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The Political Economy of Financial Liberalization in Taiwan

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Abstract: The paper aims to use the case study of Taiwan as a lens through which to explore the question as to whether Taiwan's financial reform as a highly managed process can be undertaken in a way that sought to complement and enhance developmental capacities of the state. Most recent research makes strong claims about how much political autonomy states have lost, about how restricted are their policy choices, and ultimately how little states can do to promote economic development. They conclude that the era of the developmental state is over, and that the convergence towards the liberal-regulatory state is inevitable. Notwithstanding the mounting external and internal pressures, our analysis of Taiwan's institutional strength of financial policymaking shows that Taiwan has been largely successful in sustaining control over the pace of a gradual and selective liberalization. Although tremendous external pressures stemming from the 'Wall Street-Treasury-IMF complex' may compel the state to liberalize its financial sector, such pressures often are not the sufficient condition to effect total compliance. In its zeal to pursue a free trade agreement with the US and attempt to jump on the bandwagon of Trans-Pacific Partnership (TPP) agreement, however, it will be interesting to see the Taiwanese state's response to the demand of such free trade negotiations that continue to propagate financial liberalization and seriously restrict policy space to contain financial speculation through the investor-state dispute settlement (ISDS) provision widely found in such agreements.

Keywords: Financial liberalization, Capital account liberalization, Capital flows, Democratization, Investor-state dispute settlement

Introduction

There has been a long debate about the effects of financial liberalization, both domestic and international (also referred to as external). While the debate among economists focuses on the desirable financial policy for industrialization and economic development, it does not address an important puzzle that deserves our attention: why did state pursue the kind of financial reform as they did? Akyuz's observation concerning the experience of financial liberalization in developing countries bears upon the question of whether states have choices in their economic development strategies:

In developing countries, the main impulse behind liberalisation has been the belief based on the notion that interventionist financial policies were one of the main causes of the crisis of the 1980s, that liberalisation would help to restore growth and stability by raising savings and improving overall economic efficiency. . . . However, these expectations have not generally been realised. In many developing countries, instead of lifting the level of domestic savings and investment, financial

liberalisation has, rather, increased financial instability. Financial activity has increased and financial deepening occurred, but without benefiting industry and commerce.¹

A recent study also shows similar trend toward financial liberalization, '[m]ost cross-border capital flows occur among industrialized nations, but emerging markets with fledgling financial systems are increasing participants in the globalization of capital flows'.²

Since external financial liberalization 'remains one of the most controversial and least understood policies of our day'³, why did states particularly in developing countries opt for liberalizing domestic financial markets and opening up the capital account even though its expected benefits have not generally been realized while at the same time it has also increased financial instability? The paper is about the political economy of financial liberalization in Taiwan, dealing primarily with the two broad policy areas governing global capital flows: rules governing the capital account; and rules governing the international behavior of financial institutions (see Appendix 1).⁴ The reason for this focus is that following the rise of neoliberalism, developing countries have come under strong economic and political pressures from trading partners and international institutions to accelerate capital account liberalization as well as liberalization of trade in financial services — what Robert Wade and Frank Veneroso call, the 'Wall Street-Treasury-IMF complex'.⁵

Before examining the case study of Taiwan, the first section of the paper explores the literature review on the political economy of financial liberalization in developing countries. The following two sections examine the external and internal pressures for more liberalized market in Taiwan respectively. While the external pressures for change stem from the resurgence and dominance of the neoliberalism especially since 1980s and subsequently the changing geopolitical framework of the post Cold War era since 1990s, Taiwan has undergone increasing democratization since 1987 and changing ruling party in 2000 when the then ruling party, Kuomintang (KMT) lost the presidency. Unlike the cases of many developing countries in which financial liberalization was adopted in cookie cutter manner⁶, however, our analysis of Taiwan's institutional strength of financial policymaking in the next section shows that Taiwan's approach to financial liberalization has been tailored to the country's situation and complements its development purpose in

¹ Yitmaz Akyuz, *Financial Liberalization: The Key Issues*, UNCTAD Discussion Paper, No. 56, (1993, March), p.1.

² Kevin P. Gallagher, *The Global Governance of Capital Flows: New Opportunities, Enduring Challenges*, PERI Working Paper, No. 283, (2012, May).

³ Barry Eichengreen, 'Capital Account Liberalization: What Do Cross-Country Studies Tell Us?', *The World Bank Economic Review*, (2001, October 1), p. 341. As a matter of fact, Stiglitz shows liberalization of short-term capital flows have serious economic consequences. See Joseph E. Stiglitz, 'Capital Market Liberalization, Economic Growth, and Instability', *World Development*, Vol. 28, No. 6, (2000) pp.1078-1081.

⁴ Haggard and Maxfield (1996) defines it as financial internationalization.

⁵ Robert Wade and Frank Veneroso, 'The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex', *New Left Review*, No. 228, March-April (1998), p.19.

⁶ Catherine Boone, 'State, Capital and the Politics of Banking Policies in Sub-Saharan Africa', *Comparative Politics*, (Jul., 2005), Vol. 37, No. 4, pp.401-420.

spite of tremendous internal and external pressures to accelerate the process. The final section provides conclusions drawn from this case study.

The Debate

There has been the emergence of a strand of research, which prioritizes the external factor as main determinant of financial liberalization in developing countries. The main argument is that changes in the international political economy have radically restricted policy choice and forced policy shifts in favor of global investors and mobile corporations, rather than to the needs of the domestic political economy. This strong conventional view, termed by Linda Weiss the ‘constraint school’, contends that the state’s actions (or inactions) through a range of national policy areas — macroeconomic, industrial, financial, and social — can be explained readily as a response of besieged states to the onslaught of intensified globalization.⁷ Globalization is seen to constrain substantially what states can do across a host of macroeconomic, industrial and financial policies since they are increasingly pressured from below by highly mobile capital and from above by global governance institutions such as the World Trade Organization (WTO), resulting in their diminishing control of the domestic economy.

