

## 2. Taiwan's Accession to the World Trade Organization and Its Impacts on the Financial Services Sector

### 1. Introduction

Since the 1980s, the Republic of China on Taiwan has followed an orderly and gradual approach toward greater financial liberalization and internationalization, which is also consistent with its policy stand of promoting Taipei as a regional financial center. Taiwan has committed to further liberalizing its financial services market after joining the World Trade Organization (WTO), which will inevitably affect the domestic financial industry. This annex provides a brief discussion about Taiwan's WTO entry and its consequential impacts on the financial services sector.

### 2. Measures to Be Taken after the WTO Entry

#### (1). Special Exchange Agreement

Upon its WTO accession Taiwan will observe the Special Exchange Agreement with the WTO.\* The Agreement dictates as follows:

- (1) Taiwan shall promote exchange rates that reflect underlying economic fundamentals, maintain orderly exchange arrangements with other members of the WTO, and avoid competitive exchange alterations as well as manipulating exchange rates.
- (2) Taiwan shall not, without the approval of the WTO, impose restrictions on the payments and transfers related to current account transactions, and engage in any discriminatory currency arrangements or multiple exchange rate practices.
- (3) Taiwan may exercise controls of capital transfers if international capital movements are destabilizing to the balance of payments or jeopardize macroeconomic stability. However, if Taiwan institutes new capital controls or tightens existing capital controls, it shall consult with the WTO immediately after instituting such controls.
- (4) Taiwan shall furnish the WTO with such information within the general scope of Article VIII of the Agreement of the IMF. Whenever the WTO

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\* According to Article XV of the *General Agreement on Tariffs and Trade 1994*, any WTO member which is not a member of the IMF shall, within a time to be determined by the WTO after consultation with the IMF, enter into a special exchange agreement with the WTO.

consults with the IMF on exchange matters or in other appropriate cases particularly affecting Taiwan, it should transmit to the IMF any views communicated by Taiwan to the WTO.

## **(2). Major Commitments in Financial Services**

In order to smoothly join the WTO as a member, Taiwan has successfully undertaken a series of liberalization and internationalization measures to modernize its financial markets. These measures are as follows: liberalizing establishment qualifications and business operations of foreign bank local branches, lifting the ceiling of the foreign equity-holding ratio in given local financial institutions, replacing the limits on banks' foreign liability positions of authorized foreign exchange banks with reserve requirements, relaxing the restrictions on foreign investment in the local securities market, etc. Major commitments on financial services after Taiwan's WTO entry include:

- (1) Taiwan will permit the opening, at the domestic customer's request, of foreign currency deposit accounts abroad and the transfer of funds to these accounts pursuant to the country's prudential regulations.
- (2) From January 1, 2001, there will be no limitation on stock holding for foreign portfolio investment, except otherwise specified in the specific sectors.
- (3) Taiwan will further open reinsurance and retrocession services, insurance intermediation, and insurance auxiliary services to foreigners. The commercial presence of foreign insurance firms will be permitted to the form of branch, joint venture, and representative offices.

## **3. Benefits to the Financial Services Sector after the WTO Entry**

Gaining membership to the WTO will bring numerous benefits to Taiwan's financial industry.

First, the WTO regime provides a safe and stable environment for the international economy and financial market alike. After Taiwan's entry into the WTO, domestic financial institutions could more actively participate in the international financial market under fair, reasonable, and secure conditions, provided that each WTO member should accord its obligations to most-favoured-nations and market access commitments. Local financial institutions would also benefit from the progressive opening of foreign financial markets.

Second, being a WTO signatory will not only scale up domestic economic deregulation and internationalization, but also enhance the international competitiveness of Taiwan's financial institutions.

Third, the dispute settlement mechanism of the WTO will help to settle the disputes associated with trade in financial services with other members, on a lawful, equal and reciprocal basis. By taking part in multilateral negotiations under the WTO framework, Taiwan could prevent itself from unilateral unfair practices imposed by other countries so that Taiwan's national interest will be preserved.

Besides, as a member of the WTO, Taiwan can gain access to various data and information and express its own policy stands through participating in the discussion forums of this multilateral trading system. Taiwan can also take this occasion to build close relationships with other non-diplomatic countries to enhance its position in the international arena.

