Investing in Taiwan: Exploring opportunities for advancing Australian business interests in China

Melbourne Policy Dialogue Report

Executive Summary

The Australian APEC Study Centre (AASC) at RMIT University, supported by a grant from the Australia-China Council (ACC), undertook research on '*Investing in Taiwan: Exploring opportunities for advancing Australian business interests in China.*' The results of the research were presented at a policy dialogue convened at RMIT on 1 May 2014.

The research findings point to significant opportunities to enhance bilateral economic linkages in industry sectors such as logtistics and warehousing, financial services, education services, healthcare and high value agriculture. The Taiwanese Government has prioritised those sectors under its Free Economic Policy Zone policy, which aims to attract foreign investment through liberalisation of policy and regulatory barriers.

The Economic Cooperation Framework Agreement (ECFA) between China and Taiwan in 2010, and the conclusion of the Services Agreement in 2013, has further liberalised Cross-Straits trade and investment restrictions and created new opportunities for Australian businesses to use Taiwan as an investment gateway into China.

Key opportunities revealed by the research papers are:

- Taiwan's cost and time advantages in warehouse construction, efficient logistics sector and social-cultural similarities with China presents opportunities for Australia businesses to use Taiwan as a regional warehousing and logistics hub to target the Greater China market.
- Increased demand for higher education in Taiwan, coupled with declining funding in Taiwan for vocational training, is leading to increased demand for vocational training courses for Taiwanese students travelling to Australia.
  - Australian education providers should consider partnering with Taiwanese education providers to develop vocational training courses in Australia, especially targeting skills demand in the Taiwanese services sector.
- Increasing Cross-Straits student mobility also presents opportunities for Australian education providers to target the market for Chinese students in Taiwan through partnerships with Taiwanese education institutions.
- Domestic financial sector policy reforms and liberalisation under ECFA has created opportunities for Australian financial service providers, such as banks engaged in trade and supply chain finance and fund managers specialising in wealth management and retirement income products, to collaborate with Taiwanese financial institutions to develop and distribute financial products that cater to the needs of the Greater China market.
  - Higher RMB trading and settlement and the growing pool of RMB-denominated savings in Taiwan also presents opportunities for Australian banks to diversify the currency mix of their funding liabilities through RMB fund raising in Taiwan.
- There would be value in enhancing the institutional framework to promote the Australia-Taiwan economic relationship.

Introduction

The Australian APEC Study Centre (AASC) at RMIT University undertook a research project on '*Investing in Taiwan: Exploring opportunities for advancing Australian business interests in China,'* supported by a grant from the Australia-China Council.

The aim of the project was to explore opportunities for Australian businesses to invest in Taiwan to enhance the bilateral economic relationship, as well as to benefit from special expertise and knowledge in Taiwan on doing business in China.

The study identified financial services, education services, and warehousing and logistics services in Taiwan as three industry sectors where Australian businesses can potentially benefit from investing in Taiwan. Opportunities in those sectors have emerged as a result of domestic Taiwanese reforms and liberalisation of Cross-Straits trade and investment following the signing of the Economic Cooperation Framework Agreement (ECFA) between China and Taiwan in 2010.

The key activities of the project included a meeting of policymakers, industry experts and representatives from academia in Taipei on 21 October 2013 to discuss and agree areas of research, terms of reference and work-plan to produce discussion papers on specific sector opportunities. List of participants for the Taiwan meeting are shown in Attachment VIII. The AASC subsequently undertook the research and convened a policy dialogue in Melbourne in May 2014 to discuss research findings and conclusions on policy reforms and initiatives required to further enhance investment opportunities in Australia, Taiwan and China. List of participants for the Melbourne Dialogue are shown in Attachment IX.

Research undertaken by AASC was in collaboration with the Taiwan Institute of Economic Research (a leading Taiwanese think-tank), the General Chamber of Commerce in Taiwan (a peak industry body representing the Taiwanese services sector) and Professor Zhu Weiyi from the China University of Political Science and Law, who specialises on Chinese securities law, and other stakeholders.

The Melbourne policy dialogue was attended by representatives from the Department of Foreign Affairs and Trade and industry stakeholders such as the Australia Taiwan Business Council and the Business Council of Australia.

Research findings and policy dialogue discussions

Taiwan as an investment gateway into China

The study found significant opportunities for Australian businesses to invest in Taiwan to enhance the bilateral economic relationship, as well as to benefit from Taiwanese experience and knowledge of doing business in China. The opportunities identified through this work have arisen as a result of both domestic Taiwanese policy reforms and the signing of ECFA in 2010, as well as the Cross-Straits Services Agreement, which was completed in 2013 but is yet to be ratified.

The Taiwanese Government is promoting investment in five priority sectors (logistics, education, financial services, healthcare and high value agriculture) by establishing Free Economic Policy Zones (FEPZs). ECFA and the Services Agreement also liberalises Cross-Straits trade and investment opportunities in those sectors, albeit to vary degrees.

Participants of the Melbourne policy dialogue cited these policy reform initiatives as clear evidence of Taiwan's focus on liberalising its economy, creating opportunities for Australian businesses to not only target the Taiwanese and Chinese markets, but also other South-East Asian market. The experience of Taiwanese businesses in operating in ASEAN economies was stressed, with Taiwanese financial services footprint in South-East Asia cited as an example of how in some sectors Taiwanese businesses have a larger market share in region compared to Australian businesses.

Furthermore, research findings point to the continuing high Taiwanese tariff rates on agricultural products and the complexity of the tariff regime, in terms of the number and structure of tariff measures in force, as a significant impediment to growth in bilateral trade and investment. Given existing low trade barriers in Australia, unilateral Taiwanese tariff reforms on agricultural products is especially important since the Taiwanese Government has identified high-value agriculture as one of the five priority sectors under its FEPZ policy.

Taiwanese policymakers participating in the policy dialogue also expressed Taiwanese interest in joining the Trans-Pacific Partnership (TPP), and described current reform initiatives as building blocks towards enacting wider structural economic reforms needed to join high-level agreements such as the TPP and the Trade in Services Agreement (TiSA).

Joining high-level agreements was also highlighted as important to address the negative impact likely to emerge from bilateral trade agreements between South Korea and the US, and Australia. South Korea is regarded as a major economic competitor by Taiwan in some industries sectors such as high-end manufacturing.

Taiwanese policymakers stressed the importance of signing a bilateral Investment Protection Agreement between Taiwan and Australia to encourage more investment flows between the two economies. Taiwan's success in reaching bilateral trade agreements with New Zealand and Singapore suggests that a similar agreement with Australia should be possible. Australian policymakers noted that the Investment Promotion Accord signed between Australia and Taiwan at the 15th Australia-Taiwan Bilateral Economic Consultations in Taipei in June 2011 addresses some investor concerns about investment protections.

Overall, dialogue participants observed that the bilateral economic relationship between Australia and Taiwan does not receive sufficient attention, despite Taiwan being Australia's 6th largest export market. The need for more high-level official bilateral engagement was stressed. One of the main conclusions of the Centre's study also addresses this point from a business perspective.

An effective strategy for enhancing bilateral economic linkages may involve Taiwanese government agencies, businesses and industry groups taking a more proactive approach to promote Taiwan's FEPZ policies amongst Australia's business community. This may require a comprehensive promotional campaign that engages directly with Australian businesses, industry groups and other private sector stakeholders to highlight investment opportunities in the five industry sectors the Taiwanese Government is keen to promote through FEPZs. Those industry sectors include high value agriculture, logistics, healthcare, education and financial services. The need for more detailed analysis and business case studies to identify the business opportunities in those five priority sectors is also required.

Finally, participants expressed the view that recent political economy challenges faced by the Taiwanese Government in ratifying the Cross-Straits Services Agreement is unlikely to having a lasting impact on the improving trajectory of Cross-Straits economic relations.

Investment opportunities in Taiwan's logistics sector

Attracting investment in the logistics sector is a key priority of the Taiwanese Government under its FEPZ policy. Opportunities to invest in Taiwan's logistics sector arise from significant cost and efficiency advantages for businesses, including Australian businesses, exploring opportunities to establish a warehousing and supply chain hub to service the Greater China market.

Data from the World Bank's Ease of Doing Business Index shows that the cost and time required to build a warehouse in Taiwan are the lowest and second-lowest respectively when compared to China, Hong Kong and Australia

Furthermore, the World Bank's Logistics Performance Index data for 2014 shows that Taiwan is ranked in 19th position (out of 160 economies) in logistics performance. This is significantly higher than China's position (28th), and is on par with Australia (16th) and Hong Kong (15th). The two latter economies are known to have highly efficient logistics and supply chain management sectors.

Overall, Taiwan's relatively strong supply chain performance, skilled IT workforce and capacity, and its geographic and lingo-cultural similarities with China makes it an attractive location for Australian businesses to establish their regional warehousing and logistics hub to support operations in the Greater China market.

Opportunities in Taiwan for Australian education providers

Foreign investment in education is another priority for the Taiwanese Government. Taiwan currently accounts for only 1 per cent of total international student enrolments in Australia, with the US and UK being the more preferred destination for Taiwanese students studying overseas.

Given Australia's success in attracting international students from China and other Asian destinations, there are opportunities for Australian education providers to increase engagement with Taiwanese educational institutions and promote more trade in education services.

This is especially applicable for vocational training and skills development, with market trends showing that declining share of funding for vocational training and skills development in Taiwan may be leading to increased demand for vocational training amongst Taiwanese students travelling to Australia. It presents significant opportunities for Australian education providers to capitalise on Australia's well-developed skills training infrastructure, resources and know-how to create more high-value course offerings that will be attractive in the Taiwanese market, especially targeting vocational training in the services sector.

However, dialogue participants noted that Australian education providers need to market themselves better to attract more students from Taiwan. Developing more flexible exchange programs between educational institutions could be a beneficial strategy, especially since nearly one-third of 35,000 Working Holiday Makers who travel to Australia from Taiwan engage in English language study.

Participants in the dialogue also highlighted opportunities for Australian students to study in Taiwan under the Australian Government's new Colombo Plan. The new Colombo Plan is an education exchange program aim to create study and work opportunities overseas for Australian students. It presents a significant opportunity for Australian students to study

Mandarin Chinese in Taiwan. Exchange programs under the new Colombo Plan are expected to commence in 2015.

Quite apart from opportunities to attract more Taiwanese students to Australia, some dialogue participants expressed skepticism about Australian education providers investing in Taiwan's education sector. They argued that Taiwan's ageing and small education market does not make it an attractive investment destination, and FEPZ policies are unlikely to be effective in attractive investment in the education sector given study campuses tend to be located in urban areas.

Those concerns were also counterbalanced by the view that increased student mobility between China and Taiwan, although still low but not insignificant, presents significant opportunities for Taiwanese and Australian education providers to collaborate to target the Chinese market. Participants also advocated for more collaboration between Australia and Taiwan researchers to support business innovation.

Opportunities in Taiwan's financial sector

Liberalisation of Cross-Straits trade in financial services has created opportunities for Australian financial service providers to collaborate with Taiwanese banks and life insurers with experience of the Chinese market to create and jointly distribute financial products that will cater to the financial service needs of Chinese consumers. These opportunities have also resulted from the strong focus on domestic financial sector reforms in both Taiwan and China, especially in the banking, securities and wealth management market segments.

The reforms have created opportunities for Australian financial service providers such as ANZ, which operates a subsidiary in Taiwan, to provide financial services targeting the Greater China market. In fact, ANZ Taiwan already has a relatively large market share of trade financing in the Taiwanese market. Foreign financial service providers have the opportunity to further promote trade and investment by providing funding to Taiwan's backward and forward-linkage industries that make substantial domestic and foreign value add contributions to regional value chains.

However, participants noted that a greater focus on domestic businesses indirectly involved in regional value chains is not without its risks. Lending to domestic tradable-exposed sectors, especially through small and medium enterprises (SMEs), requires more local knowledge and retail focus, which can be a risky strategy. Participants also opined that growing a retail banking business in Taiwan may require mergers and acquisitions (M&A), and there is considerable uncertainty over the Taiwanese Government's policy stance on M&A activity by foreign financial service providers.

China's wealth management market was cited as a growth area for Australian fund managers to target through collaborate with Taiwanese financial institutions. China and Taiwan have undertaken substantial financial policy reforms in recent years to attract foreign institutional investors and to encourage financial market innovation and greater product choice. Special concessions on wealth management and other financial services have also been providedby China to Taiwan under ECFA, some of which are listed in discussion paper 5 (Attachment VI).

Participants highlighted the lack of expertise and knowledge on wealth management product design, risk management and compliance, and enhancing efficiencies in operating technology platforms needed to provide such financial services as significant constraints that are limiting the scale and success of Cross-Straits financial market connectivity. Australian fund managers, with their expertise in operating wealth management businesses, can play a strong role in addressing existing gaps in operations and capacity by collaborating with Chinese and Taiwanese financial service provdiers.

The rapid growth of RMB settlement and liquidity in Taiwan also makes it an attractive destination for major Australian banks looking to obtain low-cost RMB funding to diversify their funding mix. RMB settlement in Taiwan increased 16-fold in 2013, making it the fourth largest offshore RMB Centre after Hong Kong, Singapore and London.

The phenomenal increase in RMB deposits and transactions has created opportunities for financial lenders to finance more trade and investment with China in RMB. Furthermore, Australian banks, which rely heavily on foreign funding obtained in the US and UK markets, now have the opportunity to diversify the funding currency mix by raising funds and capital in RMB in Taiwan.

However, finance industry experts identified the large gap in RMB liquidity between Hong Kong (US$20 billion) and Taipei (US$0.6 billion) as a significant impediment to RMB fund raising in Taiwan by Australian financial institutions.

Establishing a high-level bilateral policy advisory group

The dialogue discussed the idea of establishing a high-level advisory group to develop policy reform proposals and recommendations aimed at promoting more trade and investment between Australia and Taiwan. The advisory group could function as a platform where public and private sector policy experts discuss policy reform ideas and advise Australian and Taiwanese policymakers on reforms needed to remove policy impediments affecting the bilateral economic relationship. Dialogue participants recommended that this idea be further discussed at the Australia-Taiwan Bilateral Economic Consultations in Canberra on 18 June 2014.

Attachment I

Summary of research findings

Taiwan as an investment gateway into China

- Taiwan should undertake unilateral tariff reforms to promote more trade with Australia and other trading partners.

  - Reforms should not only prioritise the reduction of tariffs rates, especially on agricultural products, but should also look to simplify the tariff regime by reducing the number and structure of tariff lines.

- There is a need for deeper engagement to enhance bilateral trade and investment linkages between Australia and Taiwan. The establishment of a policy advisory group, such as the one formed to prepare these discussion papers, to advise respective governments on approaches to enhance bilateral economic linkages may prove to be valuable.

- Given the Taiwanese Government's policy to promote more investment in Taiwan through deregulated Free Economic Pilot Zones (FEPZ), an effective strategy for enhancing bilateral economic linkages may involve Taiwanese government agencies, businesses and industry groups taking a more proactive approach to promote Taiwan's FEPZ policies amongst Australia's business community.