With the onslaught of the 1997-98 East Asian financial crisis, the constraint school seems to have gained currency. It is often proclaimed by this school that the East Asian miracle was simply an illusion and that was the end of developmental state model. For instance, Pang contends that:

[f]inancial globalization in the 1990s effectively dismantled the Asian developmental state and forced East Asia to search for a new political economy model. . . The access to global capital markets by Asian corporations, both parastatal and private, has effectively reduced their dependency on the state for financial resources. In fact, the Asian developmental state and financial globalization are incompatible and often in conflict. By externalizing financial forbearance, Asian corporations and the global market have forced the state to change.⁸

A major problem with the constraint school is the overstatement of the constraining effects of globalization that it claims. Contrary to this standard view, there are countervailing pressures on states to pursue policies that would in some way compensate for the uncertainties, instability and systemic risks that globalization creates. Linda Weiss advocates the case for studying globalization as a process with enabling effects and just how the enabling conditions of globalization will translate into policy responses will depend to an important extent on specific features of the institutional set-up.⁹ Thus, she proposes that domestic institutions are key to understanding the impact of globalization.¹⁰

⁷ Linda Weiss, (ed.), *States in the Global Economy: Bringing Domestic Institutions Back In*, Cambridge: Cambridge University Press, 2003), p.3.

⁸ Pang Eul-Soo, ‘The Financial Crisis of 1997-98 and the End of the Asian Developmental State’, *Contemporary Southeast Asia: A Journal of International & Strategic Affairs*, Vol. 22, Issue 3, (December, 2000), p.570.

⁹ See Weiss, *States in the Global Economy*, p.19.

¹⁰ *Ibid.*, p.4.

In contrast, another strand of research, which prioritizes the domestic explanatory factors explain how democratization itself has transformed the developmental states, leading to interesting outcomes in financial reform, particularly the negative ones.¹¹ They show how the policymaking in finance for developmental purpose has changed and evolved as a consequence of democratization.

However, two problems can be associated with these studies. First, while most of them claim that democratization constraints the state's role in promoting financial reform and industrial policy, the relationship between democracy and development is far more contentious.¹² In addition, this strand of research is devoid of world politics, the strategic goals of the superpowers, the actions of transnational corporations and foreign investors. Therefore, we should not assume that constraints on elite actions are confined to democracies because so long as systemic vulnerability exists, there will be political impetus for ruling elites to forgo their individual interest in maximizing patronage resources, and press them to build strong institutional arrangements to ensure their political survival:

[t]he primary lesson of state-building in Northeast and Southeast Asia has been that systemic vulnerability, far more than electoral vulnerability, has driven ruling elites to improve institutional performance. . . consistent with conventional, rationalist premises regarding elite preferences . . . developmental states have arisen from political leaders' recognition that—under conditions of systemic vulnerability—only coherent bureaucracies and broad public-private linkages could produce the resources necessary to sustain coalitions, secure state survival, and thereby maximize their time in office.¹³

From the foregoing discussion, it is clear that analysis that focuses on the domestic or international factor alone cannot adequately account for the puzzles above. Research within the international political economy framework explores how the interaction between international and domestic factors affects national economic policies and outcomes.¹⁴ Due

¹¹ Lim Haeran, 'Democratization and the Transformation Process in East Asian Developmental States: Focus On Financial Reform In Korea And Taiwan', CNAPS Visiting Fellow Working Paper, (Center For Northeast Asian Policy Studies, The Brookings Institution, March, 2009). Website: <http://www.brookings.edu> (viewed on May 16, 2009); Tan Alexander C., 'From State Entrepreneurs to Political Entrepreneurs: Democratization and the Politics of Financial Liberalization in Taiwan', in Philip Paolino and James Meernik, (eds.), *Democratization in Taiwan: Challenges in Transformation*, (Aldershot: Ashgate, 2008); Chen Shangmao and Kuo, Chengtian, 'Democratization and Financial Reform in Taiwan', paper delivered at the Conference on Democracy and Human Rights in Greater China, City University of Hong Kong, Hong Kong, December 13, 2003. Website: <http://nccuir.lib.nccu.edu.tw/bitstream/140.119/18500/1/Ac920102.pdf> (viewed on May 28, 2009); Yukihiro Satō, 'Democratization And Financial Reform In Taiwan: The Political Economy Of Bad-Loan Creation', *The Developing Economies*, Vol. XL, No. 3, (September 2002): pp.226–51. Website: <https://ir.ide.go.jp/> (Viewed on May 28, 2009).

¹² Pei Minxin, 'Economic Institutions, Democracy, and Development', CarnegieWorld Bank Conference on Democracy, Market Economy, and Development, February 1999, Website: <http://www.carnegieendowment.org/1999/02/26/economic-institutions-democracy-and-development/3i9>

¹³ Richard F. Doner, Bryan K Ritchie, and Dan Slater, 'Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective', *International Organization* (2005), Vol. 59, , p.356.

