

## Box 2

### Taiwanese government's policy responses to the global economic slowdown

In order to ease the impacts of persisting global uncertainties arising from the euro area sovereign debt crisis and slowdown in Western economies since the second half of 2011, the Taiwanese government unveiled the Economic Climate Response Program in December 2011, putting forward seven strategies and ten focuses to stimulate economic growth. The program, which adopted countercyclical measures such as the augmentation of private participation in public construction and expansion of exports, displayed considerable efficacy. It placed emphasis on shorter-term response measures, even though it was designed to mitigate challenges that typically cannot be solved in a short time. For instance, external challenges include the prolonged Eurozone debt crisis which has caused global economic turmoil, weaker-than-expected growth in industrial countries, decelerating growth momentum in Mainland China and other emerging economies, and the emergence of regional economic integration which has significantly affected Taiwan's exports. On top of that, internal challenges hindering the domestic economy, such as an imbalance in industrial structure and mismatch between labor supply and demand, highlight the need for redress. Thus, the Executive Yuan again issued the Economic Power-up Plan on 11 September 2012 with the aim of improving industrial health, propelling economic impetus, and raising the capability to respond to economic challenges.

The Economic Power-up Plan focuses on the adjustment of Taiwan's economic structure and the relaxation of regulations as its two key pivots, thereby incorporating dimensions of both short-run growth and medium- to long-term development. Through joint deliberation and periodical reviews by concerned Cabinet agencies, this plan has been mapped out into five dimensions – industry, exports, human resources, investment, and government efficacy – according to the required elements of economic growth. The government set forth five policy directions and 25 concrete focal undertakings and responding action plans. Each of the policy actions has been set a time line for completion, with an overall time frame spanning from 2012 to 2030. The total expenditure is estimated to be about NT\$389.4 billion. Summarized in Table B2.1 below are the plan's initiatives and targets.

**Table B2.1 The Economic Power-up Plan : Initiatives and targets**

Initiatives	Targets
Promote innovative and diverse industries	<ol style="list-style-type: none"> <li>1. Implement the Three Industries, Four Reforms Program, namely: a service-oriented manufacturing industry, an internationalized and high-tech services industry, and a specialty-oriented traditional industry.</li> <li>2. Turn small and medium enterprises (SMEs) into backbone enterprises.</li> <li>3. Accelerate the application of R&amp;D results.</li> <li>4. Lift the quality and quantity of tourism.</li> <li>5. Spark sustainable growth in the financial sector.</li> <li>6. Develop top-quality, eco-friendly and sustainable energy.</li> <li>7. Create a “golden agricultural corridor” featuring modern agriculture practices with the special characteristic of Lifestyles of Health and Sustainability (LOHAS).</li> </ol>
Develop new export markets	<ol style="list-style-type: none"> <li>1. Increase value-added exports and explore emerging markets.</li> <li>2. Raise the competitiveness of service exports.</li> <li>3. Strive to participate in regional economic integration.</li> <li>4. Strengthen intellectual property rights strategies.</li> </ol>
Cultivate industry talents	<ol style="list-style-type: none"> <li>1. Improve technical and vocational education to meet industry needs.</li> <li>2. Develop industries with value-added human resources to enhance industry-academia training convergence.</li> <li>3. Promote strategic distribution of human resources and nurture talents specialized in emerging markets.</li> <li>4. Adjust labor laws and regulations according to industrial and social trends.</li> </ol>
Spur investment and public construction	<ol style="list-style-type: none"> <li>1. Attract private-sector investment.</li> <li>2. Finance public works with innovative financial strategies.</li> <li>3. Facilitate more medium and long-term investment for public works.</li> <li>4. Adjust investment regulations in time with industrial trends.</li> <li>5. Design free economic pilot zones.</li> </ol>
Enhance government efficacy	<ol style="list-style-type: none"> <li>1. Improve government procurement mechanisms.</li> <li>2. Implement government budget review mechanisms.</li> <li>3. Strengthen regulatory reviews and revise laws to meet changing needs.</li> <li>4. Effectively utilize public land and assets.</li> <li>5. Push state-owned enterprises to launch major investment projects.</li> </ol>

Source: Executive Yuan.

