “three links”, and make this the basis for formulating its policy direction and carrying out all related preparatory work, in order to construct the most favorable environment and objective conditions for Taiwan’s economic development.

- c. To meet the challenge of regional economic integration and enhance the driving force of Taiwan’s economic development, “direct transportation” and the “three links” would need to be embodied in the framework for the global positioning of Taiwan’s economy, and be implemented in conjunction with across-the-board internationalization and deepened economic reform, in the all-out effort to raise Taiwan’s overall competitiveness. Only thus would Taiwan be able to realize the full potential benefit of “direct transportation”.
- d. From the viewpoint of industrial development, the core competitiveness of Taiwan’s economy lies in its manufacturing base and its R&D, innovational, and logistics management capabilities. To respond to the mainland China economy’s magnetic pull and its gradual emergence as the “factory of the world”, Taiwan has no choice but to include the mainland as one of the main overseas bases for the manufacture and global marketing of its products. At the same time, however, Taiwan must preserve the integrity of its economic development, take advantage of its favorable industrial development foundations, join forces with multinational enterprises, and speed up the reshaping and upgrading of its industry. Furthermore, in response to the needs of the post-SARS era, Taiwan must establish a cross-strait division of labor in industry that is better attuned to risk considerations, and must strengthen its base of production at home. Only by taking such steps will Taiwan be able to raise its overall economic competitiveness and secure the comparative advantages it needs for long-term economic development.
- e. Basic conditions that must be in place for the implementation of

“direct transportation” and the “three links” include: the continuing internationalization and enhancement of the attractive power of Taiwan’s economy; the assurance and strengthening of Taiwan’s core competitiveness; and a balanced interflow of cross-strait resources.

- f. The implementation of “direct transportation” and the “three links” must include appropriate risk control to guarantee overall economic security. Economic safety nets must be strengthened, and economic early-warning and response capabilities enhanced, while economic and trade order must be established and factors of uncertainty reduced.
- g. To sum up, “direct transportation” and the “three links” offer advantages and disadvantages for Taiwan’s long-term economic development. The key is whether Taiwan would be able to amplify the positive effects and diminish the negative impacts. This depends on whether or not it can raise the level of its internationalization, comprehensively improve its investment environment and living quality, enhance its economic allurements, strengthen its domestic production base, and promote a balance in the inflow and outflow of resources. Only thus will it be able to attract capital and high-quality human resources from overseas, including the mainland, and secure a leading role for the Taiwan economy. Conversely, if Taiwan is unable to make its own economy attractive, “direct transportation” will lead to a faster outflow of resources to mainland China, resulting in Taiwan being economically sidelined. Therefore, the implementation of “direct transportation” must depend upon objective conditions and the completeness of supporting measures put into place. Its timing will depend upon the fullness of preparations in Taiwan and whether negotiations have been able to create the right conditions for it.

3. Security Assessment of “Direct Transportation”

(1) National Defense

- a. Assessment of Overall National Defense
 - (a) The impact of “direct transportation” on national defense would be related mainly to security defense on the one side and national defense strategy and force deployment on the other. The former might be subject to an immediate threat, while the latter would

involve a wide-ranging and far-reaching effect.

- (b) Viewed overall, if “direct transportation” could not produce an easing of cross-strait tensions and diminish resort to military conflict, then its impact on national defense could not be overlooked, and an increase in cost of national defense would inevitably be called for.

b. Impact on Security Defense

- (a) Creation of opportunities for the Beijing government’s civilian aircraft and merchant ships to conduct surveillance, infiltration, sudden attack missions, etc. After the implementation of “direct transportation”, the Beijing government could use civilian aircraft and merchant ships, legally crossing the Taiwan Strait and entering Taiwan’s territorial waters, airports and ports, to engage in intelligence gathering, infiltration, and even sudden attack. This would have an impact on air, sea and land defenses.

- (b) Difficulties in identification and monitoring. The lack of defense depth in the Taiwan Strait makes it hard to identify and monitor aircraft and ships as they cross it. In particular, the Beijing government’s military aircraft could disguise their identity to launch a surprise attack on Taiwan, giving Taiwan’s defense forces manifestly insufficient early warning time and adding to the difficulties of launching an effective response.

- (c) Influence on surveillance missions and military training. After the implementation of “direct transportation”, mainland aircraft and merchant ships would be able to traverse from east to west across the middle line of the Taiwan Strait. This would greatly increase the burden of sea and air surveillance, and would further reduce the sea area and airspace currently used for combat training by Taiwan’s armed forces.

c. Impact on National Defense Strategy and Deployment

- (a) Impact on military strategy and the deployment of armed forces. After the implementation of “direct transportation”, it would be necessary to respond to the evident impact on sea, air and land defenses of the Beijing government’s aircraft and ships having direct access to Taiwan’s territorial airspace and waters.

Consequently, military strategy, operational plans and rules of engagement would have to be thoroughly overhauled, and the deployment of related armed forces would have to undergo corresponding adjustment.

(b) Adjustment of strategic positions in offshore islands. Strategic positions on the offshore islands of Kinmen, Matsu and Penghu would be impacted by the implementation of “direct transportation”. Therefore, it would be necessary to plan properly maritime and air transport routes, and prevent the middle line of the Taiwan Strait from becoming blurred, to secure strategic positions in the offshore islands.

d. Key Requirement for Reducing the Impact of “Direct Transportation” on National Security and Defense

To reduce the impact of “direct transportation” on national security and defense, the Ministry of National Defense’s primary proposals are as follows:

- (a) The middle line of the Taiwan Strait and the status quo in the strait (aircraft and ships not straightly crossing its waters) is the key to maintaining stability in the Taiwan Strait, and cannot be jeopardized by “direct transportation”.
- (b) The implementation of “direct transportation” across the Taiwan Strait should be carried out in orderly stages, with links first opened in the south, then in the north, and finally in the center of Taiwan.
- (c) The prohibition against aircraft straightly crossing the Taiwan Strait is beneficial to the protection of Taiwan’s security. For direct air transportation, it is suggested that it would not be appropriate to add new air routes, but existing air routes should be followed (G-581 from south to north and B-576 from north to south) to facilitate control and accord sufficient identification and response time.
- (d) For direct sea transportation, navigation routes should be mapped out on a “fixed point, fixed line, fixed time” basis, to facilitate control. The opening of seaports should begin with Kaohsiung Port, followed by Keelung Port in orderly progression, with

existing south-north sealanes as the main navigation routes.

- (e) Direct transportation planning should demarcate clearly between communication channels, seaports and airports opened up for cross-strait links and those in use for military purposes.
- (f) Aircraft and ships crossing directly from mainland China to Taiwan should complete flight and voyage notifications at least 24 hours prior to departure, to facilitate control and identification operations.
- (g) Units of the armed forces (the National Police Administration's Peace Preservation Corps) should be deployed at all airports and seaports opened for "direct transportation", in preparation for handling sudden contingencies.
- (h) In the event of a surprise contingency or in consideration of an impact on national security, the partial or complete cessation of flights and/or voyages should be recommended at once.

(2) Political Security

- a. Possible causing of harm to national sovereignty. The Beijing government treats "direct transportation" as a "domestic matter", and assert the "one China" principle and "one country two systems". If the implementation of "direct transportation" requires submitting to political preconditions from Beijing that downgrade Taiwan, then that will be bound to cause severe harm to Taiwan's national sovereignty.
- b. Easily blurred perception of the line between enemy and friend. If "direct transportation" and the full "three links" are implemented without any change in Beijing's policy toward Taiwan, the Taiwanese people might easily be lulled into a blurred perception of the Beijing government as enemy or friend. This would be unfavorable to maintaining domestic unity against external threat.
- c. Possible stirring up of internal controversy and conflict. "Direct transportation" impinges on many highly controversial issues. If a broader consensus on it cannot be established in Taiwan, it could easily give rise to inter-party confrontation and even unification-versus-independence controversy, and influence domestic

political stability.