¹⁴ See Jeffrey Frieden, and Lisa L. Martin, 'International Political Economy: Global and Domestic Interactions', in Ira Katznelson and Helen V. Milner (eds.), *Political Science: The State of the Discipline*, (New York: W.W.Norton, 2003).

to limitations of empirical studies formulated at a single-level analysis, international or domestic, more efforts should be made to integrative the two. Thus, the question 'is not whether to combine domestic and international explanations into a theory of "double-edged" diplomacy, but how best to do so'.¹⁵ Unravelling the puzzles necessitates a deeper recognition of the dual nature of the state, depicted as Janus-faced, mediating between international and domestic concerns.¹⁶

External Pressure For More Liberalized Financial Markets

Overall, there were substantial reforms in the financial system in the 1980s, with the government making significant efforts towards promotion of financial liberalization.¹⁷ As pointed out by the late Liang Kuo-Shu, a former Governor of the CBC, one of the major concerns that had driven financial liberalization in Taiwan stemmed from the international pressure:

. . . the continued existence of a trade imbalance with the United States has made the country a target of U.S. pressure to make its financial markets more open to foreign financial institutions and investors. In addition, the impending accession of the country to the General Agreement on Tariffs and Trade (GATT) is likely to lead to a wider opening of the domestic financial markets.¹⁸

Given the large concentration of its Taiwan's direct investment in manufacturing, trade and banking, the US which has been Taiwan's traditional major trade partner, together with the WTO, constitutes major external pressure for more liberalized financial markets. Trade in financial services, an area of US comparative advantage, accounts for 4.6 percent of total cross-border services trade between the two economies. Of the total of 38 foreign-owned banks accounting for \$46.4 billion of total assets in 2002, ten US banks operate a total of 29 offices in Taiwan, accounting for 2.6 percent of Taiwan's total bank assets. Nevertheless, US banks account for 95 percent of credit cards in circulation and 12 percent of most foreign exchange business.¹⁹

The US not only had pressed Taiwan to open its market for financial services but also 'expressed dissatisfaction on many occasions with the exchange rate policy of Taiwan'.²⁰

¹⁵ Andrew Moravcsik, 'Introduction: Integrating International and Domestic Theories of International Bargaining', in Evans, Peter B., Harold K. Jacobson and Robert D. Putnam, *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, (Berkeley: University of California Press, 1993), p.9.

¹⁶ See the two level games approach developed by Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-Level Games', in Peter B. Evans, Harold K. Jacobson and Robert D. Putnam, *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, (Berkeley: University of California Press, 1993).

¹⁷ Yang Ya-Hwei, 'The Financial System and Financial Reform', in Mai Chao-Cheng and Shih Chien-Sheng (ed) *Taiwan's Economic Success since 1980*, (Cheltenham: Edward Elgar, 2001), p.354

¹⁸ Liang Kuo-Shu, 'Financial Reform and the Role of the Central Bank: The Experience of the Republic of China on Taiwan', *Review of Pacific Basin Financial Markets and Policies*, Vol. 2, No. 2 (1999), p.151.

¹⁹ USITC, *U.S.-Taiwan FTA: Likely Economic Impact of a Free Trade Agreement Between the United States and Taiwan*, (Washington, DC: United States International Trade Commission, (2002), Chapter 5, p.24.

²⁰ Robert E. Baldwin and Douglas Nelson, 'The Political Economy of U.S.-Taiwanese Trade and Other International Economic Relations', in Takatoshi Ito and Anne O. Krueger (ed) *Trade and Protectionism*, NBER-EASE Volume 2, (University of Chicago Press, 1993), p.318.

By the 1980s, Taiwan had accumulated significant levels of foreign trade surplus and large foreign reserves, leading to a strong push by the US government for appreciation of the Taiwanese dollar'. As of 1987, the global current account surplus of Taiwan reached almost \$14 billion and its export surplus with the United States exceeded \$15 billion. Rather than allowing the Taiwanese dollar to appreciate, the monetary authorities increased their reserves holdings much to the dismay of the US. As a matter of fact, the US demanded that the government in Taiwan should totally abandoned its fixed exchange rate system.²¹ In its latest report to the Congress produced in consultation with the Board of Governors of the Federal Reserve System and the IMF, the Office of International Affairs of the US Department of the Treasury states that '[w]e will continue to press the Taiwan authorities to limit their foreign exchange interventions to the exceptional circumstances of disorderly market conditions and to commit to greater foreign exchange market transparency through the publication of intervention data, including its forward position.'²²

Due to the disadvantage of its diplomatic isolation, Taiwan stands to greatly benefit from the WTO's multilateral approach to trade liberalization. Upon WTO accession Taiwan agreed to provide substantially full market access and national treatment in the full range of financial services, such as banking, insurance, and securities. The Banking Law of July 1989 was revised to provide national treatment for foreign banks. Since then, the government has gradually begun to take measures to promote the internationalization of the banking sector by gradually removing the restrictions on foreign bank operations which include²³:

- The restrictions on the number of local branches were relaxed further
- The restrictions on local currency deposit-taking were lifted, permitting them to accept savings deposits
- The scope of foreign banking operations was expanded considerably, enabling them to extend long-term credit and engage in certain investment banking activities including the scale of offshore banking units (OBU).
- The legal framework within which the financial sector operates has been gradually revised to conform to international practice.

The late Liang contended that such endeavors should be regarded not merely as meeting the accession requirements of the WTO but also representing 'an integral part of linking Taiwan into the network of global financial services and helping Taiwan develop the financial technological infrastructure that it needs'.²⁴ As part of its initiative of Asia-Pacific Regional Operation Center (APROC) envisioned to serve as a regional centre for manufacturing, sea and air transportation, financial services, telecommunications and media. Taiwan had liberalized its services sector including finance long before its accession to WTO.²⁵ In line with the plan, the Taiwanese state had spurred the development of Taipei as the Asia-Pacific Regional Financial Center in January 1995.

²¹ Yang Ya-Hwei, op.cit., p.365.

²² US Department of the Treasury, *Report to Congress on International Economic and Exchange Rate Policies*, (Washington, DC: US Department of the Treasury, 2013), April 12, p.23, available at: <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Foreign%20Exchange%20Report%20April%202013.pdf>

²³ Liang, op.cit, p.154; Yang Ya-Hwei, op.cit., p.359.

²⁴ Ibid

²⁵ Connie Yang Guang-hwa, 'Taiwan's Approach to WTO', *Taiwanese Journal of WTO Studies*, Vol. 1 (2005), p.36.