The Executive Yuan has urged concerned ministries/agencies to earnestly implement the plan so as to lift Taiwan’s competitiveness in the medium and long term. Among the initiatives, attracting overseas Taiwanese businessmen to invest back in Taiwan and enlivening sustainable growth in the financial sector have achieved the desired effects rather well. Moreover, the free economic pilot zones currently under programming should be able to effectively raise national competitiveness. Illustrated below are these three major undertakings.

### ***Strengthen efforts to encourage overseas Taiwanese firms to invest back in Taiwan***

Owing to the fact that the phenomenon of “order-taking in Taiwan followed by offshore production” has been increasing over the years making domestic employment

opportunities decline gradually, the Executive Yuan ratified the “Program of Promoting the Investment of Overseas Taiwanese Businessmen Back to Taiwan” on 26 October 2012 in order to attract inbound investment from overseas Taiwanese firms, increase job opportunities, and power up the engine for economic growth. Based on the program, the government will actively help businessmen solve attendant problems concerning their investment with regard to issues such as access to land and labor, optimizing the investment environment to boost domestic investment and employment, and embarking on upgrading industrial structure. Within four months after the program was initiated in the beginning of November 2012, the Ministry of Economic Affairs, jointly with other concerned agencies, approved 22 cases of applications for inbound investment by overseas Taiwanese businessmen, with total amounts estimated to be about NT\$168.4 billion and jobs to be generated for twenty-three thousand workers. Therefore, the performance of this program was notable.

#### ***Ignite sustainable development in the financial sector***

In order to develop financial services with cross-strait characteristics, three major policy measures have been initiated. First, the CBC and the People’s Bank of China jointly signed the Memorandum on Cross-Strait Currency Clearing Cooperation and designated NTD and renminbi (RMB) clearing banks, respectively. A bilateral mechanism for the clearing and settlement of cross-strait currencies was officially inaugurated. Thereafter, the CBC opened up RMB deposits, loans and remittances to be conducted by authorized banks. Second, the FSC repealed the restriction that foreign corporations with more than 30% of their capital held by mainland investors should not list on Taiwan’s stock exchange and over-the-counter (OTC) market. Listing on the stock exchange and the OTC market was also opened up as an option for well-performing overseas Taiwanese corporations. Third, the FSC, through the platform of cross-strait supervisory cooperation, loosened the criteria for banks in Taiwan to enter the mainland market and lifted the ceiling of shareholding of domestic banks and financial holding companies by a single bank registered in the mainland.

In order to promote a Taiwan-centric wealth management platform, the FSC and the CBC revised the Directions for Banks Conducting Financial Derivatives Businesses and the Regulations Governing Foreign Exchange Business of Banking Enterprises, respectively, opening up derivatives that are allowed to link to RMB-denominated indicators, such as exchange rates, interest rates and stock prices, and relaxed the rules on foreign currency-denominated securities investment trust funds to use NT dollars as a payment

vehicle.

***Move forward free economic pilot zones***

The detailed programming of the free economic pilot zones is expected to be completed by the end of June 2013. Its design mainly lies in the core philosophy of liberalization, internationalization, and being forward-looking in nature. The program will greatly loosen the restrictions on the flows of merchandise, people, funds, information, and knowledge, and earnestly put into effect the policy of opening markets. The promotion strategies will be focused on breaking through regulatory limitations and innovating administration mechanisms, with a view to holistically building a superior liberalized and internationalized business environment. For example, policy measures include, among others, easing restrictions on foreign white-collar professionals to work in Taiwan, allowing free import and export of agricultural and industrial raw materials and merchandise without taxes, opening markets and loosening investment constraints, facilitating access to land and granting of preferential rents, as well as setting up a highly efficient single window providing government services. These measures will be able to effectively raise the national competitiveness of Taiwan, achieving the expected effectiveness of attracting investment and increasing output value.