- d. Beneficial to Beijing's efforts to force unification upon Taiwan. The Beijing government is stepping up their efforts to use economic unification as a lever to promote political unification. After the implementation of "direct transportation" and the full "three links", cross-strait contacts and exchanges of all kinds will intensify, and Taiwan will be completely open to the mainland. This will give the Beijing government more opportunities and avenues for "cloaking politics in economics" and "promoting unification through direct links."

(3) International Relations

- a. International propaganda unfavorable to Taiwan. The implementation of "direct transportation" could change the international perception of the cross-strait situation, making it more difficult to show up the threat posed toward Taiwan by the Beijing government, and helping the cause of Beijing's overseas propaganda.
- b. The Beijing government could use this to diminish Taiwan's international status. Beijing defines cross-strait direct transportation as specially managed domestic traffic. Therefore, we must prevent them from presenting cross-strait "direct transportation" as a "domestic affair", imposing further constraints on Taiwan's international position, and influencing other countries' policies toward Taiwan.
- c. Altering the region's strategic posture. The implementation of "direct transportation" across the Taiwan Strait might be seen by other countries as a further extension of mainland China's regional influence, and so cause those countries to adjust their strategic deployment in the region. At the same time, it might also affect Taiwan's standing as a bridgehead against the expansion of the Beijing government's political and economic influence.

(4) Social Security

- a. Social security problems. The implementation of "direct transportation" and the full "three links" could have a heavy impact on

some industries, leading to such problems as the loss of jobs, the exodus of industries, and the outflow of capital, technology, and personnel to mainland China. If these negative effects could not be effectively prevented, there would inevitably be an adverse impact on Taiwan's social security, especially in agricultural communities and at the grassroots level.

- b. Adverse effect on public order. Cross-strait exchanges have already had a negative impact on Taiwan's public order. For instance, many people from mainland China have entered Taiwan illegally (from 1987 up to April 2003, a total of nearly 45,000 illegal immigrants from the mainland had been tracked down and detained in Taiwan), worked unlawfully in Taiwan, or overstayed the permitted term of their visits to Taiwan. Many others have engaged in smuggling (especially of drugs, firearms and agricultural products), participated in organized crime, and in other ways posed a threat to law and order in Taiwan. The implementation of "direct transportation" and the full "three links", if carried out without negotiations to put in place all appropriate subsidiary measures, might exacerbate the abovementioned public order problems.
- c. Increased disease-prevention burden. There are many infectious diseases endemic in all parts of mainland China, such as Japanese encephalitis, influenza, hepatitis B, AIDS, dengue fever, malaria, cholera, plague, hantavirus hemorrhagic fever, tuberculosis, typhoid, dysentery, rabies, parasites (including bilharziasis), and so on. The outbreak of SARS that spread around the world this year also originated in mainland China. Moreover, the lack of transparency in the mainland's epidemic data heightens the risk of transmission. After the implementation of "direct transportation", the growing intensity of contacts across the Taiwan Strait and the increasing volume of imports from mainland China would greatly increase the risk of the spread of infectious diseases. A complete disease prevention system would need to be put in place, and much more manpower and resources deployed, to safeguard the health of the people in Taiwan.
- d. The need to adjust population and employment policies. The implementation of "direct transportation" and the "three links" would speed up cross-strait social fusion, resulting in more cross-strait marriages and problems of people coming from the mainland to settle

and work in Taiwan. In particular, the number of cross-strait marriages has already reached close to 200 thousand, and is increasing by about 30 thousand a year. Since most spouses from the mainland are economic dependents, and in many cases there is a large age gap between them and their Taiwanese spouses, the population structure is bound to be affected in the future. Also, an influx of mainland technicians and laborers coming to work in Taiwan would deliver a shock to the domestic employment system.

- e. Increased social welfare burden. A large increase in the number of mainland Chinese spouses and people from the mainland coming to settle and work in Taiwan, if not addressed by appropriate policy measures, could continuously swell the economically disadvantaged segment of the population and create a long-term social-welfare burden for Taiwan.
- f. Education policy problems. The intensification of cross-strait contacts and exchanges would intensify problems such as those related to the education of the children of Taiwanese businessmen in the mainland and their adaptation after returning to Taiwan, as well as how to integrate the children of cross-strait marriages into Taiwanese society. Such problems would become more pressing and need to be addressed through adjustment of education policy.

(5) Economic Security

- a. The risk of Taiwan's economy being "sidelined" would increase. The implementation of "direct transportation" and the full "three links" would lead to radical changes in Taiwan's industrial development and macroeconomic structure, speeding up the breadth and depth of cross-strait economic integration across the board. Without comprehensive negotiations to establish appropriate complementary measures, Taiwan's economy would face the risk of being "sidelined."
- b. Increased dependency on the mainland China market would weaken Taiwan's ability to resist economic sanctions. At present, Taiwan's dependency on the mainland market is already very high. Exports to the mainland account for more than 20% of Taiwan's total exports (among the top ten items exported to the mainland, there are five of

which the mainland takes more than 40% of their total exports and eight of which the mainland takes more than 30%). More than 40% of Taiwan's total foreign investment goes to the mainland, including as much as 80% of manufacturing investment. The implementation of "direct transportation" would accentuate Taiwan's dependency on the mainland market, so that if in the future a cross-strait military conflict occurred, Taiwan's ability to resist the imposition of economic sanctions by the Beijing government would be severely compromised.

- c. The hollowing out of industry and loss of jobs. The implementation of "direct transportation" and the full "three links" could give rise to such problems as factory closures, the exodus of industries, a fall in domestic demand, and rising unemployment. It would be necessary to have supporting measures in place to ameliorate the impact of such shocks.
- d. Increased financial risk. The implementation of "direct transportation" and the full "three links" would increase the interlinkage between the economies on the two sides of the Taiwan Strait. Taiwan's domestic financial markets, especially the stock and real estate markets, would become highly susceptible to mainland economic and financial influences, which would inevitably raise the overall level of financial risk.
- e. The loss of core technologies. The implementation of "direct transportation" would lead to increased investment in the mainland by Taiwanese businesses. With the industrial technology gap between the two sides already diminishing by the day, there would be a heightened possibility of Taiwan's core technologies and high-tech personnel flowing away to the mainland.

(6) Cross-Strait Interaction

- a. Facing changes in cross-strait relations. If the implementation of "direct transportation" and the "three links" could be guided in positive directions, it would help stabilize cross-strait relations. But on the other hand, after the implementation of "direct transportation", if the Beijing government still did not change the essence of their policy toward Taiwan, it could make cross-strait relations even more complex

and intractable.

- b. The need to prevent the de-governmentalization, localization, and marginalization of cross-strait negotiations. The Beijing government treats “direct transportation” as a political bargaining chip. They consider that cross-strait economic superiority is already shifting from Taiwan’s side to theirs, and insist on treating “direct transportation” as a “domestic matter” that can only be carried out through talks between private entities. If our government is unable to stick to its position, it could lead to the de-governmentalization, localization, and marginalization of cross-strait negotiations, posing a severe challenge to the government’s exertion of its public authority.
- c. The problem of giving a definite status to cross-strait relations becoming increasingly prominent and complex. After the implementation of “direct transportation” and the full “three links”, economic and social integration would gather pace. If various matters and related problems stemming therefrom could not be dealt with and resolved through institutionalized negotiations, then the increase and daily accumulation of misunderstandings might cause the problems to gradually evolve into highly sensitive political controversies and disputes, such as the defining of cross-strait relations.
- d. Facing readjustment of the relations between Taiwan, the mainland, Hong Kong and Macau. After the implementation of “direct transportation” and the “three links”, Hong Kong and Macau’s long-established intermediary positions in and mechanisms for indirect travel and trade across the Taiwan Strait would have to be readjusted. Changes would also appear in the development of long-term relations among the four areas.