Liberalization of Taiwan's financial services was given top priority by the Council for Economic Planning and Development (CEPD) in its implementation of the plan as it was deemed crucial to the development of the other centers in the plan.²⁶ Nevertheless, these APROC plans were delayed due to their security implications for cross-strait relations.²⁷ There were several impediments, among which concern the relatively higher effective tax rate in Taiwan compared to other regional centers, especially Hong Kong and Singapore as well as the imposition of withholding taxes on cross-border payments applicable to dividends, interest and royalties.²⁸

Domestic Concerns

Following the New Taiwan dollar's appreciation and wage increases in the latter half of the 1980s, Taiwan experienced massive outward FDI. As shown in Table 2, Taiwan's outward FDI grew more rapidly than its inward FDI since 1990. While Taiwan's inward FDI as a percentage of GDP increased slightly from 5.8% in 1980 to 12.7% in 2007, its outward FDI as a percentage of GDP increased substantially from 0.2% to 41.3%. Consequently, financial liberalization is necessary to cater for the growing needs of the increasingly globalized industrial firms. Former CBC Governor Liang also highlights this domestic pressure: 'While the country's manufacturing sector and exports have grown vigorously, . . . its financial system has remained relatively unsophisticated and has failed to achieve a global reach'.²⁹

TABLE I. TAIWAN'S INWARD AND OUTWARD FDI STOCK, 1980-2007 (% OF GDP)

	1980	1985	1990	1995	2000	2005	2007
Inward	5.8	4.7	6.1	5.9	9.0	12.1	12.7
Outward	0.2	0.3	8.0	9.5	15.9	28.1	41.3

Source: Chiang Min-Hua and Bernard Gerbierb, 'Foreign factors in Taiwan's Economic Transformation', *Journal of the Asia Pacific Economy*, Vol. 15, No. 2, (May 2010), p.151.

No discussion of the political economy of financial liberalization in Taiwan is complete without consideration of the political economy of cross-strait relations. Since the early nineties, there has been surge in Taiwan's outward FDI in China as many of its labor-intensive, export oriented, industries has been shifted to the mainland China (see Figure 1). Although Taiwan maintains restrictions on the amount and types of investment that are allowed to be made in China by Taiwanese investors (see Appendix 2), many China-based Taiwanese firms sought to circumvent these restrictions by common tactics to list shares through offshore companies as evidenced by the gap between the actual level of Taiwanese FDI in China and Taiwanese and Chinese official data.³⁰ Such heavy regulation resulted in capital exodus as they moved their assets to offshore subsidiaries or holding companies

²⁶ *Taiwan Review*, (1996), October 1, available at <http://taiwanreview.nat.gov.tw/ct.asp?xItem=55261&CtNode=1337&mp=1|5/3>

²⁷ Kristen Nordhaug, 'Development Through Want of Security: The Case of Taiwan', *Forum for Development Studies*, (1998), No. 1, pp.150-51.

²⁸ Richard N. Watanabe, 'Developing Taiwan into a Regional Finance and Operations Centre: A Taxation Perspective,' *Revenue Law Journal*, (1998), Vol. 8, No. 1, Article 5, pp.97-98 & pp.105-106, available at: <http://epublications.bond.edu.au/rlj/vol8/iss1/5>

²⁹ Liang, op.cit., p.151.

³⁰ Wayne M. Morrison, 'Taiwan's Accession to the WTO and its Economic Relations with the United States and China', *CRS Report for Congress*, (Washington, DC: Congressional Research Service, 2003), p.5.

mainly in the Virgin Islands, Hong Kong, Singapore and Cayman Islands in order to enter the China market.³¹

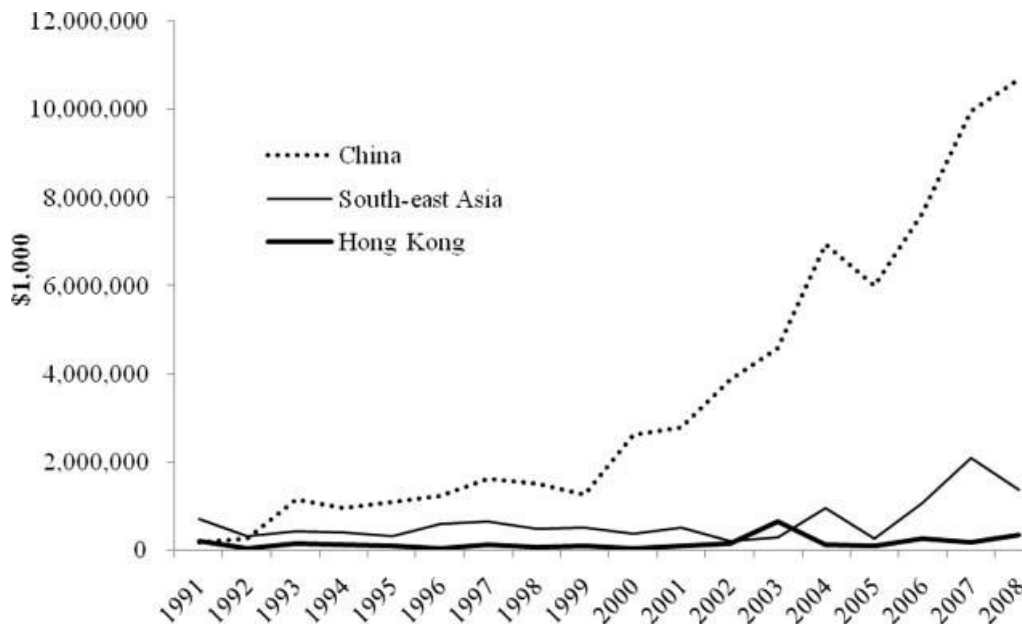


Figure 1. The Comparison of Taiwan Outward Investment in Hong Kong, Southeast Asia and China. Source: Chiang and Gerbierb, op.cit., p.150.