#### **4. Impact on the Financial Services Sector**

During the process of accession, various laws and regulations have been revised to prepare for Taiwan's entry into the WTO. Currently, most market regulations are in accordance with the terms of the WTO. As a result, it would not appear on the surface that there will be any major immediate influence on the domestic financial services market after entering the WTO.

##### **(1). Impact on the Foreign Exchange Market**

As the domestic financial market will open further to foreigners after entering the WTO, volume of capital flowing in and out of the country and the number of market participants will significantly increase. The depth and scope of Taiwan's foreign exchange market will be broadened as a result, and the market scale will rise as well.

Also, in response to the mounting foreign exchange transactions, new financial products regarding foreign exchange will be further diversified. In particular, associated hedge instruments will rapidly increase.

Moreover, regulations governing trading procedures will conform to international practices. The Central Bank of China will also emphasize discipline on financial institutions and allow the NT dollar exchange rates to reflect underlying economic fundamentals.

## **(2). Impact on the Banking Industry**

To meet with greater competition with international commercial banks after entering the WTO, Taiwan's banks must enhance their competitiveness and upgrade their efficiency in providing better services.

Second, in recent years, most internationally renowned commercial banks have made inroads into achieving a universal banking system. This kind of encroachment included the engagement in securities dealing, investment management, as well as insurance business. To cope with this trend, a universal banking system in Taiwan will be developed in the near future to provide a wider scope of business for domestic banks and varied financial services for their local customers.

Moreover, since a large number of small domestic banks have squeezed the margin of the banking sector, it is necessary to promote mergers and acquisitions among Taiwan's banks, in order to compete with many international banks after Taiwan opens further its financial market.

## **(3). Impact on the Capital Market**

### **Stock Market**

Due to the liberalization in the capital account and the development of the local financial market after WTO accession, the stock market turnover will significantly increase and result in large fluctuations in stock prices. The openness of the market will attract more foreign institutional investors to invest in Taiwan's securities market, which will help to replace the weight of individual investors with that of institutional investors in the local securities market with a result in a stable market.

In addition, after joining the WTO, Taiwan's capital market will become more internationalized, due to the further integration with global financial markets. Increased capital-raising opportunities for international financial institutions and foreign enterprises by issuing Taiwan Depository Receipts (TDRs) and other types of bonds, and the trend of asset securitization in the local market will help to foster a good environment for bond market development.

### **Securities Industry**

With the increased scale of the domestic capital market and evolving

diversification of financial products, local securities firms will move toward mergers and expansion of existing business functions. Along with the ongoing business expansion and rising capital base brought by internationalization, Taiwan's securities firms are going to face keen competition with their international counterparts.

#### **(4). Impact on Insurance Market**

Taiwan will encourage domestic insurance companies to penetrate into the international market through the establishment of a subsidiary or a branch office abroad. By expanding service around the world, local insurance firms will soon achieve their goal of internationalization. Also, the pressure of competition with international insurance companies will lead to the full-scale development of the local insurance market. Consumers will also benefit from the higher quality services brought by competition. As the insurance market will grow after Taiwan enters the WTO, capital raised by the insurance companies will increase, with a wider range of fund utilization.

### **5. Conclusion**

The government will adopt the following measures to meet the trend of global financial liberalization and challenges from Taiwan's WTO accession. First, to gather information on large volume foreign exchange trading and to prevent some unusual capital movements from disrupting domestic financial stability, the authorized foreign exchange banks will be required to immediately notify the Central Bank of any large volume foreign exchange transactions. Second, a foreign capital flow monitoring system will be established, serving to prevent massive international capital movements from influencing the stability of the foreign exchange market. Third, the Legislative Yuan is enacting the act titled "the Financial Institutions Consolidations Act", aimed at enhancing the competitiveness of domestic financial institutions through merger activities. Moreover, the government has set up the National Stabilization Fund to shore up the sagging stock market should serious non-economic disturbances arise. To conclude, the government will adopt a sound macroeconomic policy to maintain financial stability, and scale down the negative impact brought by speculative capital flows.

Looking ahead, domestic financial institutions are expected to enhance their competitiveness and management efficiencies through consolidation and business expansions. Opening the domestic financial market to foreign

financial institutions will introduce more competition to local financial institutions, which in turn will promote the growth in the real sector and the evolution in overall economy.