(7) Overall Assessment

- a. The effect on security of the implementation of “direct transportation” would primarily be its impact on national defense and secondarily its impact on economic and social security. At the political and international relations levels, its long-term effect would exceed its short-term impact.

- b. The heavy impact of “direct transportation” on national security is a subject that cannot be ignored. To effectively deal with related security problems, it is necessary to continuously strengthen and implement security concepts and practices, taking an all-encompassing, multi-faceted approach to building up overall national security, in order to make sure of avoiding any threat to or encroachment on major national interests and core values.
- c. Economic development, consolidation of democracy, social stability, and reinforcement of national defense capability are the four main pillars for safeguarding Taiwan’s security. Action to enhance security in response to “direct transportation” and the “three links” would need to be concentrated mainly on adding strength to these four pillars.
- d. Given the key nature and importance of national security, the implementation of “direct transportation” would have to adhere to the main points of proposal put forward by the Ministry of Defense, including: the middle line of and status quo in the Taiwan Strait should be maintained; arriving and departing aircraft and ships should as far as possible avoid navigation of the Taiwan Strait; air routes should follow existing international air routes, and no new air routes should be added; sea navigation routes also should be subject to restrictions and controls, with suitable consideration and arrangements in place to ensure that direct transportation could be implemented within the scope of what national defense can sufficiently bear.
- e. The intricacies and complexities of cross-strait relations make it hard to clearly mark out the boundaries of political, social, economic, and other security problems. This, in turn, adds to the difficulty and complexity of security management. In the future, it will be necessary to actively strengthen awareness and understanding of security issues among all domestic sectors and gather internal consensus. Only thus will we be able to respond to the security challenges presented by “direct transportation” and the “three links”.
- f. In the wake of Taiwan and mainland China’s entry to the WTO, cross-strait movements of goods, people, services, capital, and information have steadily increased. With the ever rising number of dealings involving people, merchandise, money, and technology, related matters of security management have also continued to grow.

Therefore, to cope with the greater burden of security work after the implementation of “direct transportation”, national security-related deployments and mission emphases would also have to undergo a vigorous process of corresponding adjustment.

- g. To avoid any public confusion as to national identity, the government has the responsibility to establish national mainstream values to provide a basis for domestic unity and prevent the possibility of political leaning toward Beijing in the wake of the implementation of “direct transportation” and the full “three links”.
- h. The key to safeguarding public security after the implementation of “direct transportation” would lie in making improvements to the administrative and judicial systems and effectively enforcing the law, as the surest way to prevent any deterioration of public order and uphold social order and justice under the rule of law.
- i. After the implementation of “direct transportation”, it would be necessary to continue to strengthen disease prevention systems and public health infrastructure, in order to be able to reduce the risk of the spread of diseases from mainland China and protect the health and lives of the people in Taiwan.
- j. The impact that the implementation of “direct transportation” and the “three links” would have on social development and the social structure would need a lengthy period of follow-up and assessment prior to the making of necessary adjustments to related policies.
- k. In the era of advancing globalization, economic security strategy must be formulated to incorporate an international outlook. A national economic security system must be built upon the three-sided basis of economic competitiveness, economic autonomy, and economic adaptability.
- l. The establishment and operation of national security mechanisms after Taiwan’s entry to the WTO has already laid the foundation for the management of security matters after the implementation of “direct transportation” and the full “three links”. To ensure that the implementation of “direct transportation” does not come at the price of sacrificing national security, it would be necessary to make further improvements to security preparations. The defining status, functions,

and related subsidiary measures of the national security network would also need to be reviewed and gradually strengthened.

4. Technical Evaluation of “Direct Transportation”

(1) Technical Evaluation of Direct Sea Transportation

a. The Current Situation of Cross-Strait Shipping

(a) At present, cross-strait shipping includes the “Offshore Shipping Center” (which went into operation on April 19, 1997), regular cross-strait shipping lines sailing via a third area (which began to operate on January 16, 1997), and irregular cross-strait shipping lines sailing via a third area, which have been in existence for many years..

(b) The Offshore Shipping Center is located in Kaohsiung Port. Foreign-registered and flag-of-convenience vessels are permitted to sail directly between the Offshore Shipping Center and the two mainland ports of Xiamen (Amoy) and Fuzhou. Goods brought to the center may undergo simple processing and then be transshipped on the basis of “not passing through customs, not entering the country.” As of the end of June 2003, ten shipping companies from Taiwan, mainland China and Hong Kong (Taiwan imposes no limit on the number, but Beijing has given approval to only ten, four of which are Taiwanese and the other six from the mainland side of the Taiwan Strait) were plying these routes, with about twenty sailings to and fro per week, a cumulative total of 5,213 crossings logged up, and the center handling an average of 34,600 twenty-foot equivalent units (TEUs) per month.

(c) Foreign-registered or flag-of-convenience vessels operated by shipping companies on either side of the Taiwan Strait can provide cross-strait shipping-line services on regular routes sailing via third areas. These shipping lines run between mainland China’s open external ports and the three Taiwan ports of Kaohsiung, Keelung and Taichung via the third-area ports of Ishigaki, Hong Kong, and Pusan, Korea. At present, there are thirteen shipping companies authorized to operate these services

(Taiwan places no limit on the number, but the mainland authorities have given approval to only thirteen, four of which are Taiwanese firms, seven mainland firms, and the other two Hong Kong firms), providing about sixteen return sailings per week along fourteen regular routes (eleven via Ishigaki and three via Hong Kong).

(d) Irregular cross-strait shipping services sailing via a third area provide chartered carriage service, and the shipping operators do not need to specify their route in advance. Such services are provided by unscheduled sailings of bulk carriers operated or owned by cross-strait or foreign shipping companies (recently the Beijing government has announced new regulations excluding foreign shipping companies from participation). The main ports served include Keelung, Taichung, Kaohsiung, Hualien, Mailiao, and Hoping Ports on the Taiwan side, and open coastal ports on the mainland side (mainly commodity export ports), with Hong Kong, Ishigaki and Pusan as the third areas.

b. International Maritime Conventions and Bilateral Shipping Agreements

(a) International Maritime Conventions

i. The main spirit of the principal international maritime conventions (as represented by the 1921 International Convention and Statute Concerning the Regime of Navigable Waterways of International Concern; the 1923 Convention and Statute on the International Regime of Maritime Ports; the 1965 Convention on Facilitation of International Maritime Traffic; the 1974 Convention on a Code of Conduct for Liner Conferences; and the 1982 United Nations Convention on the Law of the Sea) is the assurance of free navigation for the vessels of contracting parties, the establishment of basic international rules for the carriage of goods and passengers by sea, and the guaranteeing of a balance of rights between providers and users of liner services.

ii. According to international rules and practice, the vessels of all nations may sail freely to open coastal ports, and engage

in the unloading or loading of goods for carriage to the ports of other countries, but the carriage of goods between two ports within a country is regarded as a cabotage right that can be exercised only by the vessels of that country or foreign vessels granted special permission to do so by the government of that country.