  - A comprehensive promotional campaign that engages directly with Australian businesses, industry groups and other private sector stakeholders to highlight investment opportunities in the five industry sectors (high value agriculture, logistics, healthcare, education and financial services) the Taiwanese Government is keen to promote through FEPZs should yield significant benefits.

Investment opportunities in Taiwan's logistics sector

- Warehousing and supply chain logistics is an industry sector where Australian businesses can benefit from investing in Taiwan. Taiwan's relatively strong supply chain performance, skilled IT workforce and capacity, and its geographic and lingo-cultural similarities with China makes it an attractive location for Australian businesses to establish their regional warehousing and logistics hub to support operations in the Greater China market.

Opportunities in Taiwan for Australian education providers

- The declining share of funding for vocational training and skills development in Taiwan may be leading to increased demand for vocational training amongst Taiwanese students travelling to Australia.

  - Australian education providers should capitalise on Australia's well-developed skills training infrastructure, resources and know-how to create more high-value course offerings that will be attractive in the Taiwanese market.

- Increased student mobility from mainland China to Taiwan for short courses and exchange programs in Taiwanese institutions presents a significant opportunity for

Australian education providers to substantively expand their market reach in China through collaboration with Taiwanese partners.

Opportunities in Taiwan's financial sector

- Liberalisation of Cross-Straits trade in financial services creates an opportunity for Australian financial service providers to collaborate with Taiwanese banks and life insurers with experience of the Chinese market to create and jointly distribute financial products that will cater to the financial service needs of Chinese consumers.

- Foreign banks now have an opportunity to develop capacity to implement a comprehensive trade financing strategy that provides solutions to enterprises engaged across regional value chains. This should enable foreign banks such as ANZ to attain a more significant position in promoting trade and cross-border investment financing in the Asia-Pacific.

- The rapid growth of RMB settlement and liquidity in Taiwan also makes it an attractive destination for major Australian banks looking to obtain low-cost RMB funding to diversify their funding mix.

Attachment II

Discussion paper 1

Taiwan as an investment gateway into China: An Australian perspective

Executive Summary

Australia and Taiwan have a significant trade relationship. Taiwan is Australia's 6th largest export market, with commodities such as iron ore and coal constituting more than 90 per cent of Australian exports to Taiwan. Australian imports from Taiwan range from telecommunications equipment and computers to refined petroleum. Overall, the bilateral trade relationship has been growing but Taiwanese trade barriers, especially tariffs on agricultural products, pose notable impediments to further growth in the bilateral trade, especially in new product markets such as food and agricultural processing.

Investments flows between Australia and Taiwan, although not as significant as bilateral trade flows, have also been growing in recent years. Taiwan's signing of an Economic Cooperation Framework Agreement (ECFA) with China in 2010 – which aims to liberalise Cross-Straits trade and investment – provides significant opportunities for Australian businesses to grow the bilateral investment relationship by investing in Taiwan to target entry into the Chinese market. Australian business can do this by collaborating with Taiwanese businesses with expertise and experience in and of China, as well as taking advantage of Taiwan's close geographical proximity and linguistic and cultural similarities with the China.

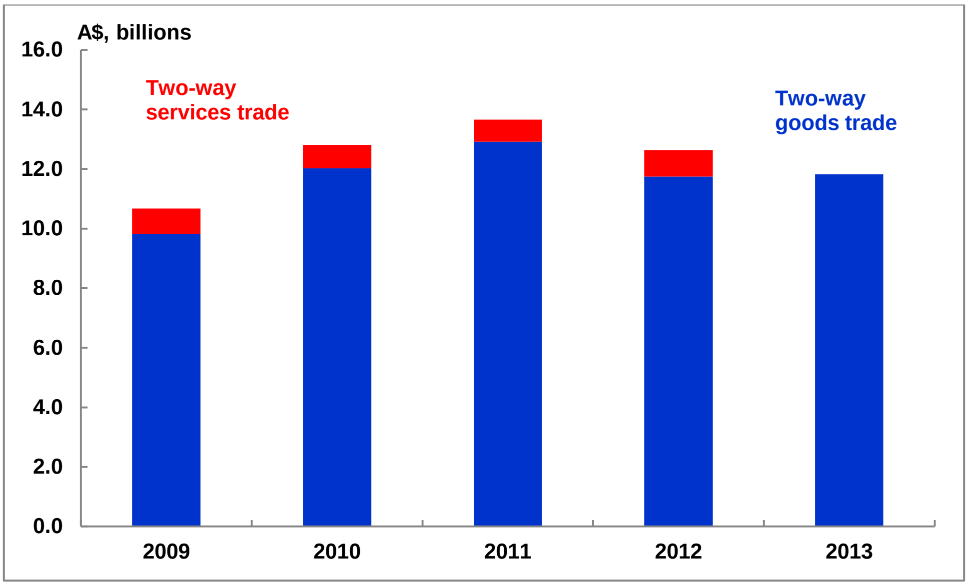
Finally, the general trajectory and nature of economic cooperation between Taiwan and China has an important bearing on business confidence in Taiwan. Recent developments in Taiwan point to political economy challenges policymakers will face in further deepening the Cross-Straits economic relationship, despite evidence suggesting that Taiwan benefits more from trading with China than its other trading partners. The skill and leadership with which policymakers manage these emerging challenges will determine how well Taiwan is able to position itself as an investment gateway into China.

Bilateral trade between Australia and Taiwan

Australia and Taiwan have a robust and important trade relationship. Taiwan is Australia's 6th largest export market with more than A$8 billion in exports in the financial year 2012-13.[1] Merchandise exports such as coal, iron ore and other commodities account for more than 90 per cent of Australia's exports to Taiwan. Services exports were only A$647 million in 2012-13, mainly consisting of tourism and educated-related travel.

Australian imports from Taiwan were approximately A$4.1 billion in 2012-13. Like exports, merchandise goods also accounted for more than 90 per cent of imports, but the type of merchandise imported varied ranging from refined petroleum to manufactured goods such as telecommunications equipment and computers. Services imports from Taiwan were just over A$300 million in 2012-13, with transport (A$147 million) and travel (A$100 million) services accounting for the majority share.

Chart 1: Two-way bilateral trade in goods and services



Source: Australian Bureau of Statistics, Series 5368
Note: Data on two-way services trade for calendar year 2013 is not yet available.

Overall, two-way trade between Australia and Taiwan, at A$11.5 billion in 2012-13, fell by 9.4 per cent compared to the previous year. Market analysts have partially attributed this decrease in the nominal trade figure to the fall in global commodity prices, as well as a loss of external competitiveness due to the high Australian dollar.

Notwithstanding the recent slowdown, tariff and non-tariff barriers pose a significant impediment to bilateral trade between Australia and Taiwan, and further liberalisation is needed to boost trade.

Tariff regimes

Average tariff rates applied by Taiwan on its 'Most Favoured Nation' (MFN) trading partners were 6.1 per cent in 2012 compared to 2.7 per cent average MFN tariff rates applied by Australia (Table 1). Furthermore, Taiwan's average tariff rates on agricultural products, at 16.4 per cent, are markedly higher compared to Australia's 1.2 per cent average tariff rate on

[1] See http://www.dfat.gov.au/geo/fs/taiw.pdf

agricultural products. Taiwan's relatively high agricultural tariffs are a major impediment to more bilateral trade in agricultural commodities, as well as higher value-add food manufacturing and processing businesses.

Table 1: Tariff rates in Taiwan and Australia

(2012)	**Taiwan**	**Australia**
Average tariff rate	6.1	2.7
Average tariff rate - Agriculture	16.4	1.2
Zero-tariff lines (% of total)	28.6	61.5
Zero-tariff imports (% of total)*	59.8	51.3

Source: World Trade Organisation.
Note: Tariff rates apply to 'Most Favoured Nation' status recipients.* Import data is for 2011, data for 2012 is still unavailable.

Further examination beyond headline figures reveals that Taiwan applies zero tariffs on 28 per cent of all product categories, and those zero tariff products account for nearly 60 per cent of all Taiwanese imports. On the other hand, Australia applies zero tariffs on a wider range of products (60 per cent of product categories), and those products constitute 51 per cent of Australia's total imports.

Taiwan's higher share of zero tariff imports suggests its tariff regime is not necessarily designed to maximise tax revenue intake for the Taiwanese Government, but rather, is designed to limit trade in a relatively wide range of product categories. This is also evident from the World Trade Organisation's (WTO) last trade policy review of Taiwan in 2010 which showed that tariffs make up a declining share of total tax revenue in Taiwan, estimated to be about 4.5 per cent in 2009.[2]

The WTO also found existing tariff structures in Taiwan to be relatively complex, involving multiple rates (86 *ad valorem*, 16 specific and 48 alternate duties). In contrast, the WTO's review of Australian trade policy found that 96 per cent of all tariffs were within the zero to five per cent range, with tax intake from tariffs compromising of less than 2 per cent of total tax revenue. The tariff structure was also assessed to be relatively simpler with only seven rates (four *ad valorem*, one specific, one compound and one alternate). The WTO also reported that further unilateral tariffs reductions are expected by the Australian Government by 2015.

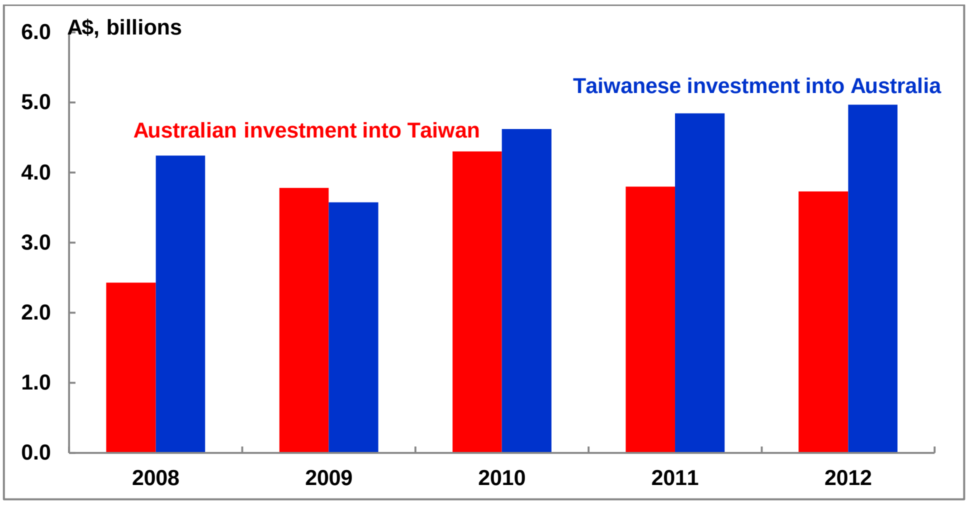
This comparison of the two economy's tariff regimes indicates that Taiwan can make a significant contribution to enhancing bilateral trade by not only reducing tariffs unilaterally, but also simplifying its tariff structure and reducing the number of tariff lines.

The bilateral investment relationship and policy regimes

Investment flows between Australia and Taiwan are not as substantial compared to the bilateral trade relationship. Taiwanese investment into Australia was just under A$5.0 billion in 2012, constituting less than 1 per cent of total foreign investment into Australia. However, Taiwanese investment has been increasing notably in recent years, rising from A$3.5 billion in 2009 to be almost 40 per cent higher by the end of 2012 (Chart 2).

[2] World Trade Organisation, Trade Policy Review: Taiwan, 28 July 2010.

Chart 2: Investment flows between Australia and Taiwan



Source: Australian Bureau of Statistics, Series 53520

Australian investment into Taiwan was A$3.7 billion in 2012, with portfolio investments into Taiwan's capital markets constituting 70 per cent of total investment. Furthermore, Australian investment into Taiwan has dipped in recent years, falling from A$4.3 billion in 2010 to A$3.8 billion in 2011 and remaining largely unchanged thereafter.

Notwithstanding the fact that Australian investment overseas generally moderated over the same period, it is not clear if the fall in investment into Taiwan is reflective of macroeconomic conditions in the Taiwanese economy or point to investment policy-related concerns in the two economies. Overall, Australian FDI into Taiwan is weak, and the early evidence suggests the Economic Cooperation Framework Agreement (ECFA) between China and Taiwan has made little contribution to enhancing Australian investment into Taiwan.

Taiwan's investment policy regime

Taiwan has an investment screening regime, not unlike Australia, albeit with more rigorous provisions in key sectors. Investment screening occurs when foreign takeover proposals constitute a one-third or higher controlling stake in Taiwanese firms, with screening undertaken by the Ministry of Economic Affairs (MOEA).[3]

Restrictions on inbound investment are based on criteria ranging from national security to health or environmental considerations. Some of the industries subject to investment prohibitions or restrictions include forestry and logging, chemical manufacturing, selected types of land-based transportation, postal services, postal saving and remittance services, radio broadcasting and special recreational services.

The screening process also adheres to implicit time targets with the approval process usually expected to take two days, on average, for investments valued at NT$500 million. The expected screening time for investments valued at between NT$500 million to NT$1 billion averages three days, which subsequently rises to three weeks for investments valued at more than NT$1 billion or more.

[3] See reference 2, pg. 103.

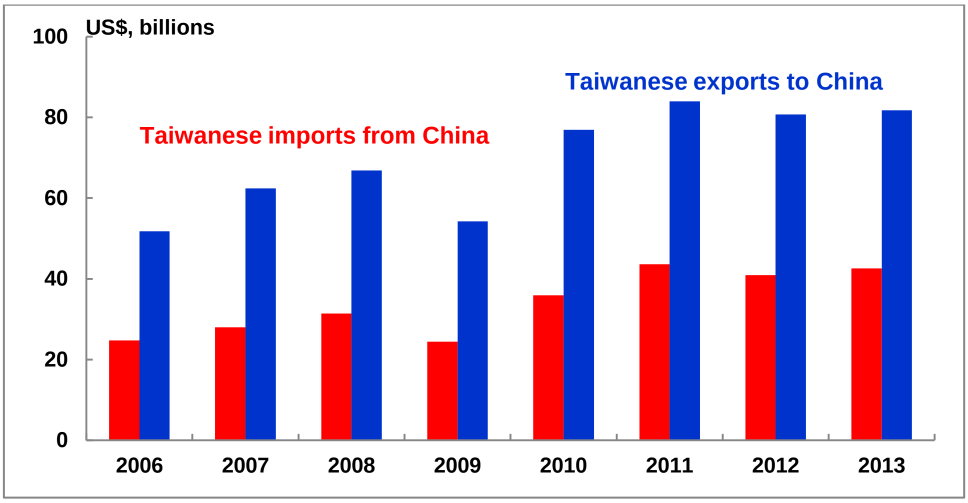
Taiwan has bilateral investment protection agreements with 29 countries[4], with each agreement containing MFN clauses that are applied on a reciprocal basis. By end-2009, Taiwan had concluded income double tax avoidance agreements with 17 countries. It also has bilateral agreements exempting income tax on shipping and air transport enterprises with 13 economies. Importantly, Taiwan has no formal investment-related agreements with Australia, although there are more than 30 memoranda of understanding for bilateral cooperation on different types of businesses and industry sectors.

