

Policy Brief on Taiwan in the WTO

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Background

On 1 January 2002, Taiwan became a member of the World Trade Organization ("WTO"), thus marking a happy ending to a decade's effort in WTO accession.

All the laws and regulations needed to implement Taiwan's concessions on accession have been put into effect. Now what the government has to face is the ever more challenging task to boost Taiwan's economic growth within the framework of the WTO regime in the wake of the global as well as local economic downturns, bearing in mind that in 2001, Taiwan encountered her very first recession, with a GDP growth rate at an unprecedented minus 1.91% and the unemployment rate at a record high of 4.57%.

Government Policy in Response to WTO Membership

In response, the Taiwan government has recently announced its policy as follows:

Active Participation in International Arena

Taiwan will actively participate in the new round of multilateral as well as plurilateral trade negotiations and the international rule-making process and expand Taiwan's networking with other WTO members. Furthermore, while past trade disputes with Taiwan's major trading partners have been resolved through bilateral trade negotiations mostly under the threat of unilateral sanctions and retaliations, the government will resort to WTO dispute resolution mechanism for fair and equitable settlement of future trade disputes.

Providing Adequate Relief Against Trade Impacts

The government will, within the WTO framework, adopt adequate measures to mitigate impacts of increased imports on domestic industries. According to governmental evaluation and certain studies by private think tanks, the industries hardest hit by Taiwan's WTO concessions are the agricultural industry, automobile industry, wine and tobacco industry and consumer electrical appliances industry.

Measures that are to be adopted include safeguards, anti-dumping investigation and countervailing measures against foreign subsidies as available under the WTO framework.

Enhancing Competitiveness of Domestic Industries

In addition to defensive, trade relief measures, the government will assist domestic industries in their restructuring and upgrading so as to maintain their niche and competitiveness.

Taiwan has traditionally focused on manufacturing activities and gained worldwide recognition for her competitive advantage of efficient production. However, with the increasing competition from a number of developing countries led by Mainland China, Taiwan can no longer take such advantage for granted.

To cope with the challenges ahead the government has put forth various programs to encourage investment in R&D, acquisition of new technologies and upgrading of human resources. Furthermore, emphasis is equally placed on the service industry and the agricultural sector. For the service industry, the government will continue the financial reform and come up with other measures to facilitate the introduction of new ideas and technologies to improve the quality of the service sector. Meanwhile, the government is also actively promoting e-commerce and the development of distribution and logistic service industry. In a sense, tremendous new business opportunities become available in a new environment created by Taiwan's WTO accession, only to be enhanced by creativity, strong entrepreneurship and sound government policy.

In the agricultural sector, the government will assist farmers in upgrading their operation, improving the distribution system of agricultural products, and increasing the added value by integrating environmental protection, recreation and tourism with agriculture. As Taiwan does not claim special advantages of her natural resources, emphasis needs to be directed to the improvement and commercialization of her agricultural technologies.

Recently, many thoughts have been given to exploring the great business potential to be generated by means of packaging Taiwan's agricultural technologies for license to other areas where the cost of production is lower and more competitive. Such new business model will not only increase the welfare of Taiwan's farmers but also benefit the huge population in less developed countries suffering from poverty and food shortage. More active participation in international organizations aiming to address the food shortage problem also fulfills Taiwan's responsibility as a member of the world community.

New Prospect for Cross-Strait Trade Relations

Many view the cross-strait relations as an important factor affecting the future of Taiwan, both politics-wise and economy-wise.

In this regard, the WTO provides an ideal framework for the improvement of cross-strait trade relation. Previously, cross-strait trade in goods could only take place in an indirect manner, but direct trading will soon be possible. In anticipation of increased imports from Mainland China, adequate import relief systems will be established to mitigate the adverse impact on local industries.

With respect to trade in services, the government will, phase by phase, allow two-way investment in the service industries. Most notably, banks can soon expect to be allowed to open offices in Mainland China, not only serving the needs of Taiwanese invested business there but also competing in the huge Chinese market in the financial sector. Telecommunication is another sector for which we can soon anticipate a green light for investment in Mainland China.