National security concerns over the rapid increase in Taiwanese investment in the Mainland and rising cross-strait tensions during the mid nineties prompted former President Lee Teng-hui to adopt the ‘no haste, be patient’ (NHBP) policy in 1996 to restrict Taiwanese investment in China, particularly in high-tech and infrastructural industries. This policy had, however, come under review primarily due to serious concern of the consequent exodus of capital, growing economic problems in Taiwan in 2001 when the economic slowdown in the US and other major world economies resulted in the sharp fall in Taiwanese exports especially high technology products.³² In addition, rising international competition from other industrial countries following the WTO accession had driven Taiwanese firms to increase their investment in China to further reduce production costs and to expand market share in the mainland market.³³ This had led to the replacement of the NHBP policy with an ‘proactive liberalization with effective, management’ (PLEM) policy during the first term of Chen Shui-bian administration, which would relax existing

³¹ See Wang Wen-yeu and Chen Chao-hung Christopher. ‘Liberalization of Taiwan’s Securities Markets – The Case of Cross-Taiwan-Strait Listings’, *Research Collection School of Law (Open Access) Paper 979*, pp. 7-8, available at http://ink.library.smu.edu.sg/sol_research/979 and Chiang Min-Hua and Bernard Gerbier, ‘Cross-Strait Economic Relations: Recent Development and Implications for Taiwan’, *Revue De La Régulation: Capitalisme, Institutions, Pouvoirs (Review of the Regulation: Capitalism, Institutions, Powers)*, Volume 13, No. 1, Spring (June 2013) at: <http://regulation.revues.org/10177>

³² Morrison, op.cit., p. 5 and Wang and Chen, op.cit., p. 8.

³³ Tsai Chang-hsien, *Law Market Forces Underlying International Jurisdictional Competition: The Case Of Taiwan’s Regulatory Evolution On Outward Investment In Mainland China, 1997-2008*, Dissertation Submitted in partial fulfillment of the requirements for the degree of Doctor of the Science of Law in Law in the Graduate College of the University of Illinois at Urbana-Champaign, (2010), p. 135.

restrictions on investment in the mainland China, establish direct trade, transportation, and postal links with China, and gradually allow mainland investment in Taiwan.

Apart from engaging in exit strategy to move to other offshore financial centers to transit funds for investment in Mainland China, mainland-based Taiwanese firms kept voicing their demand by lobbying to liberalize the restrictive cross-strait investment policy. Supporters of closer economic integration with China pushed for relaxation of the investment restrictions:

The anti-regulatory interest groups include China-based Taiwanese firms represented by local chambers of commerce as well as even foreign investors mostly represented by the European Chamber of Commerce Taipei (“ECCT”) and American Chamber of Commerce in Taipei (“AmCHam”). These anti-regulatory interest groups are all directly burdened by the [r]estrictions and thus promote ease of the regulation. The anti-regulatory interest groups’ voice appears to be so strong that some legislators and even government officials of the former ruling party DPP came out in support of them as well.³⁴

Due to the absence of government-to-government dialogue and cooperation on cross-strait affairs during Chen’s administration, the progress of cross-strait trade and financial liberalization was rather slow. Following Ma Ying-jeou’s landslide victory in Taiwan’s presidential election in March 2008 and the Kuomintang’s overwhelming win in the January 2008 legislative elections, Taiwan’s relations with the Mainland have improved, paving the way for greater economic cooperation and liberalization (see Appendix 2). Although the Ma administration has adopted new modes of thinking in the formulation of cross-strait policy to normalize cross-strait relations and achieve cross-strait peace and development, the liberalization of cross-strait investment regulation has never detached from national security concern as “[m]any areas of the China policy are directly related to national security”.³⁵ As pointed out by a former Minister of the Mainland Affairs Council,

The highest guiding principle of the government in promoting cross-strait relations is to adhere to the principle of “putting Taiwan first for the benefit of the people.” “Putting Taiwan first” refers to President Ma’s insistence on the need to safeguard Taiwan-centric identity; and “for the benefit of the people” means that policy measures must be consistent with the interests of the people of Taiwan. Moreover, those interests must be shared by all of the people.³⁶

Notwithstanding the public backing for further cross-strait economic integration, several public opinion polls conducted by Taiwanese government agencies and the press respectively in April and May 2009 showed that the public was still concern for national security. The results of these polls generally revealed that “the support for Taiwanese national identity and independence did not decline. . . that a majority of Taiwanese people, unwilling to concede to China in terms of politics and sovereignty in exchange for

³⁴ Ibid, pp.100-101.

³⁵ *Important Documents on the Government’s Mainland Policy*, (Taipei: Mainland Affairs Council, The Executive Yuan, Republic of China, December, 2010), p. 60.

³⁶ Lai Shin-yuan, ‘Explanation of the Topics of the Third Chiang-Chen Talks and Follow-up Cross-Strait Talks’, *Important Documents on the Government’s Mainland Policy*, (Taipei: Mainland Affairs Council, The Executive Yuan, Republic of China, December, 2010), p. 46.

economic benefits, required the Ma administration to fulfill its duty to protect Taiwanese sovereignty and individuality".³⁷ Given the security concerns as well as some other policy concerns between China and Taiwan³⁸, capital market liberalization is still far from complete as some the regulatory restrictions on cross-strait capital flows still exist (see appendix).

Institutional Foundation of Financial Policymaking in Taiwan³⁹

Since 1949, there have been many significant changes in the process of financial policy making. During the early period, policy formation was directed solely by the government's executive agency. Its financial system was subjected to a variety of government-imposed controls as the Taiwanese government had attached particular importance to the maintenance of stability in the financial sector. While the executive arm of the government enjoyed a high level of control and employed its 'administrative guidance' as a means of directly obliging both the banks and the large enterprises to support government policy, the legislative arm of the state was unable to exercise any significant influence over policy formation dominated by the executive arm. As the financial system being dominated by the state-owned banks, there was much room for collaboration with the government for provision of a variety of policy-oriented loans, setting low interest rates to support particular assistance for industrial financing.