ECFA and Cross-Straits trade and investment

The Economic Cooperation Framework Agreement (ECFA) is a preferential trade agreement signed between China and Taiwan in 2010 to promote trade and investment. ECFA offers tariff concessions on 539 Taiwanese products and 267 Chinese product categories. In addition to tariff concessions, China is also expected to ease trade restrictions on 11 services sectors ranging from banking and insurance to medical care services. In response, Taiwan is expected to ease trade restrictions on 7 services sectors, including banking and cinema.[5]

The signing of ECFA has had a positive impact on Cross-Straits trade, with Taiwanese exports to China increasing by more than 40 per cent from US$54 billion in 2009 to US$77 billion in 2010. Exports have continued to grow steadily since then to be US$82 billion at the end of 2013 (Chart 3). Taiwanese imports from China has also increased markedly over the same period, rising from US$24 billion in 2009 to US$43 billion in 2013.

Chart 3: Cross-Straits trade (nominal value)



Source: National Statistics, Republic of China (Taiwan)

Despite the growing trade relationship, Cross-Straits investment remains a sensitive issue with constraints on direct investment from China. However, Taiwan's policy regime for investment from China has been progressively liberalised based on a positive list of 192 product categories or industry sectors where Cross-Straits investment is allowed.[6] Stringent requirements for Chinese companies to list on Taiwan's stock market have also been eased

[4] Argentina, Belize, Burkina Faso, Costa Rica, the Dominican Republic, El Salvador, The Gambia, Guatemala, Honduras, India, Indonesia, Liberia, FYR of Macedonia, Malawi, Malaysia, the Republic of the Marshall Islands, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, St. Vincent, Saudi Arabia, Senegal, Singapore, Swaziland, Thailand, the United States, and Viet Nam.

[5] BusinessWeek, '*China Pulls Taiwan Closer With Historic Trade Deal (Update1)*', 12 August 2009.

[6] See reference 2, pg.31.

and China's qualified domestic institutional investors (QDIIs) have been allowed to invest up to a maximum of US$500 million in the Taiwanese stock market. The aim of those policies is to aid the development of a funds management industry in Taiwan, as well as enabling the financial sector to deepen and become more liquid.

Similar to inbound investment policies, Taiwan has also been liberalising its outbound investment policy regime targeting China. The ceiling on outbound Cross-Straits investment by Taiwanese businesses has been raised from 40 per cent of net worth to 60 per cent.[7] The ceiling on capital flows to China by individual investors has also been raised from US$2.67 million to US$5 million per year.

A previous ban on non-Taiwanese investors from raising funds in Taiwan to invest in China has been lifted and local subsidiaries of non-Taiwanese businesses have been exempted from any investment caps. Investment review procedures conducted by the MOEA's Investment Commission have also been streamlined with special assessments of individual proposals only being required if the size of the investment is larger than US$50 million.[8]

These are important policy initiatives that should enhance Cross-Straits trade and investment and make Taiwan a more attractive investment destination for Australian and other international investors. Notwithstanding the economic importance of these reform measures, the political environment within Taiwan to further enhance Cross-Straits trade has become more challenging, even as evidence suggests Taiwan has benefitted significantly from trade with China.

[7] Government Information Office online information.
Link: http://www.gio.gov.tw/ct.asp?xItem= 38830&ctNode=2462

[8] Mainland Affairs Council online information.
Link: http://www.mac.gov.tw/english/index1-e.htm

Conclusions

- Taiwan should undertake unilateral tariff reforms to promote more trade with Australia and other trading partners.

    - Reforms should not only prioritise the reduction of tariffs rates, especially on agricultural products, but should also look to simplify the tariff regime by reducing the number and structure of tariff lines.

    - The statistical agencies of Taiwan, Australia and China could collaborate to develop more accurate statistics of value chains between the three economies to inform discussions on trade and investment policy reforms.

- Taiwanese interest in negotiating an Economic Cooperation Agreement (ECA) with Australia as a way of deepening bilateral economic linkages, similar to Taiwan's agreement with New Zealand, is not likely to be reciprocated by the Australian Government due to limited expected gains to Australia from negotiating such an agreement.

    - The Australian economy is already relatively open following three decades of unilateral trade and investment liberalisation undertaken by successive Australian governments. There are very few protections currently in place that prevent Taiwanese businesses access to the Australian market.

    - With Australia currently focused on high level TPP negotiations, and given the relative disparity in openness between the two economies, the Australian Government is likely to expect Taiwan to converge to TPP standards over time, or at least a similar level of openness with some qualifications specific to Taiwan's national interest.

- The need for deeper engagement to enhance bilateral trade and investment linkages is indeed justified, and the responsibility for overcoming inertia to achieve desired outcomes in promoting more trade and investment falls equally on both Australian and Taiwanese public and private sector stakeholders.

    - The establishment of a high-profile policy advisory group, comprising of senior Australian and Taiwanese policymakers and business leaders, to advise respective governments on approaches to enhance bilateral economic linkages may also prove to be valuable.

Attachment III

Discussion paper 2

Taiwan’s trade value chains and investment opportunities in logistics

Executive Summary

In recent years the Taiwanese Government has focused on establishing deregulated free economic pilot zones (FEPZs) with the explicit aim of attracting foreign investment to Taiwan. More specifically, the Taiwanese Government has identified five industry sectors where it would like to promote more foreign investment through FEPZs. Those sectors include: high value add agriculture, healthcare, education, logistics and financial services.

Warehousing and supply chain logistics is an industry sector where Australian businesses can benefit from investing in Taiwan. Building warehouses in Taiwan is significantly cheaper compared to China and Hong Kong. Taiwan’s logistics industry is also quite developed and on par with Hong Kong and Australia, two economies which are known for having efficient logistics and supply chain management practices. Taiwan’s relatively strong supply chain performance, skilled IT workforce and capacity, and its geographic and lingo-cultural similarities with China makes it an attractive location for Australian businesses to establish their regional warehousing and logistics hub to support operations in the Greater China market.

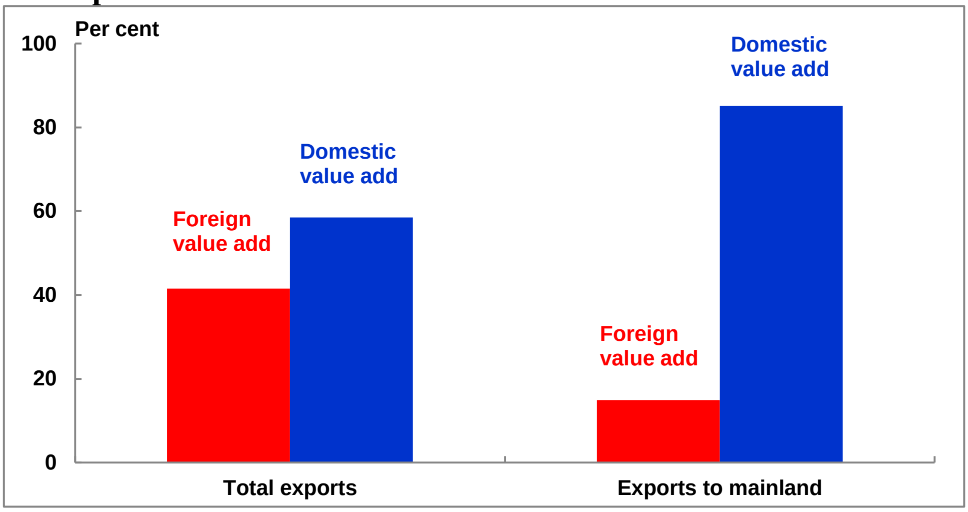
Asian businesses targeting Taiwan as an investment gateway into China is already an emerging trend. Australian businesses can also follow suit and establish a strong foothold in Taiwan, but bilateral engagement, especially direct engagement between Australian and Taiwanese businesses, has to improve for Australian businesses to be sufficiently aware of market opportunities in Taiwan and ways to capitalise on them.

Value chains in Cross-Straits trade

A close inspection of trade value chains between Taiwan and China using the latest (2009) OECD data provides interesting insights into economic benefits Taiwan has enjoyed from Cross-Straits trade.

The domestic value add embodied in Taiwan's exports to all its trading partners is 58 per cent, compared to 85 per cent domestic value add embodied in Taiwan's exports to China (Chart 4). This suggests that in terms of domestic economic activity generated the Taiwanese economy benefits significantly more from its exports to China than other export destinations. Focusing on imports, the foreign value add embodied in imports to meet Taiwanese domestic demand is approximately 26 per cent, of which, China accounts for 40 per cent. This implies that approximately 10 per cent of Taiwan's annual consumption of all goods and services in 2009 depended directly on imports from China.

Chart 4: Comparison of Taiwanese value add between total and Cross-Straits exports



Source: OECD-WTO database on Trade in Value Added, Author's calculations

The services sector accounts for 43 per cent of total domestic value added in Taiwan's gross exports, with the remaining contribution coming from the manufacturing and primary sectors. Importantly, close to 70 per cent of the services value add in exports comes from indirect services.

Indirect services refer to the contribution made by service providers that cater to the broader market as a whole without specifically targeting exporters. For example, if exporters use a logistics company to transport goods from the manufacturing facility to a warehouse located next to a port, the storage service provided by the warehouse operator would be a 'direct service' to exporters by virtue of the warehouse being specifically located next to a port. On the other hand, the transport service provided by the logistics operator, which can also be used by domestic producers to move goods locally, would be considered to be an 'indirect service' to exporters. The fact that 70 per cent of services value add in gross exports comes from indirect service providers highlights the importance of enhancing Taiwanese services sector productivity behind the border to boost exports and grow the domestic economy.

An important initiative undertaken by the Taiwanese Government to that end involves establishing deregulated free economic zones to attract foreign investment in high value add industries, especially in the services sector.

Box 1: Taiwan's Free Economic Pilot Zones (FEPZ): Strategy, policies and timeline
The Government's key objectives behind establishing free economic pilot zones are to:

- **Liberalise** rules and regulations to create a favourable business environment
- **Internationalise** Taiwan's economy by allowing more foreign investment, and gradually transition to high-level TPP standards on trade and investment
- Be **forward-looking** by promoting the development of high value industries

To meet those objectives, the policy measures to be implemented focus on:
- Facilitating the free movement of goods, people and capital
- Opening markets to align with other countries
- Creating a friendly tax environment
- Promoting cross-border industrial cooperation
- Providing fast and easy land acquisition

Implementation and targeted industries
The development of FEPZs is expected to be undertaken in three phases. The first phase was initiated in August 2013 and involved the revision of 13 administrative regulations. Some of the key revisions include:
- Relaxing regulations for investment from China
- Allowing rezoning of agricultural land for FEPZ use
- Relaxing licensing regime for agricultural processing sites
- Creating streamlined processes for sea shipment
- Liberalising rules for foreign professionals to be employed in FEPZs

The second phase is currently underway with the enactment of legislation and a focus on establishing high value added service industries. The Taiwanese Government has identified five key sectors to promote through FEPZs. Those sectors include:

- Smart logistics
- International healthcare services
- Value added agriculture
- Financial services
- Education innovation

Source: National Development Council, Republic of China (Taiwan), Link: http://www.fepz.org.tw/en/default.aspx

Opportunities in the warehousing and logistics sector

In October 2010, the Taiwanese Government launched an Action Plan for Development of the International Logistics Services Industry to strengthen and internationalise Taiwan's supply chain and logistics industry. The Action Plan focused on raising the efficiency of customs clearance, improving supply chain infrastructure, enhancing logistics services and promoting more cross-border development and cooperation.

Apart from close proximity, cultural and linguistic similarities with China, Taiwan presents significant cost and efficiency advantages for businesses, including Australian businesses, exploring opportunities to establish a warehousing and supply chain hub to service the Greater China market. Data from the World Bank's Ease of Doing Business Index shows that the cost and time required to build a warehouse in Taiwan are the lowest and second-lowest respectively when compared to China, Hong Kong and Australia (Table 2).

Table 2: Building a warehouse

2012	Cost (US$)	Time required
Australia	9,018	112
China	22,786	270
Hong Kong	5,978	67
Taiwan	3,314	94

Source: World Bank Ease of Doing Business

Furthermore, the World Bank's Logistics Performance Index data for 2014 shows that Taiwan is ranked in 19th position (out of 160 economies) in logistics performance. This is significantly higher than China's position (28th), and is on par with Australia (16th) and Hong Kong (15th). The two latter economies are known to have highly efficient logistics and supply chain management sectors.

Table 3: WB Logistics Performance Index

2014	LPI score	Rank
Australia	3.81	16
China	3.53	28
Hong Kong	3.83	15
Taiwan	3.72	19

Source: World Bank

Taiwan's already high-performing logistics and IT services sector, low infrastructure costs, and the Government's policy focus on establishing deregulated economic zones make investment in Taiwan an attractive opportunity worthy of consideration for Australian businesses looking for cost effective ways to enter the China market. Australian businesses ranging from commodity to agricultural exporters may well benefit from establishing the supply chain infrastructure needed to service the Chinese market in Taiwan.

Similar efforts have already been undertaken by other international logistics providers, such as Kerry Logistics from Hong Kong which invested in Taiwan's TJ Logistics in 2008. Following further integration with its China business, Kerry Logistics now provides integrated supply chain services to multinational businesses such as IBM, Dell and 3M in the Greater China region. Furthermore, by taking advantage of opportunities arising from the ASEAN plus One initiative, Kerry Logistics has now become the largest third-party logistics provider in East Asia.[9]

[9] See http://www.digitimes.com.tw/seminar/dois_20130930/pdf-a/07_Logistics%20Service%20Industry%20in%20Taiwan_E.pdf

Conclusions

- Given the Taiwanese Government's policy to promote more investment in Taiwan through deregulated Free Economic Pilot Zones (FEPZ), an effective strategy for enhancing bilateral economic linkages may involve Taiwanese government agencies, businesses and industry groups taking a more proactive approach to promote Taiwan's FEPZ policies amongst Australia's business community.

    - A comprehensive promotional campaign that engages directly with Australian businesses, industry groups and other private sector stakeholders to highlight investment opportunities in the five industry sectors (high value agriculture, logistics, healthcare, education and financial services) the Taiwanese Government is keen to promote through FEPZs should yield significant benefits.

- Taiwan should address problems arising from lack of data availability and information on its trade value chains with its trading partners, and the role of tariff and non-tariff barriers in constraining development of trade value chains. An urgent focus on this matter will help to facilitate a more informed public discourse on Taiwan's trade and investment relationship with its bilateral partners.

- Warehousing and supply chain logistics is an industry sector where Australian businesses can benefit from investing in Taiwan. Taiwan's relatively strong supply chain performance, skilled IT workforce and capacity, and its geographic and lingo-cultural similarities with China makes it an attractive location for Australian businesses to establish their regional warehousing and logistics hub to support operations in the Greater China market.