(b) Bilateral Shipping Agreements

- i. Countries often sign bilateral shipping agreements to regulate the rights and obligations in force between them. In general, apart from reaffirming the international maritime convention principles of free navigation and reciprocity based on equality, bilateral agreements make mutually beneficial arrangements for special matters that do not fall within the ambit of international conventions.
- ii. The Beijing government has signed bilateral shipping agreements with more than forty countries. The special matters covered by these agreements are mainly safeguard provisions concerning the distribution of freight transport volume between the two contracting parties (Beijing has only agreed to provisions on freight transport volume with the United States, Thailand, Argentina, and Bangladesh); provisions on tax exemption or avoidance of double taxation; and provisions on the use of flags of convenience.
- iii. Taiwan has not signed any broad-ranging bilateral shipping agreements with other countries, but has signed agreements with a few countries on mutual exemption from taxation of sea and air transport enterprises.

c. Issues on the Technical Side of Direct Cross-Strait Sea Transportation

(a) The problem of defining the status of shipping routes

- i. Taiwan's management of cross-strait shipping routes takes the principles of international shipping-route management as its basic points of reference. The Rules on the

Establishment and Operation of Offshore Shipping Centers refers to cross-strait shipping routes as “special shipping lines”. However, after entry to the WTO, Taiwan must abide by the related rules and outcomes of negotiations, and therefore the designation of shipping routes and related problems will also have to be reviewed and handled accordingly.

- ii. The Beijing government defines cross-strait shipping as "domestic routes under special administration." Though in an interview with the media in September 2002, former Vice Premier Qian Qichen indicated that they could be referred to as “cross-strait routes”, there has been no open explanation of this from officials on mainland China’s side.
- iii. On the naming and definition of cross-strait shipping lines (on which various proposals have been made, including: “domestic routes”, “international routes”, “quasi-international routes”, “special routes” and cross-strait routes”), Taiwan holds to the position that this should be determined through bilateral negotiations. Though some Beijing government officials have shown some flexibility on how they are named, essentially they still persist in treating them as “domestic routes”.

(b) The choice of ports for direct transportation

- i. For ease of management, Taiwan’s plans on the opening of ports for “direct transportation” should limit these to its four international commercial ports (with the possibility of also including industrial ports on a special-case basis). If considered from the point of view of domestic businesses’ commercial and operational needs, then all four international ports could be opened to direct sailing; but if security considerations hold sway, then opening could be carried out in stages as necessary, starting with the opening of Kaohsiung Port followed by Keelung and Taichung Ports in turn.
- ii. The Beijing government has already opened Xiamen (Amoy) and Fuzhou Ports to sailings to and from Taiwan.

According to the observation and understanding of people involved in cross-strait shipping, in the absence of any restrictions imposed by Taiwan, Beijing might in the future extend direct cross-strait shipping links to all its open commercial ports, but if Taiwan imposes restrictions, it might only open key ports as imperative.

- iii. If the issue is addressed through bilateral talks, the business community would like to strive for prioritizing the opening of mainland ports in areas where there are large concentrations of Taiwanese businesses, such as Guangzhou, Shenzhen (including Yantian and Shekou), Shanghai, Ningpo, Qingdao, Tianjin, and Dalian.

(c) Ship management

- i. Currently, Taiwan permits foreign vessels and cross-strait flag-of-convenience vessels to participate in and operate the special routes of the Offshore Shipping Center and the cross-strait routes via third areas. After the implementation of “direct transportation”, based on the principle of free competition in the shipping market, Taiwan would move toward lifting restrictions to permit Taiwan-registered, mainland-registered, foreign-registered, as well as flag-of-convenience vessels alike to participate in cross-strait shipping.
- ii. The Beijing government currently permits only Taiwan-registered, mainland-registered, as well as flag-of-convenience vessels owned by shipping companies registered in Taiwan or mainland China and solely or jointly invested in by Taiwanese or mainlanders to provide cross-strait shipping services (including carriage of cross-strait trade merchandise and cross-strait transshipment of foreign trade merchandise). Foreign-registered vessels may call at ports on both sides of the Taiwan Strait in the same voyage, but may not provide cabotage services in mainland waters, or carry cross-strait trade merchandise, or transship foreign merchandise across the Taiwan Strait.

(d) Issue of vessels’ flag display

- i. Taiwan-registered vessels operating cross-strait shipping lines must first solve the flag-display problem, i.e. mutual recognition of nationality.
- ii. Vessels' nationality and modes of flag display are clearly settled by international conventions and the customary practice of international shipping lines. Laws enacted on both sides of the Taiwan Strait stipulate that, between port entry and port departure, a vessel should fly the national flag of the host country at the ship's mast and fly the national flag of the vessel's country of registration at the ship's stern.
- iii. The Beijing government does not recognize the national ensign of the Republic of China. Therefore, the flag-display issue would have to be resolved through negotiation.

(e) Shipping administration

- i. Taiwan handles ship and crew certification inspection, customs inspection, ship's equipment and safety inspection, and so on, in accordance with the relevant international standard practice.
- ii. If the authorities in Beijing could not recognize Taiwan's ship and crew certification in accordance with international practice, then the matter would have to be dealt with through negotiation.

(f) Methods of opening up direct sea transportation

- i. "First passengers, then cargo," "first cargo, then passengers," or "passengers and cargo at the same time."
- ii. "Fixed point-to-point direct transportation," "multiple-point direct transportation," or "across-the-board opening."
- iii. "Division of routes among operators", "equal freight allocation", or "free selection by operators."
- iv. "Limited to designated companies," "limited to designated schedule," or "unlimited sailings."
- v. "Limited to designated carriers," "limited to vessels of

designated nationality,” or “no limits on carriers or vessel’s nationality.”

- (g) Other related issues, including the avoidance of double taxation, and the establishment of shipping companies and related shipping industry companies (freight forwarders, shipping agents, etc.), would have to be dealt with through negotiations or in accordance with international standard practice.

d. Main Results of Assessment

- (a) From analysis on the technical side, the main factors that would need to be considered in implementing direct sea transportation are: the designation of shipping routes; the selection of ports; the management of vessels; vessels’ flag display; route supervision; and the choice of method for implementing direct transportation.
- (b) According to Taiwan’s experience of marine transport contacts with other countries, most of the above technical matters involved in direct sea transportation should not need to be brought into negotiations between by the two sides of the Taiwan Strait. However, on the basis of benign cross-strait interaction as well as security management needs, conducting cross-strait negotiations and signing an agreement would be the most feasible course of action.
- (c) The implementation of direct sea transportation could follow the method of adopting different degrees of opening or setting an appropriate sequence of priorities, with the government making appropriate plans and arrangements in accordance with overall policy objectives and the development of cross-strait interaction.

(2) Technical Evaluation of Direct Air Transportation

a. International Conventions and Bilateral Agreements

- (a) The system established under the Chicago Convention. The most important international convention governing air transportation is the Convention on International Civil Aviation signed in Chicago in 1944 (also known as the Chicago Convention). It lays down the basic principles of the sovereignty of air space, the exchange of air traffic rights through bilateral negotiations, the nationality of aircraft, the

exclusivity of cabotage rights, and so on, which have been universally adopted by the signatories to the convention. It also sets out rules to govern non-scheduled air services, such as charter flights, but because of ambiguities in the interpretation of those rules, matters concerning charter flights are generally negotiated between governments and covered by bilateral agreements. Although Taiwan is not a contracting party to the Chicago Convention, it always abides by the principles of the convention in the terms of its bilateral air services agreements.

