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場次： 台灣在區域經濟發展與競合中的角色 （第二場）

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## Taiwan's Financial Sectors Contribution to Asia's Regional Development

### I. Recap of Taiwan's Overall Position

Taiwan possesses an advantageous position in the region, namely:

1. Financial strength: High foreign reserve, third largest in world
2. Strong manufacturing expertise: Labor intensive industry: shoes, garments  
Capital intensive industry: petro-chemical  
Technology intensive industry: electronics
3. Highly educated work force: Education system ranks 8<sup>th</sup> in world by Swiss institution IMD
4. Ideal geographic position: gateway to Asia from Americas, close to China (depending on government policy)
5. Reasonably good infrastructure: ports, telecommunications, internet access ratio is close to Singapore

### II. Contribution of Manufacturing Sector

Based on the above strength, Taiwanese manufacturing sector has been moving and expanding operations to Asia in the past decade. China is the number one destination in terms of direct investment, particularly in the past five years. While in most Southeast Asian countries, Taiwan's investment ranks among the top three, total amount reaches \$ 51 billions. Together with the investment, Taiwanese manufacturers bring in not only capital, management, manufacturing expertise but their customers base and product development capabilities.

Take China as an example, the sectors Taiwanese manufacturers have been investing are as follows. Electronics leads by amount of investment, followed by basic metal, machinery and plastics processing. The pattern also reflects the strength and weights of Taiwanese industry. Weight of China as destination for Taiwan's outward investment has been accelerated in the past five years with ratio closed to 50%. Since 1997 Taiwan government has expressed concerns whether it has been over weighted. Nonetheless, in terms of vast land, labor and market, China today is the most attractive place for foreign investment.

If using statistics provided by PRC government, investment from Taiwan is \$29 billion in the past ten years, about 45% higher than our statistics. The reason is many Taiwanese investments are done via a third country, like Virgin Island, Hong Kong and Singapore. Currently, Taiwan ranks the 4<sup>th</sup> largest investor in China, next to Hong Kong, US and Japan.

### III. Contributions of Financial Sector

A. Assets: By end of March 2002, total investment in Asia region is \$23 billion, about 6% of total foreign investment in the region. Taiwan is the 7<sup>th</sup> creditor to Asian countries, after 6 OECD countries. Presence of Taiwanese banking is not as prominent as the manufacturing sector. However, in the same time, they suffer less in the previous crisis.

B. Physical presence of Taiwanese banks and securities houses: There are 33 Taiwanese banking branches and 12 securities offices in Asia. Most are located in Hong Kong, Singapore and Japan. Their major activities are providing trade related service to Taiwanese enterprises, serving overseas Chinese companies in local market and participating in syndicate loans.

C. Reasons for less prominent presence: 1) relatively late entry in market, only began in the 90's; 2) management has limited experience in overseas operations; 3) lack of economy of scale, banks are fragmented; 4) devoid of China market by government regulations.

### IV. Domestic issues faced by Taiwanese banking industry

A. Over banked at home: Market share of top five banks is 33%, Hong Kong is 64%, Korea 69% and top three banks market share in Singapore is 80%.

B. Problem of NPL.

C. Relatively low returns due to over banked situation.

D. Lack of management skill: Taiwanese banks are over regulated and protected in the past by government. There are lots of rooms for development of modern banking expertise, such as product renovation, risk management, IT infrastructure.

### V. Emphasis of operations – domestic or overseas market

Domestic consolidation and upgrade should take the priority. In the past 12 to 18 months, the government has put in measures, introduced legislation to clean up NPLs, to encourage mergers and acquisitions among banks, to establish financial holding companies. These have provided opportunities for Taiwanese banks and financial institutions to further consolidate and upgrade

their operations in domestic market. After the consolidation, some financial sectors will have better foundation to expand operations overseas.

#### VI. Assets allocation – more room for effective assets allocation

Taiwan holds 2<sup>nd</sup> or 3<sup>rd</sup> largest wealth pool in Asia. With low inflation and graduate maturity of economy, insurance companies are under pressure to seek higher return. In addition to be more innovative to develop domestic market, they are looking into overseas market. Currently, share of overseas assets of Taiwanese insurance companies stand at 40% roughly and has been growing. Asset management companies' overseas share is only 3%. To compare with other developed countries such as Netherlands (also small in area), their share is 30 to 40%. There is room for growth.

#### VII. Pension reforms

Government introduces defined contribution scheme, out sourcing of fund management to boost the investor's pool. It is important to give asset managers more free choices, to produce higher returns and to have more diversified portfolio. One must equip them with better skills in order to expand into the region.

#### VII. Conclusion

I cannot be too optimistic about immediately expansion of Taiwanese banks. The recent reform has provided very good opportunity for Taiwanese financial institutions, securities firms and insurers to further consolidate and upgrade their operations. They will be better positioned to expand into the region and play a bigger role. I do not emphasize the market of Mainland China and more liberalized control and need for legal system upgrade. These issues have been discussed so many times and are well understood and recognized. Some haven't even been addressed, should let the politicians to decide.