Attachment IV

Opportunities in Taiwan for Australian education providers

Executive Summary

Trade in education services is Australia's fourth largest export, and its largest services export. China is the largest education source market for Australia with 150,000 Chinese students enrolled in Australian institutions last year. Other large source markets include India, South Korea, Viet Nam and Thailand. Compared to those major markets, Taiwan accounts for only 1.5 per cent of total international student enrolments.

Taiwanese students studying in Australian institutions enrol predominantly in vocational training and English language courses. It marks a significant transformation in the study preferences of Taiwanese students compared to a decade ago, when Taiwanese students mostly enrolled in Australian higher education programs. The transformation has been attributed to increased public funding and prioritisation of higher education in Taiwan over the past decade, leading to lower demand for overseas higher education programs.

Furthermore, the increased focus on higher education has also coincided with falling funding levels and support for vocational training. This also partially explains the increased Taiwanese demand for Australian vocational training programs.

In more recent years, the number of students travelling from mainland China to Taiwan to enrol in short courses and exchange programs has increased, rising from under 2,000 enrolments in 2007 to about 14,000 in 2011. The signing of ECFA in 2010 was an important catalyst behind this increase in Cross-Straits trade in education services.

These trends present significant opportunities for Australian education providers to collaborate with Taiwanese education institutions to jointly cater to the burgeoning demand for Taiwanese education by Chinese students. The Taiwanese Government is also actively promoting more international investment in its education sector through the establishment of free economic zones that aim to incentivise investment through liberalised rules and regulations.

Bilateral collaboration between Australia and Taiwan in scientific and academic research, such as the joint research initiative on urban design and planning between Australia's RMIT University, Harvard University and the National Taipei University of Technology, has also been increasing. The research initiative focuses on finding innovative design solutions to challenges posed by rapid urbanisation in the Asia-Pacific region.

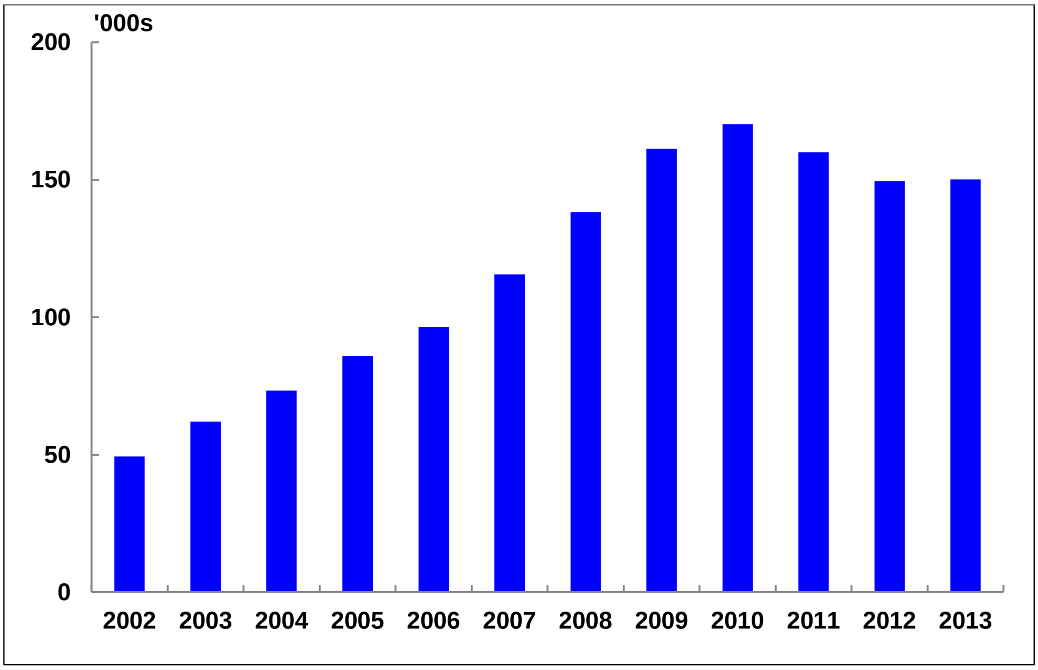
Given Australia and Taiwan's expertise in knowledge-based industries and ICT manufacturing and services, there are significant opportunities for Australian and Taiwanese researchers to deepen their collaboration by engaging with industry groups and businesses to drive science and innovation. However, enhancing research and education trade linkages will require Australian education providers to develop a comprehensive strategy that take account of the current flow of international students to Australia from Taiwan, as well as focuses on joint initiatives with Taiwanese institutions to target the mainland Chinese market.

Australia’s trade in education services

Australia’s trade in education services was valued at A$14.5 billion in 2013. It was Australia’s fourth largest export category and its largest services export last year. Approximately 530,000 international students enrolled (including re-enrolments) in study in Australian education institutions in 2013, with 231,000 (44 per cent of total enrolments) studying higher education degree programs. Furthermore, nearly 250,000 international students enrolled in vocational training programs and English language courses, constituting 48 per cent of total enrolments.

Mainland China was the largest source market for international students with 150,000 students enrolling in Australian institutions last year. Although student enrolments from China rose slightly in 2013, it is still notably lower than the previous peak of 170,000 (Chart 1).

Chart 1: Number of student enrolments from China



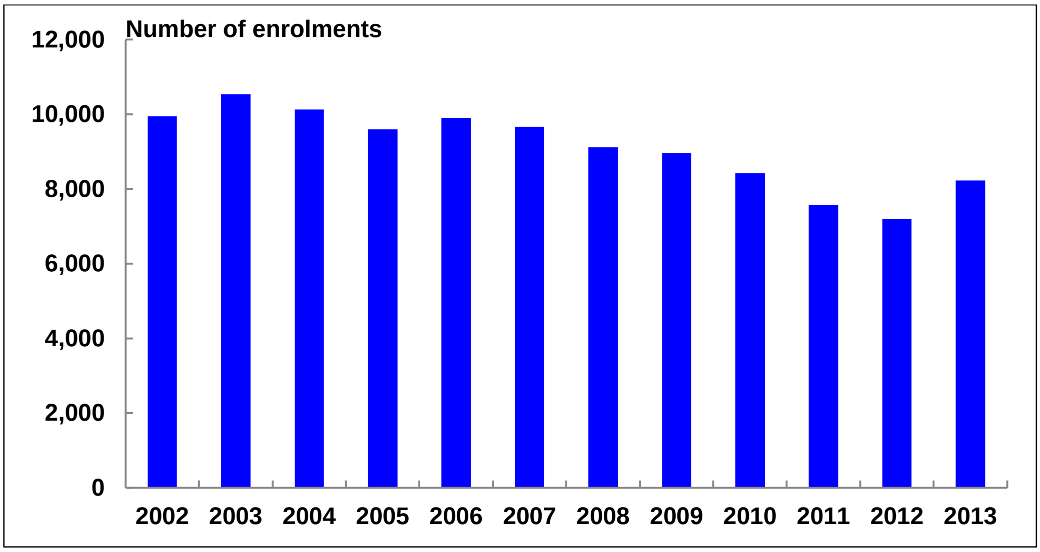
Source: Australian Education International

The decrease in student enrolments in recent years has been attributed to numerous factors, including the loss of price competiveness for Australian education providers stemming from a high Australian dollar.

Education services trade with Taiwan

Taiwan accounts for only 1.5 per cent of international student enrolments in Australian institutions. Taiwanese student enrolments have been volatile, falling from a peak of more than 10,000 in 2003 to 7,000 in 2012, before rebounding by 14 per cent last year (Chart 2).

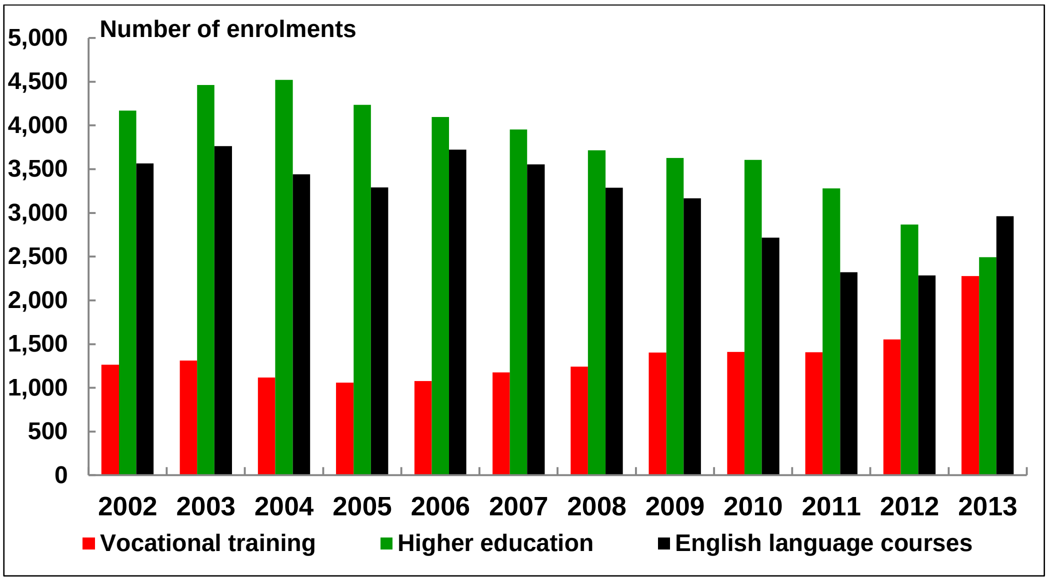
Chart 2: Student enrolments from Taiwan



Source: Australian Education International

Notwithstanding the volatility in overall student numbers, there are important changes underway in the type of education services being pursued by Taiwanese students studying in Australia. Taiwanese demand for vocational training courses has increased exponentially in recent years. Vocational training enrolments grew by an average 12 per cent per year over the last five years, making it the fastest-growing education category (Chart 3).

Chart 3: Taiwanese student preferences – by course type



Source: Australian Education International

The strong growth in vocational training enrolments has coincided with a fall in higher education enrolments. Higher education programs, which are often multi-year degree programs that are largely – but not exclusively – provided by universities, have fallen by an average 7 per cent per year since 2008. In fact, higher education enrolments from Taiwan have fallen every year in the past decade.

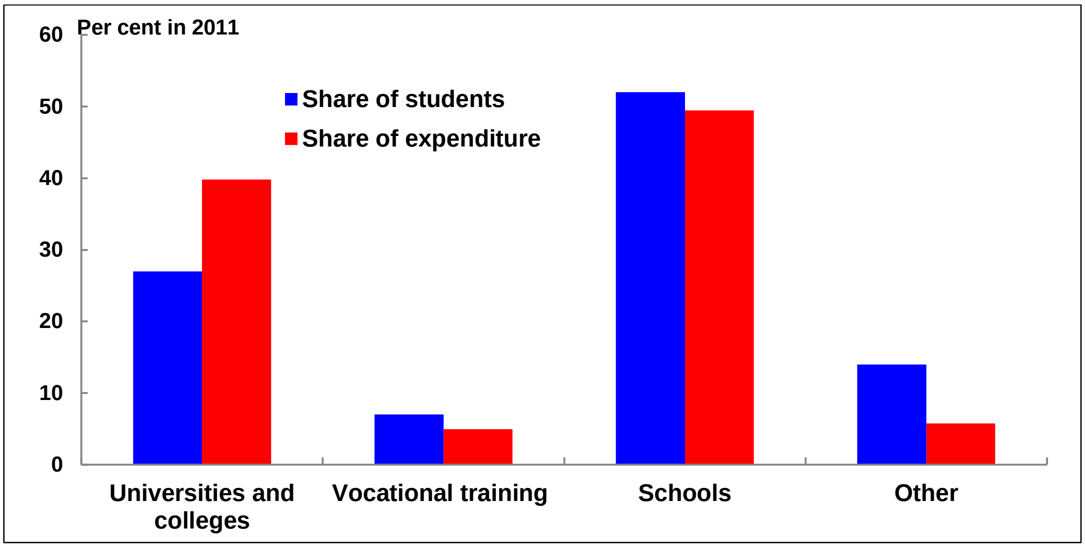
The number of Taiwanese students enrolling English language courses has also been declining in recent years with the exception of 2013, when enrolments rebounded strongly. This decline can be partly attributed to the high Australian dollar, which undoubtedly has an important impact on Taiwanese students' choice to travel to Australia. A recent survey by the Australian Trade Commission (Austrade), a government agency responsible for trade promotion, found that 33 per cent of Taiwanese students travelling to Australia under Working Holiday Maker (WHM) visas engage in English language study.[10] This suggests a significant correlation between tourism or other forms of temporary travel to Australia and enrolments in short-term education and training courses.

The education market in Taiwan

Taiwan has a sizeable education market with nearly 4.9 million students across all levels of education. There are more than 8,000 public and private educational institutions with 270, 000 teachers. Total public and private expenditure in education in 2012 was NT$850 billion (approximately A$27 billion), which is equivalent to more than 6 per cent of Taiwan's gross domestic product (GDP). Furthermore, public funding for education accounts for approximately two-thirds of total expenditure in education and 20 per cent of total government expenditure.

Importantly, higher education expenditure in Taiwan's more than 160 universities and colleges accounts for about 40 per cent of total education expenditure, even as universities and colleges account for 25 per cent of all students (Chart 5). On other hand, expenditure on schools and vocational training institutions are slightly lower than their share of students.

Chart 4: Comparison of student and expenditure shares by institution type



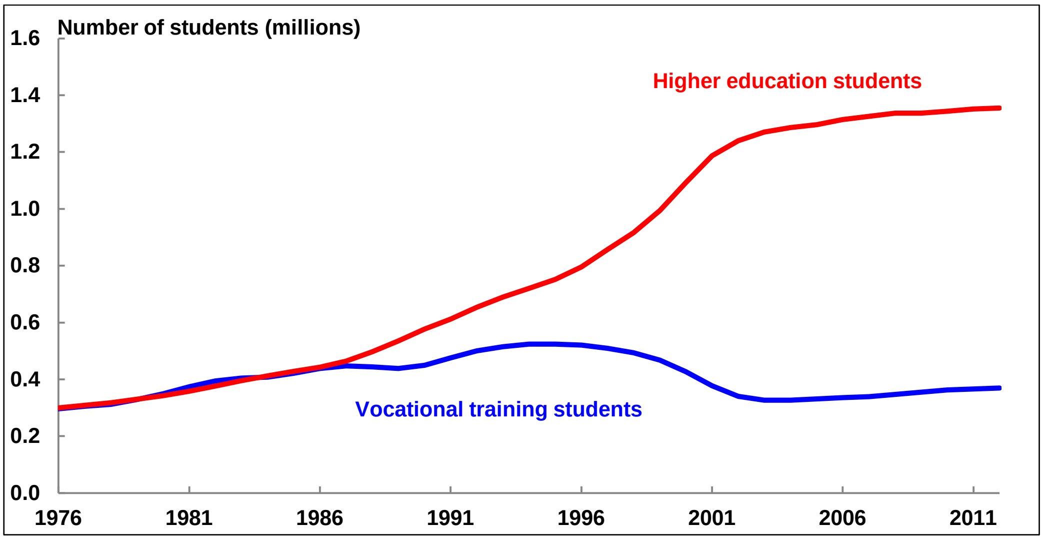
Source: Ministry of Education, Republic of China (Taiwan)

The large share of funding provided to universities and colleges demonstrates the increased importance that has been placed on higher education over the last few decades by successive Taiwanese governments. This increased focus and investment in higher education has also coincided with falling numbers and education spending in vocational training.