- (b) **Bilateral Air Services Agreements.** Because the Chicago Convention cannot deliver consistent conclusions on air traffic rights issues, countries negotiate bilateral air services agreements on the basis of their political, economic, and geographic needs and the principle of equality and mutual benefit, clearly setting down air traffic rights for the operation of air transport services. Their ambit includes operating rights, price setting and approval mechanisms, dispatch organizations and their staff and marketing, computer reservation systems, conversion of profits, management of ground handling services, and so on. Contemporary bilateral air services agreements are more flexible arrangements that vary according to the circumstances of the signatory countries. They can mainly be divided into open skies agreements (such as that signed between Taiwan and the U.S.) and predetermination type agreements (such as that between mainland China and the U.S.).
- (c) Taiwan has signed 45 air services agreements with other countries, in the form of formal air services agreements, traffic right exchange agreements, and air navigation agreements or memorandums of understanding, which primarily consist of agreement on such matters as the two parties' participation in passenger transport operations, air traffic rights, air routes, flight schedules, tariffs, and so on.
- (d) Mainland China has signed 85 formal bilateral air services agreements with other countries. Their scope is more limited, and generally does not include the exchange of fifth freedom rights. However, recently Beijing has been gradually adjusting its policy, and has begun to grant fifth freedom rights to airline companies of certain countries (for example, Singapore Airlines and America's UPS).

b. Issues on the Technical Side of Direct Air Transportation

(a) Arrangement of air traffic rights and planning of air routes

- i. Defining the status of air routes: The arrangement of air traffic rights for direct air transportation can reflect the definition of air routes. From the standpoint of transport policy and management needs, Taiwan hopes that cross-strait air routes can follow international air routes in allowing foreign airline companies to also participate, to augment the favorable basis for establishing Taiwan as an air-transport hub. While mainland China's laws and regulations on the issue are still not clear, it advocates the designation of cross-strait routes as "domestic routes under special administration", the same as the air transport arrangements between itself and Hong Kong. Since both sides hold different viewpoints, the issue would have to be dealt with through negotiation.
- ii. Negotiation of air traffic rights: The arrangement of cross-strait air transportation rights would have to be decided through negotiations covering such matters as points of origin and destination, participating airlines, number of flights, and so on, and would then have to be executed by the governing authorities of both sides on the basis of the agreement thus reached.
- iii. Choice of flight points: Taiwan could choose Taoyuan CKS International Airport and Kaohsiung Hsiaokang International Airport, and mainland China could choose its international airports (which number 39 in total) as direct cross-strait flight points. According to a survey of the wishes of airlines conducted by the Ministry of Transportation and Communication's Civil Aeronautics Administration (CAA), the best airports for this purpose on the mainland side would be Shanghai, Guangzhou, Beijing, Xiamen (Amoy), and Shenzhen, in that order. And accordingly to expert assessment, the best choices would be Shanghai and Guangzhou. If considered on the basis of commercial convenience, the best choices would be Guangzhou, Fuzhou,

Xiamen, Shanghai, and Beijing, in that order; if considered on the basis of regional transit, the best locations in order would be Xiamen, Guangzhou, Fuzhou, Shanghai, Nanjing, Hangzhou, Beijing, Qingdao, Chongqing, Dalian, and Xi'an.

iv. Air-route planning:

- After the implementation of direct air transportation, the two sides' aircraft would still fly through a third-area Flight Information Region (Hong Kong or the Ryukyu Islands) en route to the Taipei Flight Information Region, in which case the related procedures could remain exactly the same as those in current operation and there would be no need to make any other arrangements.
- If the two sides' aircraft were to enter the Taipei Flight Information Region directly from the Shanghai Flight Information Region, because there are not at present any direct channels of communication between the two sides' air traffic controllers, it would be necessary, among other things, to reset transmission lines, replan air routes, and redraft agreements.

(b) Recognition of certificates and licenses

- i. With regard to recognition of flight crew and aircraft certificates and licenses (people on both sides of the Taiwan Strait must possess largely the same certificates and licenses: Taiwan's flight crew members must possess airman licenses, physical fitness certificates, and professional licenses; mainland China's flight crew members must possess aircrew and physical fitness certificates. Aircraft on both sides must possess airworthiness certificates, aircraft registration certificates, and aircraft radio station licenses), practices should be consistent with the current international norms, with each side's civil aviation authorities conducting unscheduled inspections of the other side's aircraft during stopovers at their airports.
- ii. If the Beijing government did not accept Taiwan's certificates and licenses, then the matter would have to be

resolved through cross-strait negotiations.

(c) Maintenance checks

- i. Navigational and maintenance checks should be conducted in accordance with international customary practice. The navigational affairs and airworthiness inspection personnel of Taiwan's Civil Aeronautic Administration should whenever necessary be listed on the flight-crew manifest to enter the mainland area to carry out their duties, and carry out mainland outstation and aircraft inspection work in accordance with current international outstation inspection procedures.
- ii. If the Beijing government did not agree to handle such matters in accordance with international customary practice, then this situation would have to be resolved through cross-strait negotiations.

(d) Methods for opening direct air transportation

- i. "Fixed point direct flights" or "multiple point direct flights"
- ii. "First cargo, then passengers", "first passengers, then cargo", or "passengers and cargo at the same time."
- iii. "One-way direct flights" or "two-way direct flights"
- iv. "Charters (unscheduled or planned)" or "scheduled flights"

(e) Other related issues

- i. Given that Taiwan and mainland China are separate legal jurisdictions, and in the situation of the Beijing government's unwillingness to face the reality of the existence of the Republic of China and recognize Taiwan's law, flights by Taiwan's aircraft to the mainland and even mainland aircraft to Taiwan would make the two sides bound to address the problems that would arise in the event of an accident involving one side's aircraft in the other's territory and the subsequent related investigation, remedies and other such matters, and conduct negotiations as required for the clear apportionment of related rights and responsibilities, to

protect Taiwan's national and interests and protect the rights of air passengers and air carriers.

- ii. If the two sides did not conduct negotiations, it would be necessary to refer to international conventions or international customary practice in handling issues of in-flight crime and air-passenger and air-cargo compensation.

c. Main Results of Assessment

- (a) From analysis on the technical side, the main factors that would need to be considered in implementing direct air transportation are: the arrangement of air traffic rights; the selection of flight points; the handling of flight control and safety issues; air-transport administration and accident investigation; and compensation and related technical issues.
- (b) The above technical matters involved in direct air transportation, in particular the arrangement of air traffic rights and safety matters, would all need to be dealt with through cross-strait negotiations. Therefore, the key to implementing direct transportation lies in the holding of cross-strait talks and the signing of a cross-strait agreement.
- (c) In its method of implementing direct air transportation and handling of related technical issues, Taiwan will make appropriate plans and arrangements in accordance with overall policy objectives and the development of cross-strait interaction.

5. Key Issues and Overall Costs that Must Be Taken into Account in Implementing "Direct Transportation"

(1) The Issue of Taiwan's Economic Development

- a. With Taiwan's economy having gone through its phase of rapid development from the 1960s to the 1980s, and because of the rapid growth and increasing influence of the mainland China economy starting in the 1990s, the importance of cross-strait trade and economic links has been growing in importance from day to day. Therefore, there must be a certain degree of interdependence and symbiosis

between the two economies as they develop together. In the era of globalization at the start of the 21st century, and in the face of the two sides' accession to the WTO, the further deepening of cross-strait economic and trade links is an inevitable trend. We also have to face up candidly to the fact of mainland China's rapid economic rise, and make the necessary adjustments to the mode and strategy of our economic development. This is the main reason why some people, especially in the business community, advocate the opening of "direct transportation" as quickly as possible.