The period beginning from 1987 saw a dramatic transformation in the structure of financial policy-making. With the lifting of martial law in 1987 and the subsequent pursuit of democratization, the executive arm of government was no longer able to enjoy the same degree of domination it had held during previously. With the wholesale re-election of the Legislative Yuan and the appearance of new commercial banks, it became difficult for the executive arm of government to achieve any increase in its previous level of power. With increasing democratization, business interests began to influence electoral and parliamentary processes and to challenge the dominant position of the bureaucracy in public policy arenas.⁴⁰ With their overriding profit considerations, the private financial institutions are less willing to collaborate with this type of government policy-oriented loans, and hence the government is now unable to exercise the same degree of control which had been possible in the past.

Notwithstanding the emerging business interests following intensifying democratization, the fragmented Taiwanese industrial structure undercut the ability of private actors to organize effective group-based lobbying and to influence the financial liberalization process. As pointed out by Zhang:⁴¹

The industrial community as a whole had particular difficulty in pressing its demands on macro-economic issues that bore upon wide private interests but required concentrated organizational resources to achieve successful lobbying. . . The structural and cognitive handicaps hindered collective organization in the corporate sector and

³⁷ Tsai, op.cit., p.189.

³⁸ See Wang and Chen, op.cit., pp. 20-22.

³⁹ This section heavily draws from Yang Ya-Hwei, op.cit., pp.353-354.

⁴⁰ Zhang Xiaoke, 'Political Structures and Financial Liberalization in Pre-Crisis East Asia', *Studies in Comparative International Development*, (2003), Vol. 38, No. 1, p.83.

⁴¹ Ibid, p.83.

undermined coherent interest articulation on financial market liberalization. Equally, the influence of banks over financial policy was also limited. The limitation derived primarily from the fact that dominant banks were state owned; financial authorities were able to dictate the behavior of state bankers through budget control, appointive power, and regulatory oversight.

As for the liberalization of trade in financial services, there was no regulation governing international trade until the Legislative Yuan — Taiwan's supreme national legislature — promulgated Foreign Trade Act in 1993 in preparation for the accession to the GATT.⁴² Although WTO covers both trade in goods and services, only trade in goods comes under the purview of the Foreign Trade Act. Despite the trend toward financial internationalization and liberalization, the Taiwanese state did not fail to maintain a robust regulatory framework for managing international capital flows.⁴³ It is argued that financial stability and industrial development has been the top priority of the Taiwanese state:

Taiwan has had its own agenda and policy sequence for liberalization, which gave priority to the deregulation of domestic capital markets over internationalization. When the government decided to open up the stock market to foreign investors in 1991, it set a strict investment cap and raised it only gradually. In this incremental approach to liberalization, the government has kept financial stability and industrial development as top priorities. Therefore, liberalization measures were taken only with the concurrent introduction of re-regulation to safeguard domestic financial and price stability, and insulate Taiwan from excessive external shocks.⁴⁴

The institutional status of central bankers bore most markedly on the process of capital account liberalization. The CBC was highly resistant to rapid capital account liberalization for a number of reasons⁴⁵:

- As macroeconomic policy consistently placed priority on monetary probity and low inflation, one of the major concerns of central bankers was that freer capital movements would weaken their ability to control money supply and produce price instability. Financial regulators were concerned with the tendency of financial liberalization to expose banks to global market volatility and complicate prudential supervision
- There have been concerns of central bankers about capital decontrol represented long-running geopolitical considerations on the part of the KMT leadership. With diminishing diplomatic recognition and little representation in multilateral fora, the international position of Taiwan remained precarious. Coupled with the generally hostile relations with mainland China, this made financial leaders reluctant to loosen capital controls but eager to build up foreign reserves in preparation for the worst security situation.

⁴² Liu, Han-Wei, 'An Entity Sui Generis in the WTO: Taiwan's WTO Membership and Its Trade Law Regime', *Journal of International Commercial Law and Technology*, Vol. 4, Issue 4 (2009), p.255.

⁴³ This occurred largely within a stronger institutional context compared with other developing countries like Malaysia. See Chin Kok Fay and Kristen Nordhaug, 'Why Were There Differences in the Resilience of Malaysia and Taiwan to Financial Crisis?' *European Journal of Development Research*, Vol. 14, No. 1, (2002), June: pp.77-100.

⁴⁴ Chu Yun-Han and Lee Pei-Shan 'Globalization and Governance in Taiwan', in Yoichiro Sato (ed.) *Growth and Governance in Asia*, (Honolulu: The Asia-Pacific Center for Security Studies, 2004), p.55.

⁴⁵ Zhang, op.cit., p.85.