[10] See Austrade's February 2013 publication, 'Education Market Profile – Taiwan'.
Link: http://www.austrade.gov.au/Education/News/Reports/Education-Market-Profile---Taiwan#.UyZbkjAyZ8E

In 1976, vocational training institutes and higher education institutions in Taiwan both had approximately 300,000 students, while receiving 10 per cent and 23 per cent of education funding respectively. In the nearly four decades since 1976, the number of students in higher education institutions has increased five-fold to approximately 1.4 million, while student numbers in vocational training institutes has remained largely unchanged (Chart 6).

Chart 5: Student numbers in higher education and vocational training



Source: Ministry of Education, Republic of China (Taiwan)

The rise in demand for higher education has led to more funding for universities and colleges, which have seen their share of funding double to nearly 40 per cent in the last four decades while the funding share of vocational training institutes has halved over that same period.

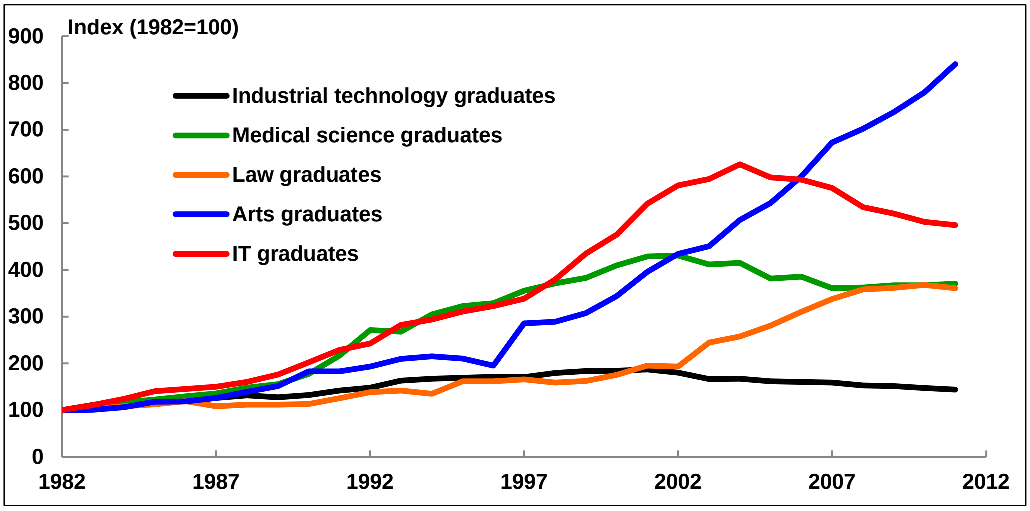
The diverging trend in education funding and enrolment in Taiwanese higher education and vocational training institutions may explain the transformation in Taiwanese demand away from Australian higher education programs to vocational training enrolments.

The type of study being undertaken by Taiwanese students in their home economy has also changed significantly over the last two decades and provides interesting insights into the ongoing structural changes in the Taiwanese economy.

The number of graduates produced every year with qualifications in industrial technology has changed little in the last four decades, even as the manufacturing sector in Taiwan has grown in nominal terms over the same period. This can be partly attributed to mainland China's emergence as a low-cost manufacturing hub in the 1980s, leading many Taiwanese manufacturers to shift their labour-intensive production to mainland China.

Furthermore, Taiwan's economy, like other newly industrialising economies in East Asia, has also experienced significant structural adjustment away from manufacturing to services. Taiwan's services sector grew by an annual average of 8 per cent between 1982 and 2000, raising its share of GDP from approximately 60 per cent in the early-80s to more than 70 per cent in the late-90s. This strong growth in the services sector has undoubtedly led to increased demand for skilled labour, which has been met with exponential growth in professional graduates with qualifications in law, medicine IT and the arts (Chart 7).

Chart 6: Growth trend of Taiwanese graduates by types of skills



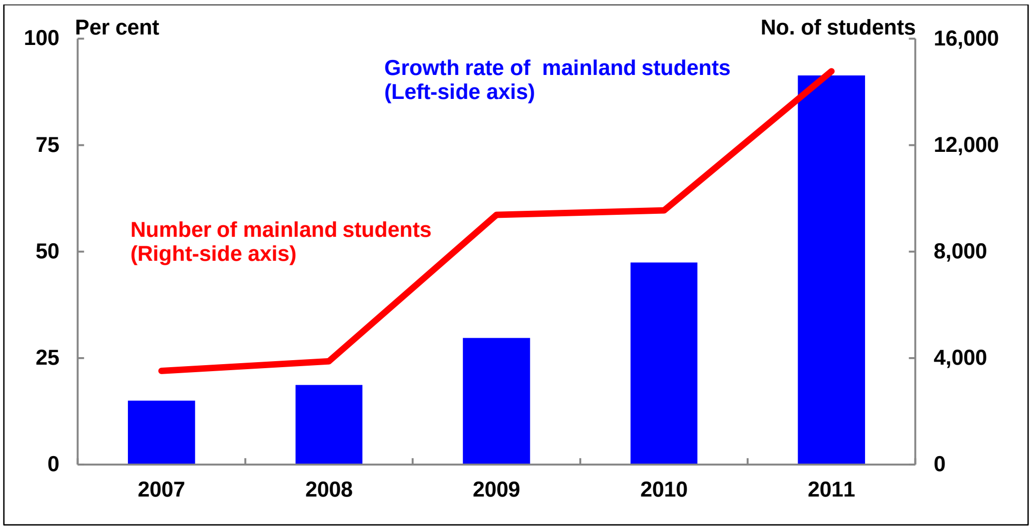
Source: Ministry of Education, Republic of China (Taiwan)

Notwithstanding the strong overall growth in services, the performance of the services sector has waned over the past decade. Taiwan's services sector growth has slowed to an annual average rate of just 2.7 per cent for the period 2001-12, down from 8 per cent annual average growth between 1982 and 2000. This slowdown has also tempered the growth in some professional fields such as IT and medicine.

Cross-Straits student mobility and recent reforms in Taiwan

The number of students from mainland China studying in Taiwan has increased dramatically in recent years. Latest data (for 2011) from Taiwan's Ministry of Education shows that the total numbers of students from mainland China rose from just under 2,000 in 2007 to more han 14,000 by the end of 2011 (Chart 8). More of the 75 per cent of those mainland students travelling to Taiwan enrolled in short courses, which experienced an astonishing 111 per cent growth in 2011.

Chart 7: Student movement between mainland China and Taiwan



Source: Ministry of Education, Republic of China (Taiwan)

The spike in short-term student travel from mainland China to Taiwan in 2011 is not surprising given that it followed the signing of the Economic Cooperation Framework

Agreement (ECFA) between China and Taiwan in 2010. The signing of ECFA had an important signalling effect that led to increased tourist and education-related travel between mainland China and Taiwan. This trend is likely to grow further and presents significant opportunities for Australian education providers to partner with Taiwanese education institutions to cater to the demand and study preferences of mainland Chinese students in Taiwan.

The Taiwanese Government has also recently focused on attracting more foreign direct investment in education through the establishment of free economic zones which incentivise foreign education providers to enter the Taiwanese education market. Under the new policy, domestic and foreign universities will be allowed to establish operations without being restricted by local regulations on recruitment, curriculum and finance. This presents an opportunity for Taiwan to liberalise restrictions on education services, promote innovation and internationalisation of its education sector. It is expected that 3-5 pilot joint venture initiatives between Taiwanese and foreign education providers will be launched soon.

Taiwan's initiatives to encourage more FDI reflect a broader recognition in the Asia-Pacific region of the importance of enhancing trade and investment in education services. An APEC symposium on *Facilitating good regulatory practices for trade and investment in higher education services in the APEC region* was held in Kuala Lumpur in August 2013. The Symposium brought together regulators, trade and education officials from 10 APEC economies,[11] as well as academics and industry representatives from across the region to discuss trade and investment regulations in higher education services.

Discussions focused on the reasons for existing approaches to regulatory practice, recent reforms in some economies to liberalise regulatory approaches on cross-border education, and identifying good regulatory practices to support the rapid growth in cross-border higher education services in the region. Many participants shared a keen interest in the internationalisation of education systems to facilitate the aim of some governments, educational institutions and professional associations to enhance the flow of students, researchers, education providers and curricula across borders, consistent with the APEC cross-border education cooperation agenda.

In support of this goal, participants discussed a number of themes and good practices in the regulation of trade and investment of higher education services, stressing the importance of greater recognition of qualifications and systems, such as online education platforms, more transparency in regulatory practices and minimisation of market access limitations for foreign education providers and programs, as well as ensuring the availability of visas to support international students, educators and research mobility.

Research collaboration between Australian, Taiwanese and Chinese universities

Opportunities for bilateral collaboration between Australia and Taiwan in education are not just limited to the trade in education services. Collaboration in other areas such as scientific and academic research is also increasing. This is notably signified by the collaboration between researchers at RMIT University's Design Research Institute, Harvard University and Taiwanese researchers at the National Taipei University of Technology to find solutions to urban development challenges facing cities such as Taipei. This collaboration also involves research partners in China.

[11] The 10 APEC economies include: Australia, China, Indonesia; Malaysia; New Zealand; Peru; Philippines; Papua New Guinea; Thailand and Viet Nam

The collaborative research aims to develop a holistic approach to facilitate urban development in Taipei, capitalising on Taipei's ambitions to act as an engine for economic change and the generation of a new approach to metropolitan design and planning for Taiwan. The researchers suggest that this can be seen as a new form of '*Taiwanism*' which focuses on densification of urban environments, the assertion of an ecological character and the drive towards a creative society. The approach, described as '***Infrastructural Urbanism***', focuses on developing ways to innovatively design and create governance mechanisms for future cities. ***Infrastructural Urbanism*** advocates the use of interactive models as the new conduit through which different planning and design professionals and stakeholders establish conditions for feedback, social learning and the creation of sustainable urban futures.

This collaboration represents a broadening of Australia's engagement with Taiwan, and is particularly note-worthy and timely as globalisation and economic development trends increasingly push city-regions to the centre of geo-political conversations. The historically unprecedented scale and growth of city-regions globally, but especially in Asia-Pacific economies, have now put regional and metropolitan governments at the forefront of industrial, environmental and growth and development policies.

Box 1: RMIT University and its international presence

RMIT University is a global university of technology and design, and is Australia's largest and most internationalised tertiary institution. RMIT University has more than 80,000 students, with nearly 45,000 enrolled in undergraduate studies, 11,000 postgraduate students and nearly 17,000 enrolled in vocational training programs, as well as 7,000 online students.

Nearly 40 per cent of RMIT's students are international students based in campuses in Melbourne, Australia and campuses in Viet Nam. RMIT has also enrolled 11,000 students in offshore programs through 16 partners in Singapore, Hong Kong, mainland China, Malaysia, Sri Lanka, Laos, Belgium, Spain and Germany.

As a global university focused on technology and design, RMIT has many research and policy centres with strong affiliations with other leading universities and institutions around the world. This is evident from RMIT's collaboration with Harvard University and the National Taipei University of Technology for leading research on new holistic approaches to urban design and planning.

The Australian APEC Centre (AASC) is another leading regional centre at RMIT University that focuses on capacity building and training of policymakers on APEC policy issues ranging from trade and investment liberalisation, regional economic and financial integration, infrastructure development, supply chain connectivity and other policy issues. The AASC has previously undertaken work to promote economic linkages between Australia and Taiwan, and is a strong supporter of Taiwanese economic integration in the Asia-Pacific region.

Conclusions

- Increased Taiwanese domestic funding for higher education and research, and the exponential rise in Taiwanese graduates with professional qualifications in medicine, law, and IT service sectors makes a Taiwan a high-value market for Australian higher education providers.

    - Developing capacity to offer programs and courses in Taiwan, either through offshore campuses or through joint ventures with Taiwanese higher education providers, is essential to deepening Australia's bilateral trade in education with Taiwan.

    - Entering the Taiwanese education market is likely to become increasingly easier as the Taiwanese Government further liberalises restrictions to attract more foreign investment in the education sector.

    - The Taiwanese Government has prioritised the development of free economic zones to encourage more FDI into Taiwan. The free economic zones will offer incentives to foreign investors in five key sectors, which include logistics, healthcare, high value-add agricultural industries, financial services and education. Australia has strong expertise and competitive trade advantages in all of those sectors, and there are opportunities for Australian businesses to significantly benefit from this Taiwanese Government policy to encourage FDI through free economic zones.

- The declining share of funding for vocational training and skills development in Taiwan may be a causal factor leading to increased demand for vocational training amongst Taiwanese students travelling to Australia. Australian education providers should capitalise on Australia's well-developed skills training infrastructure, resources and know-how to create more high-value course offerings that will be attractive in the Taiwanese market.

    - This may require Australian education providers to engage directly with Taiwanese stakeholders, such as the Government, vocational training institutes and industry groups, to ensure mutual recognition of skills training and qualifications.

- Increased student mobility from mainland China to Taiwan for short courses and exchange programs in Taiwanese institutions presents a significant opportunity for Australian education providers to substantively expand their market reach in China through collaboration with Taiwanese partners.

    - Online education delivery platforms are more suitable for short courses but also require sophisticated infrastructure networks and support facilities. Given Taiwan's expertise in the IT sector, collaboration between Australian education providers and Taiwanese institutions to develop a joint Australian-Taiwanese MOOC initiative that especially targets the mainland Chinese market could be mutually beneficial for Australia, Taiwan and China.

- Research collaboration between Australian and Taiwanese institutions already occurs, but could be intensified further in areas of mutual benefit and expertise. Taiwan has a strong ICT manufacturing base both onshore and in mainland China. Australian research institutions should adopt to a more proactive approach to engage leading Taiwanese ICT companies to establish joint research and development projects that aim to benefit both economies from greater innovation and higher productivity.

- RMIT University, the National Taipei University of Technology and Harvard University's research collaboration (also includes partners in China) on holistic urban design and development should be deepened through greater engagement with policymakers and industry stakeholders to develop an effective policy framework that addresses the challenges of rapid urbanisation in the Asia-Pacific.

    - As relatively matured economies that have already experienced large scale urbanisation, Australia and Taiwan's experience and knowledge in this area of public policy can be quite relevant and beneficial to regional economies, especially economies with high-density urban population centres such as China, Indonesia and others.

Attachment V

Discussion paper 4

Opportunities in Taiwan's banking sector

Executive Summary

Australia and Taiwan have financial sectors that are similar both in size and structure. Banks and prudential asset managers such as life insurance companies and pension funds play a dominant role in both economies.