- b. "Direct transportation" would bring major changes to the web of economic interaction and connections between Taiwan and mainland China. Cross-strait flows of goods, people, capital, technology, and information, business investment and industrial development, people's lives and consumption patterns would all undergo great change. These kinds of unprecedented changes would lead Taiwan's economy into a brand new phase full of challenges and shifts. Therefore, we must exercise exceptional caution in assessing and understanding the impact and possible implications of "direct transportation". Only thus will we be able to optimize the gains and avoid the pitfalls, and create a favorable situation for Taiwan's long-term economic development.
- c. According to the findings of this assessment, without sufficient negotiation and the establishment of full supporting measures, the favorable effects of "direct transportation" on Taiwan's economy would be hard to grasp, whereas the harmful impacts could be very substantial. The reasons are as follows:
 - (a) The direct benefits of "direct transportation" are limited, while the potential benefits are not at all certain. "Direct transportation" could reduce shipping costs, raise business efficiency, promote trade and industrial division of labor, raise national income, and so on. However, projections made by government agencies, industry and scholars using econometric models indicate that the economic benefits derived from "direct transportation" would have their limits. For example, annual savings in sea and air transportation costs would amount to only NT\$15 billion, while GDP would increase by only 0.01 to 0.04 percentage point in the first year and by 0.4 to 1.19 percentage points in the long term. None of these benefits is very substantial. Of course, the

possible impact of “direct transportation” in bringing out latent economic advantage and boosting Taiwan’s long-term competitiveness should not be overlooked. Nevertheless, before such benefits could be realized, it would be necessary to have a lot of matching objective conditions in place. These include a heightened level of internationalization in Taiwan’s economy, effective improvement of Taiwan’s investment environment, and substantial upgrading of logistics management and systems integration capabilities for Taiwan and overseas and mainland manpower, capital, technology, and industrial networks. At the same time, Taiwan must possess a high degree of ability to meet and overcome all kinds of challenges.

- (b) On the negative side of the possible impacts of “direct transportation”, with the difference in scale between the two economies widening by the day and the cross-flow of economic resources growing more and more seriously unbalanced, it is necessary to guard against the risks and possible worst-case scenarios that could stem from this, including:
 - i. After the implementation of “direct transportation” and the “three links”, if the fabric of the domestic economy has not been correspondingly upgraded, it could cause Taiwanese businesses to rush too quickly to invest in the mainland, and thus speed up the outflow of Taiwan’s capital, technology and human resources across the Taiwan Strait, leading to worsening unemployment in Taiwan. According to a gravity model used by experts to roughly project the influence of “direct transportation” on investment in the mainland, if traced back from the government’s formal opening of investment in the mainland up to the present, the cumulative total of investment in the mainland will increase by about 1.9 times from its present level (if compared with the actual figures of investment in the mainland by Hong Kong businesses, this multiple is still on the low side), which means that it could increase by more than US\$60 billion (equivalent to about NT\$2 trillion). The impact that would have on domestic investment, the capital market, and employment in Taiwan is quite evident.
 - ii. After the opening of “direct transportation” and the “three links”,

the expansion of agricultural and industrial imports from the mainland and the backflow of goods manufactured by Taiwanese firms in the mainland could deal a blow to local enterprises remaining to pursue development in Taiwan. Businesses operating in the agricultural and manufacturing sectors would be especially hard hit, and structural unemployment would increase. According to projections by academic bodies, if domestic industries failed to adjust to this in time, it could increase the number of people out of work by fifty to eighty thousand.

iii. “Direct transportation” could spur an enormous increase in Taiwanese going to the mainland both as tourists and to engage in business activities. According to rough projections made by experts using a gravity model, if traced back from 1991 to the present, after the opening of “direct transportation”, the cumulative total of trips to the mainland by Taiwanese could increase by 1.6 times from its current level (also, consulting firms estimate that the number could increase by 20~30% per annum, while some put the figure at more than 50%), which means that the total number of such trips could increase to more than 45 million, with expenditure on such trips accumulating to hundreds of billions of NT dollars. The possible negative impact of this on Taiwan’s economy is hard to ignore.

d. Because economic development is subject to so many internal and external variables, and because economic analysis tools have so many limitations, it is extremely difficult to make a concrete and accurate assessment of the economic impact of “direct transportation” and the “three links”. In the past, assessments frequently produced subjectively colored results and tended to reflect the needs and purposes of those by or for whom they were carried out. From the government’s standpoint, considering that the economy is the lifeline for Taiwan’s national survival and development, and in face of the mainland economy’s rapid rise and its potential competition and threat, we cannot allow ourselves to make any careless missteps or rash moves. Therefore, in assessing the economic impact of “direct transportation”, the government must be especially circumspect and prudent. Most of all, it cannot fail to take into account any adverse effects that may possibly occur. Only by taking such a cautious approach will the

government be able to devise the strategy and mode of proceeding that is most beneficial to Taiwan's economic development.

(2) National Security Costs

- a. It is the national security issues involved in "direct transportation" and the "three links" that are the main focus of concern for the ruling and opposition parties as well as all sections of society. Whether or not we should implement "direct transportation" at this stage hinges on whether we are capable of dealing appropriately with the related security issues. In particular, with the Beijing government maintaining their fierce hostility toward Taiwan, and with the opening of the "three links" constituting one of the core tasks of their unification strategy, "direct transportation" could be highly problematical for national security and carry very high related costs. Therefore, many people have strong misgivings about "direct transportation", and go so far as opposing its implementation before cross-strait relations have undergone fundamental change. With this in mind, in addressing the security issues of "direct transportation", the government must take an ultra-cautious approach and carry out its planning with the utmost prudence and care. Only thus can the people's worries be dispelled and a solid base of confidence be laid for the implementation of "direct transportation".
- b. According to the results of this assessment, the implementation of "direct transportation" would involve considerable security costs, both visible and invisible:
 - (a) National defense costs would inevitably rise substantially. The security measures required to match the implementation of "direct transportation", and the adjustment to troop and various military deployments, would all entail considerable manpower and expenditure (international airports and seaports alone would need more than 1,500 additional personnel to put the requisite security precautions into effect). The total cost of other adjustments and the possible increase in the visible and invisible burden of national defense would be enormous.
 - (b) The political cost could be extremely high. If the Beijing

government continued to use “direct transportation” and the “three links” as a means to pursue their united front strategy against Taiwan and to restrict Taiwan’s space for participation in international activities, then Taiwan might have to pay an extremely high political price for the implementation of “direct transportation”.

- (c) Social security costs could increase dramatically. “Direct transportation” and the “three links” would have an extensive impact on social security. This would include the effect on social order, the greatly increased burden of disease prevention, a surge in the number of economic dependents in the population, a rising social welfare and education burden, and so on. Without appropriate responsive measures, the long-term social costs would far outweigh the economic benefits. The multiple harm and losses that Taiwan suffered between the spring and summer of this year as a result of the spread of the SARS epidemic from the mainland is a case in point. The costs borne by the government for combating SARS and providing relief to industry added up to more than NT\$50 billion, while the losses suffered by the private sector amounted to many times more.
 - (d) The economic security problems would grow increasingly severe. “Direct transportation” and the full “three links” would accelerate the widening and deepening of cross-strait economic integration across the board. The economic security problems that could result include: a sharp rise in Taiwan’s economic dependency on the mainland market, a heightening of financial risk, an outflow of core technologies, and perhaps even the marginalization of Taiwan’s economy.
- c. Viewed from the perspective of national security, the implementation of “direct transportation” hinges first and foremost on whether or not there can be an improvement in cross-strait interaction. If the Beijing government continues to adopt a hostile stance toward Taiwan, and persist in trying to absorb Taiwan’s economic strength by “promoting unification through links” and “cloaking politics in business”, to the detriment of Taiwan’s political status and national dignity, then the implementation of “direct transportation” would undoubtedly entail a huge cost to security, and the government would be all the more unable

to disregard the threat to national security and rush blindly into giving the green light to “direct transportation” across the strait. Consequently, the implementation of “direct transportation” must be built upon the foundations of an improvement in cross-strait relations, an increase in benign interaction, and joint efforts by both sides to establish mutual trust. This is the only basis on which the potential national defense, political, social and economic security costs can be substantially reduced. Meanwhile, the continued strengthening and complete establishment of related security support measures is also an essential requirement for assuring the orderly and safe implementation of “direct transportation”.