Recent research has challenged the institutional argument by contending that with changes to the state structure following increasing democratization, the institutional capacities of the state has weakened as it can no longer be insulated from the rent-seeking behavior of social and economic groups. The emergence of new actors following democratization has undermined the state's capacity in delivering effective domestic financial reform, especially related to consolidation and privatization of the domestic banking sector. It is argued that '[i]n a highly charged partisan setting with a divided government and a more pluralistic and competitive economic interest group environment, the eroding autonomy of the economic technocracy and the permeation of that layer of insulation of the economic technocracy is a likely explanation to why Taiwan's financial liberalization is showing some perverse features.'⁴⁶

While Taiwan's old 'statist' and 'protectionist' development strategies gradually were undermined by domestic protest and US trade policy pressure during the 1980s, new developmental 'public-private innovation alliances' emerged based on enhanced co-operation between government and business 'for acquiring, developing upgrading and diffusing technologies' (Weiss, 1998: 78). Taiwan's new industrial upgrading strategy went along with an expansion of targeted credits for industrial policy as demonstrated by Taiwan's promotion of the biotechnology and pharmaceutical high-tech industries.⁴⁷ The Taiwanese state used government funds to encourage local private sector involvement, establish the TASDAQ which has approved rules that facilitate the listing of startup firms with little assets as well as spearheaded local VC industry to invest in Taiwan biotechnology

In addition, retained developmental statist capacities 'continues to set the tone for Taiwan's liberalization with re-regulation and management of its international financial policy'.⁴⁸ The independence of the CBC enables it to fend off political interference of the new actors to ensure financial stability will not be compromised by global market shocks. Exchange rate stability is essentially important for a small and open economy like Taiwan and hence, consistently remains the top priority of the CBC. While allowing the market forces to determine its exchange rate, the CBC will not hesitate to intervene when the market is disrupted by seasonal or irregular factors to prevent large-scale fluctuation in exchange rates which may undermine the competitiveness of its exports. Despite facing tremendous pressure from the US demand for further appreciation of the Taiwanese currency in 2003, the CBC had relayed a written message to Washington explaining why Taiwan's currency cannot appreciate with the presence of substantial destabilizing short-term capital inflow. In another occasion at the Legislative Yuan on October 26, 2005, Perng Fai-nan, the current governor of the CBC stressed that '[t]he exchange rate of the New Taiwan dollar cannot be determined by Wall Street or London. Therefore, the CBC

⁴⁶ Tan, op.cit., p.165.

⁴⁷ See Appendix 3.

⁴⁸ Christopher M. Dent, 'The New International Political Economy of East Asia and the Developmental State', in Linda Low, *Developmental States: Relevancy, Redundancy or Reconfiguration*, New York: Nova Science Publishers, 2004, p.92

would enter the market to intervene to cope with the influx and outflow of foreign hot money, in order to maintain the stability of the NT dollar's exchange rate.⁴⁹

Taiwan's Approach to Financial Liberalization

The CBC has introduced extensive reforms, beginning with a large-scale relaxation of its foreign exchange regulations in 1987. Table 1 shows the major deregulation measures that have been implemented. Given its comparative institutional strength anchored by prioritization of economic security agenda discussed in the previous section,⁵⁰ the Taiwanese state has ensured that financial liberalization proceeded in cautious, prudently sequenced and highly regulated manner. It has been precautionary to ensure that 'liberalization would not hamper the pursuit of overarching economic and political objectives'.⁵¹ Whether it is the external financial liberalization under Taiwan's APROC plan or WTO accession, financial big bang has never been the approach. Financial liberalization has been implemented in sync with efforts to improve prudential regulation. Prudential regulation measures were taken 'to tighten supervisory rules in the late 1980s and early 1990s when the banking law was amended and new banks were licensed'.⁵² It has been highly regulated as '[t]hroughout the liberalization process, financial authorities persisted with strict requirements on the capital adequacy, lending operations, and foreign exchange exposure of banks, in defiance of growing pressures for tempering these requirements'.⁵³

During the latter part of 1998, few listed companies in Taiwan were unfortunately unable to properly assess their financial condition. Consequently, these corporations utilized subsidiary investment companies to purchase unduly large amounts of the equity in their parent companies, resulting in financial distress and the possibility of a wider financial crisis. In response to this, the Ministry of Finance revised Article 167 of the Company Law to restrict subsidiary investment firms, which have a direct or indirect stake in parent companies exceeding 50 percent of outstanding shares, to purchase additional shares in the parent company or acquire tangible assets of such companies. (Chiu, 2000: 82)

While other financial centers in the region deliberately tried to attract portfolio investment with a policy of openness, Taiwan pursued a more restrictive policy. Its withholding taxes on dividends were relatively high (see Table III); it had a medium-level 25 percent ceiling on foreign investment. Its entry and exit barriers were more restrictive, with requirement for authorization of foreign investment and some bureaucratic bottlenecks that slowed the pace of repatriation of capital and income.

⁴⁹ China Economic News Service (CENS), 'Exchange Rate More Important Than Interest Rate: Perng', *Taiwan Industry Updates* Oct. 27, 2005, available at: http://cens.com/cens/html/en/news/news_inner_9007.html

⁵⁰ See Chin and Nordhaug, *op.cit.* Christopher Dent defines the quest for economic security as 'safeguarding the structural integrity and prosperity-generating capabilities and interests of a politico-economic entity, in the context of various externalised risks and threats that confront it in the international economic system' (Christopher M. Dent, *op.cit.*, p.83).

⁵¹ Zhang, *op.cit.*, p.84.

⁵² Zhang, *op.cit.*, p.69.

⁵³ Zhang, *op.cit.*, p.85.