Taiwanese banks with A$1.4 trillion in assets account for 65 per cent of total financial sector assets. There are 40 domestic and 31 foreign banks operating in Taiwan, and domestic lending accounts for 58 per cent of total banking assets. Domestic Taiwanese banks, although significantly larger in size than the foreign banks, have a smaller share of the trade finance market compared to the major international banks such as HSBC, Citibank, ANZ and DBS.

HSBC is the largest export finance provider in Taiwan, followed by DBS and ANZ Taiwan. The strong focus on trade financing undoubtedly plays to the strengths of the major international banks, but also creates opportunities for them to substantially grow their operations by supporting Taiwanese businesses looking to expand their trade and invest in new markets.

The 2010 signing of ECFA between Taiwan and China represents strong opportunities for banks operating in Taiwan to grow their Cross-Straits trade financing portfolio. ANZ Taiwan is particularly well-positioned in that respect. ANZ's institutional knowledge and expertise of operating in China, as well as its deep understanding of trade value chains between China and Australia places it in an advantageous position to service its customers with services and products to enter the Chinese, Taiwanese and Australian markets. Overall, ANZ is in a strong position to play a critical role in financing more, and higher value, trade between China, Taiwan and Australia.

Taiwan's rapid development in 2013 as an offshore centre for RMB settlements also presents opportunities for the Taiwanese banking sector. RMB settlements in Taiwan increased 16-fold in 2013, rising from just US$39 billion in 2012 to US$620 billion in 2013. This deep and growing pool of RMB liquidity will enable Taiwanese banks to provide RMB financing to Taiwanese traders and investors looking to enter the Chinese market. It will help lower foreign currency hedging costs previously borne by businesses transacting in US dollars, and incentivise further growth in Cross-Straits trade and investment.

The development of a large offshore RMB market in Taiwan also presents opportunities for major Australian banks to obtain competitively-priced RMB funding from Taiwan. The major Australian banks are heavily reliant on raising funding from overseas financial centres such as London and New York. Availability of competitive RMB funding from Taiwan will enable the major Australian banks to diversify the currency mix and concentration risk within their funding pools.

Finally, although Hong Kong is a large offshore financial centre for RMB settlement and other financial services, Taiwan's larger and more diversified real economy with more substantial trade links to China presents opportunities for Australian financial service providers to adopt a multi-faceted approach to entering the Taiwanese market. An approach that sees Taiwan as both a substantial export market for Australian financial services, as well as an offshore centre for RMB funding and settlement to service specific Australian financial industry needs.

Overview of Taiwan's financial system

Financial services is Taiwan's fifth largest industry sector with a 6.5 per cent share of total GDP. This makes Taiwan's financial sector relatively similar in size to the Australian financial sector, which accounts for 8 per cent of Australia's GDP.

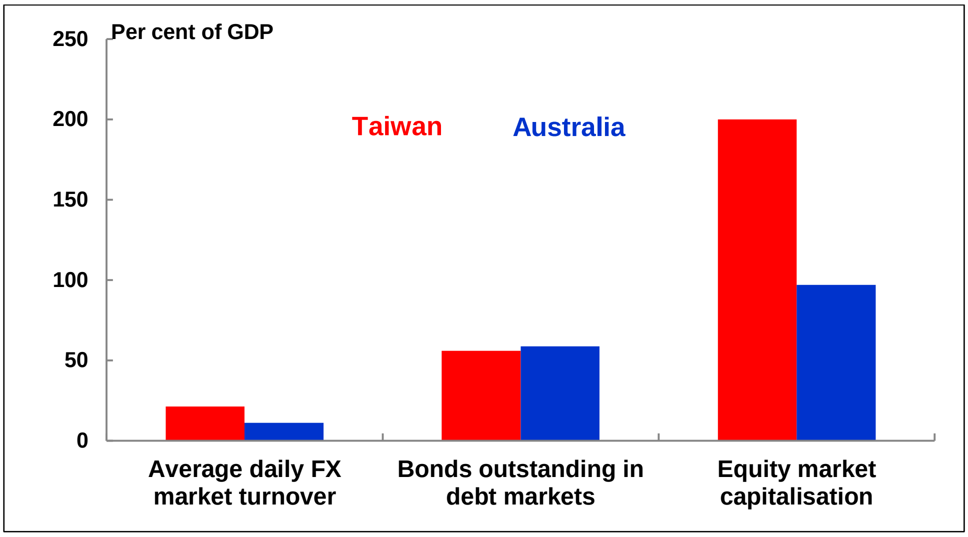
Total financial sector assets in Taiwan were valued at A$2 trillion (NT$58 trillion) at the end of 2013, with the banking sector accounting for 65 per cent (A$1.4 trillion) of financial sector assets. The Australian banking sector, on the other hand, is slightly smaller with a 60 per cent share of total financial sector assets.

Life insurance companies in Taiwan are the second largest financial asset holders with A$600 billion in assets at end-2013. In Australia, superannuation (pension) funds are the second largest asset holders with A$1.4 trillion in assets under management. This suggests that Taiwan and Australia's financial sectors are structured similarly with banks and prudential asset managers (life insurance and pension funds) being the largest financial service providers.

Focusing on capital markets, the Taiwanese stock market had a market capitalisation of approximately A$1 trillion at the end of 2013, which is equivalent to about 200 per cent of Taiwan's GDP. The Australian stock market – although larger in absolute terms with a market capitalisation of A$1.5 trillion – is equivalent to 100 per cent of Australian GDP, making it half the size of Taiwan's stock market in relative terms (Chart 1).

Furthermore, Taiwanese debt markets had A$280 billion in bonds outstanding at the end of 2013, and the foreign exchange market had average daily turnover of A$107 billion. Australia's debt markets as a share of GDP are approximately the same size as Taiwan's, while average daily turnover in Australian foreign exchange market is somewhat lower.

Chart 1: Comparison of Taiwanese and Australian capital market size



Source: The Central Bank of the Republic of China (Taiwan), National Statistics Republic of China (Taiwan), Reserve Bank of Australia, Australian Prudential Regulation Authority, Australian Bureau of Statistics and Author's calculations

These figures reveal that Taiwan has a relatively well-developed financial sector that is not only structurally similar to the Australian financial system, but is also larger and more liquid in some respects.

Taiwan's banking sector

There are 40 domestic and 31 foreign banks (including from China) in Taiwan. Taiwanese domestic banks had A$1.3 trillion in assets at the end of 2013, with loans to Taiwanese businesses accounting for 58 per cent (A$700 billion) of total assets. Portfolio investments in non-financial entities (A$85 billion) and foreign assets (A$100 billion) constituted the remaining majority share of assets.

Foreign currency loans within the Taiwanese banking system were close to A$35 billion at the end of 2013, which is equivalent to 5 per cent of total banking loans. Domestic Taiwanese banks accounted for nearly 80 per cent (A$26 billion) of foreign currency loans, with the remaining share going to foreign banks.

Foreign banks operating in Taiwan, including from China, had A$100 billion in assets at the end of 2013. More than 40 per cent (A$40 billion) of foreign bank assets were held overseas, while domestic lending in Taiwan accounted for only 18.5 per cent of total foreign bank assets. This indicates that foreign banks operating in Taiwan play a relatively strong role in financing trade and cross-border investment between Taiwan and its trading partners.

ANZ in Taiwan

One of the largest providers of trade finance in Taiwan is the Australia New Zealand Banking Group Limited, or ANZ, with nearly A$300 million of export bills outstanding based on the latest data from end-September 2013. ANZ is the 7th largest purchaser of export bills, even though it is ranked 28th in size based on total assets on its balance sheet.

Table 1: Top 10 export finance providers in Taiwan

Export financing rank	Bank	Export bills purchased (A$, millions)	Overall size (total assets) rank
1	HSBC Taiwan *(foreign bank)*	818	20
2	Mega Int'l Commerce Bank	690	3
3	Bank of Shanghai *(foreign bank)*	449	15
4	Taipei Fubon Bank	343	9
5	Hua Nan Commercial Bank	300	6
6	DBS Taiwan *(foreign bank)*	297	29
7	ANZ Taiwan *(foreign bank)*	295	28
8	Bank of Taiwan	199	1
9	E. Sun Commercial Bank	159	13
10	Citibank Taiwan *(foreign bank)*	123	18

Source: Financial Supervisory Commission, Republic of China (Taiwan), Author's calculations

Overall, the five major international banks operating in Taiwan (ANZ, Standard Chartered, Citibank, HSBC and DBS) are large providers of trade finance. With the exception of Standard Chartered, each of those major international banks, along with the Bank of Shanghai from China, are on the list of top 10 export finance providers in Taiwan (Table 1).

ANZ Taiwan has particularly strong market position in trade finance compared to the other major international banks heavily involved in Taiwanese trade finance. Although ANZ Taiwan is substantially smaller than Standard Chartered or Citibank in Taiwan, it holds a larger share of the export financing market with nearly A$300 million in export bills outstanding.

Furthermore, ANZ Taiwan is also a significant provider of short term loans, which are sometimes used as working capital finance by businesses engaged in international trade. Citibank is the largest provider of short term financing amongst the major international banks with A$3.3 billion in loans outstanding, followed by ANZ (A$2.7 billion) (see Table 2).

Table 2: Comparison of major international banks in Taiwan

A$, millions	**ANZ**	**Citibank**	**DBS**	**HSBC**	**Standard Chartered**
Total asset value	12,191	26,701	11,402	22,628	26,996
Rank	***4***	***2***	***5***	***3***	***1***
Export bills purchased	295	123	297	818	50
Rank	***3***	***4***	***2***	***1***	***5***
Short term loans	2,743	3,307	2,020	2,457	2,404
Rank	***2***	***1***	***5***	***3***	***4***

Source: Financial Supervisory Commission, Republic of China (Taiwan), Author's calculations

SME lending in Taiwan

The availability of financing for small and medium enterprises (SMEs) is an important enabling factor for promoting trade and investment between Taiwan and its trading partners, especially China. SMEs not only play an important role through direct exports of merchandise goods and services, but also make substantial contributions to domestic value added content embodied in exports.

SME lending in Taiwan is mainly undertaken by domestic Taiwanese banks, with the top 5 domestic banks accounting for more than 50 per cent of market share. Total SME lending in Taiwan was A$170 billion at the end of 2013, rising by 7 per cent through the year. The First Commercial Bank is the largest SME lender in Taiwan with A$19 billion in loans outstanding, representing a 11 per cent share of the total SME market.

The five major international banks operating in Taiwan provide very little funding to Taiwanese SMEs, only accounting for a combined share of less than 1 per cent of total SME lending. There are significant opportunities for the major international banks such as ANZ Taiwan to expand their market share in SME lending by utilising their global networks and expertise to develop comprehensive solutions that will help Taiwanese small businesses establish trade and investment links in new markets. This is especially relevant for Taiwanese SMEs looking to expand into China following the signing of ECFA in 2010, which initiated a major liberalisation of the Cross-Straits economic relations.

Taiwan as an offshore RMB centre

Growing Cross-Straits trade and investment linkages have also been accompanied by the rapid development of Taiwan as an offshore centre for RMB settlement. Trade settlement in RMB in Taiwan grew by 16-fold in 2013, making Taiwan the fourth largest offshore RMB settlement centre in 2013 with 2.4 per cent (US$620 billion) share of global RMB settlements. In 2012, RMB settlement in Taiwan was just US$39 billion (Table 3).

Table 3: Growth in RMB settlement

(in millions) Region	2nd half 2013 Rank	Value	Share (%)	2nd half 2012 Rank	Value	Share (%)	YoY growth (%)
Hong Kong	1	20,592	78.6	1	8,244	85.1	150
UK	2	1,473	5.6	3	370	3.8	298
Singapore	3	1,038	4.0	2	379	3.9	174
Taiwan	4	620	2.4	10	39	0.4	1,470
France	5	473	1.8	5	94	1.0	406
US	6	467	1.8	4	105	1.1	344
Australia	7	287	1.1	11	37	0.4	667
Luxembourg	8	201	0.8	6	71	0.7	183
Germany	9	194	0.7	7	56	0.6	249
South Korea	10	113	0.4	18	10	0.1	1,073
Total		26,201			9,682		171

Source: Bank of China. Information presented at the Centre for International Finance and Regulation's 'Internationalisation of the RMB' Conference on 26 March 2014 in Sydney, Australia. Primary data sourced from SWIFT by Bank of China.

This phenomenal increase in RMB liquidity in Taiwan presents notable opportunities for Taiwanese and foreign banks to both diversify their asset and funding sources by tapping the RMB market in Taiwan.

Foreign banks operating in Taiwan have only 20 per cent share of foreign currency lending in Taiwan. Rising RMB liquidity pools in Taiwan now creates opportunities for foreign banks to provide more foreign currency loans in RMB. This has the potential to lower hedging costs for Taiwanese importers and businesses looking to invest in China.

International trade and investment transactions are often undertaken in US dollars with counterparties hedging their foreign exchange risk through the purchase of derivative products. If Taiwanese traders and investors are able to source funding and transact in RMB it will lower the cost of doing business and encourage more trade and investment between Taiwan and China.

The use of RMB in trading and investment transactions will also lessen the impact of extra-territorial regulations on financial intermediaries underwriting US dollar-based hedging transactions. It may also help to improve risk management standards in the Taiwanese banking sector. Anecdotal evidence indicates that there has been a notable build-up of (asset-liability) duration mismatch risk on Taiwanese bank balance sheets as lenders relied on working capital and other short-term lending products and facilities to finance longer-term fixed capital investment in China.

Taiwan's development as an offshore RMB centre presents opportunities for international banks such as ANZ with appropriate risk management controls and well-managed financial products to undertake more foreign currency lending in Taiwan, especially to SMEs targeting entry into China. Raising the level of competition in the Taiwanese banking sector will improve customer choice and put market pressure on Taiwanese banks to better-design and risk-appraise their financial product offers. This will be beneficial for all Taiwanese financial services consumers.

Major Australian banks, which source a significant portion of their funding from overseas financial markets either through equity or debt issuance (mostly the latter), also stand to gain from Taiwan's rapid emergence as an offshore RMB centre. Large pools of RMB liquidity in Taiwan creates opportunities for Australian banks to obtain low-cost RMB funding from the

Taiwanese market through RMB-denominated ‘Formosa bonds’ as well as other types of debt securities. RMB deposits in Taiwan were close US$25 billion[12] at the end of December 2013.

Obtaining RMB funding from Taiwan will not only enable major Australian banks to diversify the currency mix of their portfolios, but may also help to reduce sovereign concentration risk arising from too much fund raising in financial centres such as London or New York. This is especially true for ANZ, which already has a significant presence in Taiwan.