(3) National Sovereignty

- a. Although “direct transportation” is an economic matter, its implementation and related arrangements cannot be separated from issues of national sovereignty. Matters ranging from the nationality of aircraft and ships, the display of flags, the recognition of certificates, the negotiation of air traffic rights, air and sea traffic supervision, and the exercise of related public authority all touch upon issues of national sovereignty that can not easily be evaded or shelved and ignored.
- b. The Republic of China is a sovereign, independent country. That is an undeniable fact, which no Beijing regime can unilaterally negate. When matters involved in the implementation of “direct transportation” are related to national sovereignty, of course they should be subject to appropriate arrangements made through bilateral negotiations based on principles of equality. However, we are aware that the Beijing government regards “direct transportation” as a “domestic matter”, and in related laws have clearly defined cross-strait shipping as “domestic routes under special administration.” At the same time, Beijing has adhered even more firmly to the “one China” principle and “one country, two systems”. Although some Beijing government officials have on the surface displayed some flexibility, in handling matters related to “direct transportation”, they have still not stepped outside the frame of “domestic shipping” and the “one China” principle. Therefore, if we submit to the Beijing authorities’ political preconditions for the implementation of “direct transportation”, that will be bound to

seriously harm our national sovereignty and damage Taiwan's international status. Nothing could make up for such losses, and it is a price that the Taiwanese people would absolutely not be willing to pay.

- c. To safeguard the highest national interests, from the standpoint of national sovereignty, no room for blurring can be tolerated. The implementation of "direct transportation" should not be subject to any political preconditions. Related problems should be dealt with and solved through cross-strait talks based on the principle of equality and dignity. That is the only way to protect the integrity of national sovereignty and realize the mutually balanced benefits of "direct transportation with dignity."

(4) Domestic Public Opinion

- a. The Mainland Affairs Council has continued to commission professional polling organizations to conduct public opinion surveys on the issues of "direct transportation" and the "three links." The results of these polls have remained substantially consistent. In the most recent such surveys (conducted between April 2002 and February 2003), the main gist of the results was as follows:
 - (a) More than 70% of respondents (from 72% to 75%) supported conditional opening of "direct transportation" (assuming that Taiwan's security, dignity, and equality could be maintained), while fewer than 10% (from 7.8% to 9.6%) approved of unconditional opening, and 16% (from 15% to 17%) were undecided or had no opinion. Also, more than 50% of respondents supported the view that, if in the future the government were to proceed with the opening of cross-strait "direct transportation", it should attach paramount importance to considerations of national security.
 - (b) Concerning a timeframe for the opening of "direct transportation", more than 50% of respondents (from 52% to 57%) considered it best to "take it slowly", while just over 20% (from 22% to 23%) agreed with "the sooner the better". These figures reflect that, although many people approve of the conditional opening of "direct transportation", they still have considerable misgivings

about it. (In surveys conducted during the SARS epidemic in May of this year, the ratio of respondents who expressed a preference to “take it slowly” rose to 59%, demonstrating that SARS accentuated people’s misgivings about “direct transportation”.)

- (c) Regarding the possible impact of “direct transportation”, the adverse economic consequences that the respondents were most worried about were, in order of concern: a faster outflow of Taiwanese capital to the mainland (66%); the worsening of Taiwan’s unemployment rate (62%); and an exodus of Taiwan’s high-tech talent to the mainland (61%).

b. Surveys Conducted by Other Organizations

Other public opinion surveys conducted during the past year by important domestic media and civic institutions largely present a similar picture:

- (a) The ratios of respondents approving of opening the “three links” or “direct transportation” at around 60~70%, with most also in favor of doing so with conditions attached; and those opposing at 10~20%.
 - (b) Concerning the urgency of implementing cross-strait “direct transportation”, around 40~50% of respondents considering that the government should “take it slowly” and need not act with too much haste.
 - (c) On the impact of “direct transportation”, around 40% considering that it would be helpful to the economy, and more than 50% worrying about its impact on national security and holding to the need for cautious handling and proper supporting measures.
- c. Overall, the various opinion surveys have shown that, while domestic public opinion generally supports the implementation of “direct transportation” and the “three links”, that support is still subject to reservations to a certain extent. In particular, the people are highly concerned about the impact of “direct transportation” and the “three links” on national security, and worry about the negative impact of “direct transportation” on Taiwan’s economy, especially in terms of increased unemployment and outflows of capital and talent. These findings are consistent with the results of the assessment in this report.

6. The Proper Direction and Necessary Preparatory Work for the Implementation of “Direct Transportation”

(1) Establishing the Direction for the Implementation of “Direct Transportation”

- a. Implementing “direct transportation” step by step in accordance with national development objectives

The current national development objectives are: to strengthen economic development, to consolidate political democracy, to enhance international standing, and to guarantee national security. The implementation of “direct transportation” and the “three links” must follow the above national development goals, match the execution of important national development plans, and be carried forward gradually in steady, orderly steps, as the only way to ensure the overall national good and the long-term welfare of Taiwan’s people.

- b. Implementing “direct transportation” under the guiding principle of “establishing an interactive framework for peace and stability across the Taiwan Strait”

In order to ensure that “direct transportation” and the “three links” do not create a source of danger to national sovereignty and national security, and can enhance the favorable basis for advancing cross-strait economic development, the two sides of the Taiwan Strait must demonstrate mutual respect and work hard together to negotiate the opening of “direct transportation”, the “three links”, and related issues in a step-by-step manner under the guiding principle of “establishing an interactive framework for peace and stability across the Taiwan Strait.”

(2) Necessary Supporting Measures

- a. Carrying out the national economic strategy of “cultivating Taiwan deeply and positioning globally”

To respond to the new circumstances created by the development of globalization and the entry of the two sides of the Taiwan Strait to the WTO, and to give consideration to the far-reaching influence of mainland China’s economic development on Taiwan and the regional economy, at the Economic Development Advisory Conference held in

August 2001 and the Tahsi Meeting held in August 2002, the government established that “cultivating Taiwan deeply and positioning globally” would constitute the national economic strategy for the new century, and that efforts to rouse the economy would follow the direction of “investment first, the economy first, Taiwan first, investment in Taiwan first.” The government accordingly embarked on the adjustment and long-term planning of various economic measures, including the gradual and orderly adjustment of cross-strait trade and economic policy. In the wake of this year’s (2003) SARS epidemic, the government stepped up its efforts to comprehensively reshape the economy and speed up the progress of economic liberalization and internationalization, aiming at the same time to strengthen inducements for businesses to come back to invest in Taiwan, to establish a cross-strait division of industrial labor better attuned to consideration of risk, to enhance the overall competitiveness of Taiwan’s economy, and to create more favorable conditions for responding to long-term cross-strait trade and economic trends and negotiation on the implementation of “direct transportation” and the “three links”.