As for regulation for overall investment in Mainland China, the policy of "active opening, with effective management" has just replaced the previous policy of "no haste, with patience." The current debate on whether the semiconductor

industry should be allowed to build foundries in Mainland China serves as the best test as to how this policy will be put into practice.

Some Thoughts Beyond WTO

The WTO rules only set forth the minimum code of conducts for member countries. Compliance with the WTO rules does not necessarily guarantee a member more prosperous economy or higher social welfare. To tackle the current challenges, a vision for Taiwan's continuous prosperity as inspired by her WTO accession is being formed on the part of both the private and the public sector, though its breadth and depth may vary slightly between the two. The relation with Mainland China could be a part of such vision.

Division of Labor with Mainland China

After Mainland China opened her gate to the world almost two decades ago, one can clearly see the unique supply chain being developed among companies in the U.S. (as the center of R&D, brand management and marketing activities), Taiwan (as the manufacturing network integrator) and Mainland China (as the manufacturing power house). The trend of division of labor between Taiwan and Mainland China is beyond doubt.

Taiwan's trading volume with Mainland China is estimated to have reached US\$29.9 billion in 2001, which accounted for 13% of the total trading volume of the same year, up 1.8% from 2000. The export volume to Mainland China is estimated to have reached US\$24 billion, which accounted for 19.6% of Taiwan's total export volume, up 2% from 2000. Taiwan's import from Mainland China was US\$5.9 billion, which accounted for 5.5% of the total import volume, up 1.1% from 2000. The trade surplus stood at US\$18.1 billion, down 8.8% from 2000.

The trade performance vis-à-vis Mainland China in 2001 was mostly the result of the cross-strait division of labor. Mainland China is now Taiwan's third largest trading partner, second largest export market and the fourth largest source of imports.

In 2001, according to the U.S. statistics, China had the largest trade surplus with the U.S., at around US\$83 billion. Her exports to the U.S. reached around

US\$102.2 billion and imports, US\$19.2 billion. However, according to the Mainland China statistics, her exports to the U.S. amounted to only around US\$54.2 billion and imports around US\$26.2 billion. At the same time, Taiwan's exports to the U.S. were around US\$27.6 billion according to her own customs statistics, while the U.S. statistics show US\$33.3 billion. Given the huge differences between the statistics on the value of exports to the U.S., one may well wonder what role the cross-strait division of labor plays in it.

In addition to trade, Taiwan's outbound investment to Mainland China has been growing steadily, covering a wide range of business sectors, and the investment in the manufacturing industry has gradually shifted from the traditional labor-intensive industries to the information and electrical industry. In 2001, approved investment projects amounted to US\$2.78 billion, representing more than 100% growth from US\$1.23 million in 1996. Other official figure apparently does not reflect the true picture of Taiwan-based companies' investments into Mainland China. From 1991 to October 2000, the estimated value of Taiwan-based companies' cumulative equity investments into Mainland China ranges from the most conservative figure of US\$15.6 billion to US\$50 billion.

As a result of the huge investment in Mainland China, Taiwanese entrepreneurs have built up remarkable networks there for manufacturing, initially for purposes of export, and more recently, for distribution, marketing and logistic support for purposes of domestic sales. The WTO accession of both Taiwan and Mainland China will only fuel further expansion of such networks. Businesses from other countries can tap into such networks through their strategic alliance with Taiwanese partners, while Mainland China's businesses can also benefit from their access to the global networks of supply chain through their Taiwanese partners.

Role of Taiwanese Entrepreneurs as Integrator in Supply Chain

Since Mainland China and Taiwan both joined the WTO, Taiwanese entrepreneurs have become more eager to explore new business opportunities in Mainland China, either on their own or through joint venture with other international investors. It is clear that Taiwan's industry enjoys certain advantages in areas of management, operation, technology and marketing while Mainland China, on the other hand, offers low-cost labor and resources and a

vast domestic market. These advantages plus the common cultural background give Taiwan's entrepreneurs a niche to play the role of an integrator of activities in the supply chain of global products.