Conclusions

- Australia and Taiwan have financial systems that are similar both in size and structure, with banks and prudential asset managers playing a dominant role within the financial system.
    - In order to capitalise on growth opportunities in Taiwanese financial markets, Australian financial service providers such as banks and superannuation (pension) funds need to adopt a multi-faceted view and strategy for entering the Taiwanese market.
    - Taiwan’s relatively larger and more diversified real economy compared to financial centres such as Hong Kong and Singapore means that Taiwan has potential to be a significant export market for Australian financial service providers.
    - The rapid growth of RMB settlement and liquidity in Taiwan also makes it an attractive destination for major Australian banks looking to obtain low-cost RMB funding to diversify their funding mix.
- Liberalisation of Cross-Straits trade in financial services creates an opportunity for Australian financial service providers to collaborate with Taiwanese banks and life insurers with experience of the Chinese market to create and jointly distribute financial products that will cater to the financial service needs of Chinese consumers.
- ANZ Taiwan with its relatively large market share of trade financing in the Taiwanese market is already in an advantageous position to facilitate strong growth in trade and investment between Taiwan, Australia and Chinese businesses.
    - However, for this to happen it will require a more engaged ‘behind-the-border’ strategy that seeks to develop a stronger understanding of Taiwanese trade value chains.
    - Providing funding for businesses in Taiwan’s backward and forward-linkage industries that make substantial domestic and foreign value add contributions to trade is important. And it is a function that only major international banks such as ANZ, with its deep knowledge and expertise of various sectors in different APEC economies, can perform.
    - Foreign banks now have an opportunity to develop capacity to implement a comprehensive trade financing strategy that provides solutions to enterprises engaged across regional value chains. This should enable foreign banks such as

[12] http://focustaiwan.tw/news/aeco/201312200030.aspx

ANZ to attain a more significant position in promoting trade and cross-border investment financing in the Asia-Pacific.

Attachment VI

Discussion paper 5

Access Under ECFA from Mainland China's Perspective

Professor Zhu Weiyi
College of Comparative Law, China University of Political Science and Law, Beijing

I. Alternative Way to Acquaint with the Stakeholders

Ever fast-moving and fluid, capital markets are characterized by complicated rules and shifting regulators. As a result, financial institutions have to work closely with regulators, clients and other stakeholders, depending to a large extent upon the good working relationship and understanding among them. To this end, major international investment banks, especially US investment banks, have hired the sons and daughters of the important Chinese officials and businessmen to facilitate business opportunities in China.[13]

British and Japanese financial institutions have also developed close relationships with the Chinese regulatory authorities. As early as 1990s, British financial institutions started to offer internships for the junior staff members of the Chinese regulatory authorities of the capital market. Japanese investment banks have also sponsored study tours for the staffs of various Chinese regulatory authorities. However, the cultivation by these foreign institutions took decades to yield results, and the American way is not advisable for both regulatory and practical reasons. The exposure of their practices has turned out to be detrimental to their reputation and businesses opportunities.[14].

Alternatively, partnering with a Taiwan financial institution will enable a foreign financial institution to access the financial market in China in a relative way. For political, economic and cultural reasons, Taiwan financial institutions are in a unique status in doing business in China.

II. Privileged Accesses for Taiwan Financial Institutions

Under the Cross-Straits-Economic Cooperation Framework Agreement (ECFA) signed on June 29, 2010, following accesses to the financial market in the mainland China for Taiwan financial institutions are promised:

1. The operating entity of a Taiwan bank may establish financial services agencies to serve small business entities exclusively.

2. A "green path" will be set up to facilitate establishing branches of Taiwan banks in the Middle-west region and Northeastern region of mainland China.

3. Qualified Foreign Institutional Investors ("QFII") from Taiwan are granted licenses to operate in the mainland China on an expeditating basis.

4. Domestic qualified institutional investors from the mainland China will be permitted to trade in the financial derivatives listed on the stock exchanges and futures

[13] Neil Gough, JP Morgan deal maker in China quits amid U.S. hiring inquiry, International New York Times, March 25, 2014, p. 1.
[14] Enda Curran, UBS Suspends 2 Over Hiring, The Wall Street Journal, February 11, 2014, p. 26.

exchange.

5. Securities professionals from Taiwan will be granted simplified procedures for obtaining certificate to work in the mainland China.

6. All the subsidiaries operating in the mainland China of a Taiwanese bank will be considered as a whole for the purpose of appraising the profitability.

According to ECFA, a number of Memoranda of Understanding (MOUs) have been signed by the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the CSIC with their respective Taiwanese counterparts to further open up the financial market of mainland China to Taiwanese financial institutions. The MoUs cover the following areas and activities:

1. Settlements using currencies of the two jurisdictions will be extended. Taiwan financial institutions may invest in the mainland China, using the vehicle of RMB QFII.

2. Taiwanese financial institutions may own more than 50% equity of an asset management company jointly established with a mainland Chinese partner, a privilege still not available to the financial institutions from other jurisdictions.

3. In each pilot reform area, a Taiwanese financial institution may partner with securities company with 49% equity ownership. This enables Taiwanese financial institutions to have many mainland partners with less than 49% equity ownership in each.

4. A Taiwanese securities company can also establish an investment consulting company with a Chinese partner, owning up to 49% equity. A Taiwanese securities company may set up an investment consulting company, owning more than 50% equity of the joint venture. Such investment advisers will enhance Taiwan's ability to conduct asset management business in China.

5. A Taiwan bank set up in Fujian Province will be accorded with some advantages available to a domestic bank.

Once fully implemented, the commitments made under ECFA will allow Chinese asset management institutions to buy, hold and trade financial derivatives in Taiwan. Certified on a fast-track basis, financial professionals from Taiwan would be well-positioned to conduct asset management businesses in the mainland China, thus greatly enhancing the ability of Taiwanese financial institutions to conduct asset management businesses in the mainland China.

Even with respect to access granted to business entities from both Taiwan and other jurisdictions, Taiwan financial institutions still enjoy additional advantages, written or unwritten, because of Beijing's policy to encourage closer links between mainland China and Taiwan. The first Cross-Strait ministerial level meeting was held in February 2014, auguring well for general Cross-Strait political and economic relations, which in turn will further financial interactions. Above all, financial institutions may be given more privileges to conduct RMB business which has been allowed in only a few jurisdictions. On the whole, Taiwanese financial institutions have better access to the Chinese financial market. A partner of a Taiwanese business entity will also benefit from such preferential access.

For Chinese decision-makers assessing economic policies, analysis of political costs and benefits is always prioritised over economic cost-benefit analysis. A time-honoured maxim is that context is: “Economic assessment counts, but political assessment counts more”. It is not uncommon that economic costs are largely or completely ignored for political considerations. In this case, the overriding political consideration is to keep Taiwan friendly and close through economic cooperation.

Further, Cross-Straits economic cooperation has not been reciprocal. For example, although Taiwan does not permit the mainland Chinese to reside or work in Taiwan, about one tenth of Taiwan’s population, which currently stands at 23 million, are now working or residing in China. In Shanghai and its surrounding areas, there are approximately 700,000 people from Taiwan. Throughout China, there are altogether about 2 million people from Taiwan who are permanent residents in China.[15] In contrast, Taiwan has never allowed mainland Chinese to be employed in Taiwan. In all likelihood, the preferential treatment accorded to the Taiwan will be repeated in the financial sector.

Opportunities for cross-strait cooperation in the financial sector are many and varied. More cautious with political reforms, China’s top leadership seems to be determined to make bold moves on the economic front, especially in the financial sector. Premier Li Keqiang has declared that “Financial innovation is one of the driving forces for people to start their own businesses and provide job opportunities.”[16]

Specifically, the People’s Bank of China (PBoC) remains committed to liberalising interest rates for bank deposits over the next two years, while loosening its control on the renminbi to give greater influence to market forces. Yi Gang, a vice governor of the PBoC publicly declared that PBoC’s priority “this year and next year is pushing forward reform of bank deposit rates.”[17]

Efforts to internationalise the RMB should also create business opportunities. In 2013, Deutsche Asset & Wealth Management and and its Chinese partner Harvest Global Investments Limited jointly brought first RQFII products to the US.[18] RQFII is an abbreviated form for “Renminbi Qualified Foreign Institutional Investors Funds”.

The special arrangements accorded to Taiwanese financial institutions operating in Fujian province may also result in policies and local laws or regulations exclusively favorable to Taiwanese businesses. On first appearance, the administrative power in China is highly centralised, and securities law requires “unified supervision and administration on the securities market nationwide”, to be implemented by the securities regulatory authorities of the State Council.[19] But in reality, provincial governments and the governments of Beijing, Shanghai, Tianjing and Chongqing, and the four municipalities directly under the central government, enjoy great discretion in adopting policies and making rules regarding services provided by foreign banks. And sometimes the application of local laws is inconsistent with national laws.

As noted earlier, concessions are routinely made by the mainland Chinese Government to win over Taiwan, and local governments can be even bolder in opening up to attract financial

[15] http://www.Chiannews.com/hb/news/2014/03/30
[16] Zhao Yinan, Premier calls for financial innovation, China Daily, March 27, 2014, p. 7.
[17] Reuters, China’s goal for financial market is reaffairmed, International New Yorker, March 24, 2014, p. 14.
[18] Deutsche Asset & Wealth Management, Harvest Global Investments, Financial Times, November 14, 2013, p. 5.
[19] The Securities Law, Article 7.

institutions from Taiwan. As a result, Taiwanese financial institutions can benefit from being in privileged positions, especially at the local level.

Taiwan also enjoys easy access to the Chinese financial market because of the same language and culture shared by Taiwan and the mainland China. In fact, Taiwan even has a stronger affinity with the mainland than Hong Kong. For a large part of the last century, Taiwan was ruled by KMT or Nationalist Party which originated in the mainland. As a result, the affinity between Taiwan and the mainland China is much stronger than it is normally believed.

III. Wealth Management: A Sector with Growing Business Opportunities

As wealth accumulates in China, wealth management has become increasingly attractive to Chinese financial institutions as well as foreign institutions. By one estimate, China's mutual fund industry will triple in size to 6.8trillion yuan ($1.1trillion) by 2015.[20] By the end of 2012, households with more $1 million in invested assets totaled 1.3 million in the mainland China compared to 5.9 million in the US, 1.5 million in Japan and 300, 000 in Taiwan. [21]

According to a report issued by McKinsey & Co in late November 2013, China will boast more than 1.9 million high-net worth households (with assets of more than $1 million available for investment), and their total assets for wealth management will reach 58 trillion yuan ($9.5 trillion).[22]

The term "private banking" was brought to China by foreign banks in 2006. [23]The definitions of a private banking client and high net wealth client vary, depending on the businesses and the banks which conduct the businesses. For the sales of wealth management products (WMPs) by commercial banks, the CBRC, the main regulatory authority for policing the wealth management market, has stipulated its definitions.

Under the Administration Methods of Sales of WMPs by Commercial Banks (WMPA)[24], there are two definitions. A private banking client refers to a client whose net financial assets total 6 million yuan (close to $1 million). A high net value client refers to (1) an individual who makes one purchase of WMPs worth at least 1 million yuan; (2) at the time of purchasing WMPs, an individual or household possesses net financial assets worth more than 1 million yuan; or (3) the annual income of an individual has been more than 200,000 yuan for 3 consecutive years or the annual income for a household has been more than 300,000 yuan for 3 consecutive years.[25] Foreign banks have been engaged in the wealth management business for years, but are yet to make substantial profits.[26]

Indeed, the private sector has been equally difficult for the Chinese banks. In September 2013, only three Chinese banks, Industrial and Commercial Bank of China, Ltd, China Merchants Banks Ltd and Industrial Bank Co Ltd, reported profits from the private banking sector.[27] That creates opportunities for Chinese banks to team to create synergies for a niche in the market. A Taiwanese bank, legally deemed a foreign bank, but politically and

[20] Steve Johnson, China fund industry to triple in size, Financial Times (fm), June 18, 2012, p. 1.
[21] Kara Scannell, Credit Suisse hearing attacks Swiss secrecy, Financial Times, February 27, 2014, p. 17.
[22] Xie Yu, Foreign banks retooling products for the new Chinese rich, China Daily, January 3, 2014, p. 13.
[23] Xie Yu, Foreign banks retooling products for the new Chinese rich, China Daily, January 3, 2014, p. 13.
[24] CBRC Decree (2011) No.5.
[25] The WMPA, article 31.
[26] Xie Yu, Foreign banks retooling products for the new Chinese rich, China Daily, January 3, 2014, p. 13.
[27] Xie Yu, Foreign banks retooling products for the new Chinese rich, China Daily, January 3, 2014, p. 13.

culturally resembling a Chinese entity, is in a privileged position to explore those opportunities.

Private banking is a nascent but fast-growing sector with great potential. The Chinese Government's policies have become more favorable for cross-border investment, both inbound and outbound. For example, according to a statement posted on the website of the State Council on 13 December 2013, only outward investments valued at more than $1 billion will require the approval of the National Development and Reform Commission, China's economic-planning agency. Policies like these will create additional opportunities for financial institutes to make investments related to their private banking business.

At this stage, local branches of various banks still enjoy significant autonomy and can forge close cooperation with Australian partners. Chinese financial institutions require foreign expertise and are willing to align themselves with foreign partners through joint ventures or other informal alliances.

In China, wealth management refers to financial services provided by a number of financial institutions, including trust companies, fund management companies, securities companies, futures companies and commercial banks. WMPs issued by commercial bank sector and trust company sector each exceed 10 trillion yuan. Both commercial banks and trust banks enjoy near monopolies in issuing WMPs and jealously guard their realms. Taiwanese financial institution are in a favourable position to enter the wealth management business in China and compete against Chinese entities due to the favourable treatment they receive from regulators.

RMB-related business is another area for potential growth in wealth management. Hong Kong subsidiaries of China's fund management companies and securities firms have launched renminbi qualified foreign institutional investors funds (RQFII). On 16 December 2011, the CSRC issued investment guidelines for the RQFII regime, known as RQFII Methods, as well as related regulations for that regime, known as QFII Implementation Regulation.

The RQFII Methods applies to "the market activities of RMB investments by the Hong Kong subsidiary of a fund management company or securities company incorporated in Mainland China in the securities issued within the Mainland China."[28] Such a subsidiary is a QIFF in terms of its legal status. Under the Administration Methods, an institutional investor incorporated in Hong Kong Special Administration Zone, Macao Special Administration Zone and Taiwan Region is treated as a QFII with respect to its securities investments in mainland China.[29]

As noted earlier, taking advantage of this liberalization in policy, Deutsche Asset & Wealth Management, together with its Chinese partner, developed and sold its first RQFII products in the United States. Banks from other jurisdictions should be able to engage in similar businesses.

Indeed, qualified domestic institutional investors (QDII) are surfeited with unused quota. QDII is term used to refer to a Chinese institutional investors incorporated in mainland China with the license to invest outside the mainland China. Since the introduction of QDII, 32 fund management companies have been granted quotas for QDII, totaling $32.7billion. However,

[28] Article 2, the RQFII Methods.
[29] Article 36, the Administration Methods.

by the end of February 2013, QDII assets of all the funds only amounted to 56.034 billion yuan ($9.0 billion), accounting for 27.5 per cent of the quotas already granted.[30]

This creates an unique business opportunity. With a joint venture which can leverage QDII, an Australian financial institution can access the wealth management businesses in mainland China while making Australia and/or other jurisdictions destinations for investment in collaboration with wealth management institutions in mainland China. Indeed, it has been promised under the ECFA that QDIIs will be permitted to trade in financial derivatives listed on stock and futures exchanges.