- b. Strengthening economic security development strategy and related mechanisms
 - (a) Speeding up Taiwan’s economic transformation. While adhering to the national economic strategy of “cultivating Taiwan deeply and positioning globally”, we must set Taiwan’s economic transformation on course toward establishing the island as an “integrator of resources.” This entails the creation of highly efficient mechanisms for business operations, while upgrading Taiwan’s technical innovation, logistics management, and systems integration capabilities, to fully integrate domestic and overseas, including mainland Chinese, manpower, capital, technology, industry, transportation, trade networks, and other economic resources, so as to speed up Taiwan’s economic transformation and gradually advance toward the goal of establishing Taiwan as an operations center.
 - (b) Raising overall competitiveness. To ensure that the flows of personnel, capital, technology, and so on are not tilted in our disfavor after the implementation of “direct transportation”, we

must draw up far-sighted policies and plans to comprehensively upgrade the all-round competitiveness of Taiwan's economy, including the overall competitiveness of its regions, cities (metropolitan areas) and industries. This will serve to offset the limitations of the Taiwan economy's lack of scale and hinterland, and enable Taiwan to compete over the long term with major regions and cities (metropolitan areas) in Asia as well as the mainland's Pearl River Delta, Yangtse Delta, and Gulf of Huanbo.

- (c) Establishing supporting measures for adjustment of the industrial structure. Such measures will be needed to deal effectively with problems such as investment outflow, the decline of certain industries, and loss of jobs stemming from industry's structural adjustment.
- (d) In conjunction with the opening of "direct transportation", the planning and implementation of cross-strait economic and trade framework consultations, to ensure the implementation of the following policy objectives:
 - i. The gradual and orderly opening of Taiwan's market to imports from the mainland, in particular agricultural products, to give domestic industry time to adjust.
 - ii. Examining whether to allow the orderly entry of people from the mainland to Taiwan for tourist and business purposes.
 - iii. Being able to fully safeguard the rights and personal security of Taiwanese investors in the mainland, and Taiwan's government being able to effectively keep track of the situation of and obtain necessary information on Taiwanese businesses in the mainland.
 - iv. Being able to maintain a balance in two-way cross-strait capital flows, and Taiwan's government being able to exercise effective supervision over Taiwan-invested financial institutions in the mainland.
 - v. Being able to effectively deal with cross-strait economic and trade disputes through institutionalized mechanisms, and to effect fundamental solutions to any losses of order in the economy.

- (e) Attracting more inward investment. This includes making plans for domestic investment spheres and specific programs that can complement “direct transportation” and the “three links”, and stepping up efforts to attract domestic and foreign investment. It also includes establishing a functional pattern for international economic cooperation, and promoting concrete economic cooperation programs with the U.S., Japan, and the member countries of ASEAN.
- (f) Setting up a national economic security system. This includes the formulation of specific indicators to measure economic competitiveness, economic specificity, and economic adaptability, and the establishment of related security response measures.
- (g) Strengthening disease prevention systems, to assure the safe movement of people and goods after the implementation of “direct transportation”.
 - i. In response to the expanding cross-strait traffic of people and goods after the implementation of “direct transportation”, improving epidemic risk control mechanisms, and continuing to enhance disease inspection and prevention capabilities at Taiwan’s borders, to prevent outside sources of infection from entering the country.
 - ii. Bolstering public health facilities and medical care safety systems, to rigorously safeguard the people’s health after the implementation of “direct transportation”.
- c. Establishing national mainstream values, and consolidating the people’s sense of national identity.
 - (a) Pressing forward with efforts to reform and deepen democracy and strengthen the protection of human rights, and consolidating the people’s sense of national identity.
 - (b) Speeding up judicial reform, to ensure social fairness and justice and put into effect the ideal of a society under the rule of law.
 - (c) Raising the people’s awareness of Taiwan’s history and native culture, to build up consciousness of our people’s shared destiny.
- d. In accordance with national security goals, and on the basis of national

security mechanisms established for Taiwan's entry to the WTO, further improving operating strategies and enforcement measures for security management in the wake of the opening of "direct transportation" and the full "three links", the scope of which includes::

- (a) Revamping of national security
- (b) Enhancement of political security
- (c) Consolidation of international status
- (d) Underpinning of social order
- (e) Stable and harmonious social development
- (f) Sustainable land use
- (g) Economic and financial stability and sustainable development
- (h) Mechanisms for benign cross-strait interaction.

(3) The Conditions for Implementation and Principles of Negotiation of "Direct Transportation"

- a. Conditions for pushing forward and implementing "direct transportation"
 - (a) Based on the will and consensus of the people of Taiwan. "Direct transportation" touches on important national interests and the long-term welfare of the people. It can only be pushed forward and put into effect if substantially founded on the popular will and broadest consensus of the people of Taiwan.
 - (b) Backed up by full supporting measures and legal mechanisms. To ensure that the implementation of "direct transportation" and the "three links" is consonant with Taiwan's overall interests, it must be accompanied at each stage by a complete range of supporting measures and regulated by legal mechanisms established for the relevant purposes.
 - (c) Normal and benign cross-strait interaction. "Direct transportation" cannot be brought about by the wishful thinking of one side alone but must have its basis in the good will of both

sides of the Taiwan Strait. Therefore, it must be subject to the precondition that the two sides are able to interact normally and benignly, and it can be implemented only after full communication and comprehensive negotiations have taken place.

b. Principles and subjects of negotiation

(a) “Direct transportation” must be implemented through cross-strait negotiations and the signing of an agreement or agreements, to ensure that it fully accords with the highest national interest. Negotiations should adhere to the following basic principles:

- i. Absolutely no concessions must be made on national sovereignty. Taiwan must certainly not be snared by Beijing’s “one China” and “internal affairs of a single country” unification strategy.
- ii. The workings of government authority must not in any way be eroded.
- iii. Overall national interests and the long-term welfare of the people must be safeguarded.
- iv. Negotiations must be under the full direction of the government.

(b) Negotiations on “direct transportation” must encompass all related economic and trade issues. The related issues include:

- i. Direct sea and air transportation agreements
- ii. Subsidiary economic and trade issues:
 - The opening of Taiwan to tourist visits by people from mainland China
 - The orderly opening of Taiwan’s market to the importation of goods from the mainland
 - Problems related to service sector investment
 - Bilateral agreement on investment protection
 - Common protection of intellectual property rights
 - Bilateral agreement on avoidance of double taxation

- Cross-strait financial transactions and supervision
- Establishing order for cross-strait agricultural and fishery interchange
- Agreement on fishing industry labor cooperation
- Cooperative mechanisms for cross-strait epidemic prevention
- Others

Conclusion

From this report assessing the impact of “direct transportation”, in general terms we can identify the following main strands of the issues entailed therein:

Firstly, the impact of “direct transportation” would be tremendously extensive. It would have both its upside and downside, but whether the advantages would be greater than the disadvantages or vice versa would depend on the actual conditions of the accompanying situation and whether or not there were sufficient capabilities in place to eradicate the negative impacts.

Secondly, the question is not whether “direct transportation” should or should not be implemented, but rather one of how it should be implemented. Majority public opinion approves of the opening of “direct transportation”, but the predominant view is that it must be implemented on the basis of “dignity, equality, and security.”

Thirdly, “direct transportation” should only be implemented when the right objective conditions are in place and the time is ripe for doing so. It also depends on whether or not a domestic consensus has been established, whether or not a complete set of subsidiary measures have been put in place, whether or not cross-strait relations have improved, and whether or not cross-strait negotiations can be started as early as possible.

Fourthly, “direct transportation” has a crucial bearing on Taiwan’s survival and development, and is certainly not a matter for experimentation. Therefore, the related preparatory work must be continued and deepened, and when the actual implementation of “direct transportation” goes ahead, it must be done in a gradual and orderly manner, step by step, as the only way to safeguard the overall national interests of Taiwan and the welfare of all its people.

Finally, we absolutely cannot proceed merely on the basis of wishful thinking and open “direct transportation” just for the sake of doing so, but must act under the preconditions of protecting the integrity of national sovereignty, safeguarding national security, and benefiting Taiwan’s economic development, and must make sure that “direct transportation ” is carried into effect with dignity, security, and firm prospects of a favorable outcome.