Many industrial leaders even take the view that the west march to Mainland China is not merely a choice but a necessity. However, equally many have also raised the concern about the hallowing out of Taiwan's manufacture-based economy. The migration of Taiwan's manufacturing industry to Mainland China is further perceived as fueling the growth and prosperity of a dreadful opponent at the expense of Taiwan's own future. Such doubts and debates may linger for the years to come. Both sides across the Taiwan Strait need to exercise their wisdom to eliminate such concerns for achievement of mutual benefits.

However, from a practical viewpoint, what is critical for Taiwan's future is to ensure that businesses will conduct their core operation and retain the key value in the supply chain within Taiwan. In a knowledge-based economy, the majority of value generated in the supply chain is usually related with R&D, design, marketing and distribution. Furthermore, knowledge intensive business services also provide tremendous business opportunities and are crucial for the development of a knowledge-based economy. Great efforts, therefore, have been and will continue to be made to create an environment conducive to these high-value-added operation and development of the supporting business services beyond the WTO requirements.

For instance, with the assistance from Lee and Li's public policy task force, the government has recently overhauled our corporate, banking and securities legal regime to allow greater autonomy in corporate structure and more flexibility in fund raising to improve corporate governance and facilitate corporate restructuring and M&A activities. Such effort is continuing at accelerated speed.

To prevent Taiwan from being bypassed in the wake of industrial globalization, the government has also announced a series of measures specifically to attract multinational as well as domestic companies to keep or move their (global or regional, as the case may be) R&D, managing and marketing operations in or to Taiwan. These measures include tax incentives and subsidies for certain encouraged activities.

The next step the government may need to take is to release capability and resources currently held by various public and private research organizations and academic institutions so that the research fellows and teaching faculty can more actively participate in industrial activities and fruits of their intellectual pursuits can be readily made available for commercialization.

Encouraging Strong Entrepreneurship

A good indication on the strength of entrepreneurship is the growth in start-up companies. Thus, the continuous promotion of start-up companies is also an imperative for reinvigorating Taiwan's economy. Through start-up companies, new dynamics and momentum can be injected into the economy and continued growth can be sustained. With support from all members, in particular Mainland China, the Eleventh APEC Ministerial Meeting Joint Statement publicly endorsed the proposal on "Economic Revitalization Through Start-up Companies and Venture Capital" in the wake of the Asian financial crisis.

In the case of Taiwan, start-up companies have greatly contributed to Taiwan's economy. However, in 2001, there appears to be a decline in the number of newly found companies, down 13.03%, while the total initial capital invested in these companies has also dropped by 13.69%. With the economic upturn in view, we expect a new surge in the numbers. In addition to the growth of start-up companies, we are also trying to create in Taiwan an environment in which entrepreneurs can thrive, as recommended in the APEC Best Practices Guidelines for Entrepreneurship and Start-up Companies. (Please see the attachment.)

Furthermore, as highlighted in the APEC Best Practices Guidelines, Taiwan needs to continue her efforts in facilitating access to efficient capital markets, both public and private, to ensure that capital will be available for all stages of her corporate growth.

Venture capital (VC) has long been an important source of capital needed by start-up companies. In 2000, Taiwan had 184 VC companies, with a total paid-in capital of US\$3.65 billion. From 1996 to 2000, they have invested in 6,343 projects with a total investment of US\$3.58 billion. However, during the period from 2001 to March 2002, there appeared to be a reduction in the number

of VC companies in operation, and their total paid-in capital had merely increased by US\$ 171 million. This may be a sign that more efforts are needed to promote the establishment of VC companies and their funding for start-up companies.

In addition, while VC companies used to focus on the investment in the manufacturing industry, we hope their future investment will also flow to start-up companies in the knowledge-based services sector. This will then ideally fit in with the plan of Taiwan's role as an integrator.

Our vision for Taiwan's future as inspired by her WTO accession goes beyond the mere compliance with the WTO rules and requirements. Such vision is illuminated by the APEC Best Practices Guidelines, which state in preamble that to enhance APEC region's economic growth and prosperity, APEC must continue to develop global competitive advantages, based on constant innovation, daring entrepreneurship, and dynamic start-up companies. This is our mission!