The preferential treatment promised for Taiwan banks under ECFA can be significant in granting advantages to Taiwan financial institutions, as local governments exercise discretion in economic policies and rule-making. This has been proved by, among other things, the local rules governing QFLP.

A qualified foreign limited partnership ("QFLP") is a private equity fund qualified to invest in Chinese companies in mainland China. QFLP are mostly subjected to the regulations of a local government, which tends to regulate lightly in order to attract foreign investors. There is no national legislation applicable to QFLP.

Modeled on the Investment Company Act[31] and the Investment Advisor Act,[32] the Financial Services Office, Commerce Commission and Administration of Industry and Commerce of Shanghai Municipality Government jointly issued The Implementation Methods of the Experiment Work of Foreign Equity Investment Enterprise in Shanghai (《关于本市开展外商投资股权投资企业试点工作的实施办法》) (2010) (The Implementation Methods) in 2010.

Under the Implementation Methods, a Chinese entity or financial institution similar to the investment company is "a foreign investment equity enterprise",[33] and a Chinese entity or financial institution similar to the investment adviser under the Investment Act is "foreign investment equity management enterprise."[34] The Implementation Method is an extra effort made by the Shanghai Municipal Government to attract investors and fund management companies from the United States.

It was reported in August 2009, that Blackstone Group signed a memorandum of understanding with the Government of Shanghai Municipality, making a commitment to establish Blackstone China Development and Investment Fund ("Blackstone's China Fund") which planned to raise approximately 5 billion yuan to investment in Shanghai.[35] In a legal context, the Implement Method enabled Blackstone's China Fund to be managed in an American way following Blackstone's management techniques.

Arguably, the Implementation Methods contravenes the Securities Investment Fund Law (Fund Law) in force at that time. However, private equity funds were recognised by a national law only in 2013 when the Fund Law amendment took effect. Despite amendments

[30] 丁宁（Ding Ning）：《基金海外"探宝"路在何方？》（Where Is the Way to "Hunt Treasures" Abroad），《上海□券□》（基金）（Shanghai Securities Daily (Fund),） March 23, 2014, p. 8.
[31] 15 U.S.C. §80a-1 et seq.
[32] 15 U.S.CA. §80bb/
[33] Article 3, the Legal Methods.
[34] Article 7, the Legal Methods.
[35] www.p5w. net/kuaixun/200908/t25130…htm2009-8-17.

governing the private equity funds, both foreign and Chinese private equity funds are still administrated locally according to the local regulations.

IV. A Process Impossible to Be Reversible

Recently, ECFA has run into some resistance in Taiwan. Demonstrators occupied its legislature on March 18-24 to resist The Cross-Strait Service Trade Agreement (CSSTA). The CSSTA is an important follow-up agreement to ECFA.[36] However, the trend towards closer economic cooperation is almost impossible to reverse.

With 2 million people from Taiwan living or working in the mainland China, it is impossible to stop the momentum for closer economic cooperation. Trade between China and Taiwan has rapidly expanded during Ma Ying-jeou's six years in office, nearly doubling to reach $197 billion in 2013. Indeed, Cross-Straits financial business is alive and well. In January 2014 alone, the volume of lending reached a record NT$1 trillion (US$329 billion). As of September 2013, mainland Chinese borrowers were the largest debtors of Taiwanese banks at US$51 billion, and the exposure includes both loans and investments. This is due to economic reality or necessity. Profitability in Taiwan's crowded banking sector in one of the lowest in Asia. Almost 40 domestic banks and 30 foreign banks are competing with each other to do business with a population of 23 million, which has pushed margins to razor-thin levels.[37] In 2012, the mainland and Hong Kong Special Administrative Region accounted for more than 40% of all Taiwan's exports.[38] .

The bottom line is that the CSSTA will not hurt job opportunities for the people in Taiwan. Taiwan has never allowed mainland Chinese to be employed in Taiwan, and the CSSTA does not lift those restrictions. The consensus in mainland China is that the services agreement was concluded in favour of Taiwan, and the mainland's position on the CSSTA will not be affected by the political environment in Taiwan[39].

V. Conclusion

In short, the ECFA and the agreements made thereto will substantially benefit Taiwan financial institutes and their partners.

[36] Dan Steinbock, Taiwan needs regional integration, China Daily, March 27, 2014, p. 9.
[37] Enda Curran and Fanny Liu, China Turns to Taiwan Banks, The Wall Street Journal, March 7-9, 2014, p.22.
[38] Dan Steinbock, Taiwan needs regional integration, China Daily, March 27, 2014, p. 9.
[39] 社□：《台湾学生惧怕开放□化，激□□是保守》，《□球□□》，2014年3月24日，第15□，Editorial, Radical or Conservative: Taiwan Students Fear Opening-up and Changes, Global Times, March 24, p. 15。

Attachment VII

Policy Dialogue Program

Thursday, 1 May 2014

Venue: Council Chambers, Francis Ormond Building (Bld 1), RMIT University

124 La Trobe Street, Melbourne 3000

Project goals and objectives

The principal goal is to enhance Australia's trade and investment relationship with both Taiwan and China. The objectives behind that goal are to:

- Explore market opportunities for Australian businesses and service providers arising from Taiwan's recent policy reforms in areas such as financial services, supply chain and logistics, educational services and distance learning and other areas.
- Explore advantages and opportunities for Australian businesses to use Taiwan as an investment gateway into China following the signing of ECFA between China and Taiwan, which liberalises trade and investment relations between the two economies.
- Develop deeper insights and better understanding of economic policy priorities of Taiwan and China, especially with respect to each other, as well as the role and functions performed by different policymaking institutions and their priorities.
- Examine the current nature of bilateral engagement between Taiwan and Australia, including existing agreements and memoranda of understanding, with the view to strengthen and build on existing linkages, to cover new areas of cooperation, as well as include new stakeholders such as peak industry bodies and financial associations.

Key activities

- To form a functional advisory group of business leaders, policymakers and researchers from Australia, Taiwan and China, to advise on strategies and identify opportunities for Australian private and public interests to invest in Taiwan, as well as collaborate with Taiwanese stakeholders in building business, trade, economic and other linkages in China.
- The advisory group met in Taipei, Taiwan, in October 2013 to discuss and agree the terms of reference, develop an agreed work-plan, mainly in the form of discussion papers on specific sector opportunities, and how the work will be undertaken.
- AASC undertook research to identify opportunities in the priority industry sectors agreed at the Taipei meeting and drafted the discussion papers leading up to the Melbourne policy dialogue.
- Convened a policy dialogue in Melbourne in May 2014 to report research findings and discuss identified opportunities and actionable steps going forward.

<table>
<tr><th colspan="2">Thursday, 1 May 2014</th></tr>
<tr><td>9.00 – 9.15</td><td>Welcoming remarks and overview of Australia-China Council project and its objectives
<u>Speaker</u>
Mr Ken Waller, Director, Australian APEC Study Centre at RMIT University</td></tr>
<tr><td>9.15 – 10.45</td><td>Discussion papers 1 and 2: Trade and investment policy reforms in Taiwan and ways to enhance the Australia-Taiwan economic relationship
Presentation will focus on:
Current trends in Taiwan’s trade and investment relationship with Australia and China
Key areas of opportunity and future growth identified through research
Policy impediments to enhancing supply chain efficiency between Australia, Taiwan and China and opportunities for Taiwan to become a major warehousing and logistics hub in East Asia
Pathways for Taiwan’s entry into TPP and addressing challenges Taiwan faces from trade agreements between Taiwan’s regional competitors and other third parties
Addressing Taiwanese political economy concerns about trade and investment liberalisation, including TPP and normalisation of economic ties with China
<u>Presenter</u>
Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University
Mr Jui-Song Fang, Economic Deputy Counsellor, Office of Trade Negotiations Taiwan Ministry of Economic Affairs (via videoconference)
<u>Open Discussion</u>
Moderator: Mr Ross Maddock, Chairman, Australia Taiwan Business Council
<u>Lead Discussants</u>
Dr Shen-Cheng Hu, Former Minister of Economic Planning and Development, Taiwan’s Executive Yuan (the Cabinet)
Mr Jui-Song Fang, Economic Deputy Counsellor, Office of Trade Negotiations Taiwan Ministry of Economic Affairs (via videoconference)
Ms Susan Lu, Deputy Director of First Bilateral Trade Division, Bureau of Foreign Trade, Taiwan Ministry of Economic Affairs (via videoconference)
Mr Jurek Juszczyk, Director, Hong Kong, Macau and Taiwan Section, East Asia Bracnch, DFAT
Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University
Mr Trevor Holloway, Policy Analyst, Business Council of Australia</td></tr>
<tr><td>10.45 – 11.00</td><td>Morning Tea/Coffee break</td></tr>
<tr><td>11.00 – 12.30</td><td>Discussion paper 3: Trade in education services and research collaboration between Australia, Taiwan and China
Presentation will focus on:
Recent trends in bilateral trade in educational services between Australia and</td></tr>
</table>

	Taiwan, and Taiwan and China • Opportunities for Australian providers to target the mainland Chinese market through offshore presence and collaboration in Taiwan • RMIT Design Research Institute's collaboration with Taiwan's NTUT and Harvard University ***Presenter*** *Mr Nofel Wahid, Research Analyst, The Australian APEC Study Centre at RMIT University* ***Open Disucssion*** ***Moderator:*** *Mr Ross Maddock, Chairman, Australia Taiwan Business Council* ***Lead Discussants*** *Professor Ron Wakefield, Deputy Pro Vice Chancellor International, RMIT University (TBC)* *Professor On Kit Tam, Deputy Pro Vice-Chancellor, College of Business, RMIT University* *Dr Rosalea Monacella, Associate Professor, Design Research Institute, RMIT University* *Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University*
12.30 – 13.30	**Lunch**
13.30 – 14.30	**Discussion papers 4 and 5: Market opportunities for Australian financial service providers and institutional investors in Taiwan** Presentations will focus on: • Recent trends in financial liberalisation in Taiwan, including deregulation of financial services trade between Taiwan and China following the signing of ECFA and the Services Agreement • Market for SME and trade finance in Taiwan and China • Taiwan's SME and corporate lending business in Taiwan • Australian institutional investor interest in Taiwan ***Presenters*** *Mr Nofel Wahid, Research Analyst, The Australian APEC Study Centre at RMIT University* *Professor Zhu Weiyi, China University of Politics and Law* ***Open discussion*** ***Moderator:*** *Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University* ***Lead discussants*** *Professor Zhu Weiyi, China University of Politics and Law* *Dr Mark Lawrence, Managing Director, Mark Lawrence Group* *Mr Julian Reeves, Senior Investment Advisor, Commonwealth Securities Limited*
14.30 – 14.45	**Afternoon break**

14.45 – 16.00	**Next steps in enhancing the economic relationship between Australia and Taiwan** • Establishing a high-level Advisory Group on ways to deepen the Australia-Taiwan economic relationship and use Taiwan as an investment gateway into China **Open discussion** ***Moderator:*** *Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University* ***<u>Lead Discussants</u>*** *Dr Shen-Cheng Hu, Former Minister of Economic Planning and Development, Taiwan's Executive Yuan (the Cabinet)* *Mr Jerry Shyy, Executive Director, Economic Division, Taipei Economic and Cultural Office in Australia* *Mr Jurek Juszczyk, Director, Hong Kong, Macau and Taiwan Section, East Asia Bracnch, DFAT* *Mr Ross Maddock, Chairman, Australia Taiwan Business Council* *Mr Trevor Holloway, Policy Analyst, Business Council of Australia*
16.00 – 16.15	**Closing remarks** ***<u>Speakers</u>*** *Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University* *Dr Shen-Cheng Hu, Former Minister of Economic Planning and Development, Taiwan's Executive Yuan (the Cabinet)*

Participants at Taipei meeting

Date: 21 October 2013

Venue: Taiwan Institute of Economic Research (TIER)
7F, No.16-8, Dehuei Street
Jhongshan District, Taipei 104

Taiwanese representatives

Dr. David Hong, President, Taiwan Institute of Economic Research (and other representatives from TIER)

Dr Webster Kiang, President, Webster International Consulting Inc

Senior Representative, Bureau of Foreign Trade, Ministry of Economic Affairs (MoEA) - *TBC*

Dr Su Ying-Ming, Associate Professor, Dept of Architecture, National Taipei University of Technology (NTUT)

Dr Jen-Hwang Ho, Lecturer, Dept of Architecture, NTUT

Mr Eugene Chen, Managing Director, Grand China Ltd

Australian representatives

Mr. Ken Waller, Director, Australian APEC Study Centre at RMIT University

Mr Ross Maddock, Chairman, Australia Taiwan Business Council

Mr Martin Walsh, Senior Trade Commissioner, Australian Office in Taipei

Mr Robert O'Donnell, Deputy Director, Economic and Policy Section, Australian Office Taipei

Mr Jerry Lin, Head of Corporate and Institutional Relationship, ANZ Taiwan

Chinese representatives

Ms Vanessa Wang, Regional Head of Pension Services, Citigroup (Asia-Pacific)

Participants at Melbourne policy dialogue

Date: 1 May 2014

Venue: Taiwan Institute of Economic Research (TIER)
7F, No.16-8, Dehuei Street
Jhongshan District, Taipei 104

Mr Ken Waller, Director, The Australian APEC Study Centre at RMIT University

Dr Shen-Cheng Hu, Academician, Academia Sinica, Institute of Economics, Taiwan

Professor Zhu Weiyi, China University of Political Science and Law

Mr David Olsson, Board Member, Australia-China Council

Mr Jurek Juszczyk, Director, Hong Kong, Macau and Taiwan Section, Department of Foreign Affairs and Trade

Ms Judy Ying-Ming Wong, Director General, Taiwan Economic and Cultural Office (TECO), Melbourne

Mr Jerry Shyy, Executive Director, Taipei Economic and Cultural Office, Canberra

Mr Ross Maddock, Chairman, Australia Taiwan Business Council

Ms Ching-Mei Maddock, CEO, Australia-Taiwan Business Council

Dr. Bill Petreski, National Executive Member, Australia-Taiwan Business Council

Mr Jason Lin, President, M.I.T. Chartering (Australia) Pty Ltd

Mr Julian Reeves, Senior Investment Adviser, Global Investment, Commonwealth Securities Ltd

Mr Trevor Holloway, Policy Analyst, Business Council of Australia

Dr Mark Lawrence, Managing Director, Mark Lawrence Group

Ms Adeline Hiew, Senior Associate, Ashurst Australia

Mr Anker Hung, Managing Director, Winko Investments Pty Ltd/DSG Technology Pty Ltd

Ms Georgina Carnegie, Senior Advisor, The Sentient Group

Ms Fiona Sullivan, Project Manager, Industry Engagement, College of Business, RMIT University

Mr Nofel Wahid, Research Analyst, The Australian APEC Study Centre

Ms Elissa Macleod, Projects and Programs, The Australian APEC Study Centre

Ms Margot Kilgour, Senior Manager, The Australian APEC Study Centre