TABLE II. MAJOR REFORMS IN FOREIGN EXCHANGE REGULATIONS SINCE 1987

<p>Developing Foreign Exchange Derivatives Markets</p>	<p>Since 1984, the CBC adopted a series of measures to significantly relax its controls over forward transactions, allowing authorized banks to determine their own forward exchange rates.</p> <p>On December 16, 1996, the Bank completely opened up the forward market. In addition to forwards, currently, various types of foreign exchange related derivatives are available, including futures, swaps, and options.</p>
<p>Capital Flows Management</p>	<p>Since July 1987, the CBC has actively deregulated the foreign exchange controls on capital flows. Currently, complete liberalization of capital movements includes:</p> <ol style="list-style-type: none"> 1. Cash flows not involving the conversion of New Taiwan dollars. 2. Cash flows involving the conversion of New Taiwan dollars: <ol style="list-style-type: none"> i. Inward and outward remittances related to foreign trades in goods ii. Inward and outward remittances related to services. iii. Direct investments and portfolio investments approved by the competent authorities iv. Other regulations: <ol style="list-style-type: none"> a) Total annual remittance not exceeding USD 5 million by a natural person and total annual remittance not exceeding USD 50 million by a juridical person may proceed directly through authorized banks. Total remittance exceeding the said amounts requires CBC's prior approval. b) A single remittance not exceeding USD 100,000 by a non-resident may proceed directly through authorized banks. Otherwise the CBC's prior approval is required. 3. Foreign Portfolio Investments <p>On October 2, 2003, the CBC abolished the managing system on QFII. Foreign investors investing in domestic securities are classified into "Foreign Institutional Investors (FINI)" and "Foreign Individual Investors (FIDI)". There is no limit on the total investment amount of any FINI or FIDI. Once registered with the Taiwan Stock Exchange Corporation, capital flows relating to foreign portfolio investment in Taiwan are completely liberalized. A foreign investor in Taiwan's equity market is free to choose any authorized foreign exchange bank to conduct foreign exchange transactions.</p>
<p>Lifting Limits on Foreign Exchange Positions</p>	<p>From July 1, 1996 onwards, each authorized bank has been permitted to determine its own overbought and oversold positions in accordance with the volume of its foreign exchange transactions subject to the approval of the CBC.</p>

Source: Compiled from <http://www.cbc.gov.tw/ct.asp?xItem=857&CtNode=481&mp=2>

TABLE III. BARRIERS TO PORTFOLIO INVESTMENTS IN TAIWAN

<i>Withholding Taxes</i> (1996)		<i>Foreign investment</i> <i>ceiling for listed</i> <i>stocks (1996)</i>	<i>Entry: Are listed</i> <i>stocks freely available</i> <i>to foreign investors</i> (1997)? ^{****}	<i>Exit (1997)</i> ^{*****}	
Dividends (%)	Long-term Capital Gains (%)			Repatriation of income	Repatriation of capital
35.0	0.0	25% in general	Authorised investors only	Some restrictions	Some restrictions

Transactions tax in lieu of a capital gains tax.

** Rates are for funds in which US investments total more than 25%. Tax rates shown include a 10% resident tax applied to base rates.

*** All 1997 data.

**** Entry categories: 'Free': No significant restrictions to purchasing stocks. 'Relatively free': Some registration procedures required to ensure repatriation rights, or significant limits on foreign ownership. 'Authorised foreign investors': Only approved foreign investors may buy stocks.

***** Exit categories: 'Free': Repatriation of income/capital done routinely. 'Some restrictions': Typically requires registration with/permission of Central Bank, Ministry of Finance or Office of Exchange Controls.

Sources: International Financial Corporation (1997 and 1998).

Being excluded from membership in the International Monetary Fund, the World Bank and even the regional financial and monetary financial cooperation arrangements such as the Chiang Mai Initiatives (CMI) which has expanded the ASEAN's currency swap arrangements to include China, Japan and South Korea, Taiwan does not have access to sources of support (e.g. the lender of last resort) in times of international shock and crisis. This has made it imperative to design a system of crisis control that can buffer the domestic financial system and economy against deteriorating international conditions and contagion that could threaten its national security and survival.

Thus, apart from accumulating one of the world's largest foreign exchange reserves, Taiwan has to install the following self-sufficient capabilities to manage risks arising from increasing external financial liberalization:⁵⁴

- 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 are required to immediately notify the CBC of any large volume foreign exchange transactions.
- The CBC put in place a foreign capital flow monitoring system to prevent massive international capital movements from influencing the stability of the foreign exchange market.
- The government revised its Securities and Exchange Law to set up National Security Fund to stabilize the stock market in times of unusual, exceptional and threatening market volatility. As the government remains committed to market forces and the general freedom of markets, the fund would therefore not be used except when conditions (both economic and non-economic) threaten the fundamental stability of the

⁵⁴ Central Bank of China Annual Report 1999, p.99.

market and the economy. Thus, 'the fund should be seen as safeguarding the normal operation of the market and not simply as a vehicle for manipulating equity prices'.⁵⁵

Conclusion

Taiwan provides an interesting case study in examining how internal and external pressures for change can be reconciled on the following grounds. First, being a small open economy, Taiwan is relatively constrained to certain extent by its domestic market and need access to international markets. The external orientation of the economy expanded significantly as indicated by the sharp rise in the ratio of trade to GNP from 27.45 in 1960 to 95.6 in 1988.⁵⁶ Christopher Howe suggests that the relative importance of internal and external factors is likely to depend on the size of any particular economy.⁵⁷ In general, the larger the size of the economy, the less it relies on external environment because the larger economy is politically more powerful and hence, "more able to set political parameters and the rules of the game for others – even if these relative strengths are more regional than global."⁵⁸ Nevertheless, size alone does not adequately explain the relative weight of competing international and domestic factors in a given regime over a long time span. In other words, it fails to tackle the issues of asymmetry and dynamism underlying the interplay between the international and domestic forces.

Besides, like external economic shocks, the diplomatic setback wrought by formal derecognition of Taiwan by Washington in 1979 was an external political shock that can provide stimuli for policy change.⁵⁹ This has effectively excluded Taiwan from membership in any international organizations that require statehood and hence, significantly compressing Taiwan's international space. In addition, the lack of domestic legitimacy remains problematic as the KMT was perceived by the islanders as the immigrant party from Mainland China and hence, to be less representative of the general population.⁶⁰ While recognizing the need to maintain its domestic legitimacy by various means, Taiwan also "has to remain pragmatic and flexible, always ready to utilize any developments and changes within international society"⁶¹ in order to enhance its international space.

It is therefore a big question how Taiwan could manage to balance external pressure to open up its financial markets with the need to ensure the economic stability that its national

⁵⁵ See Paul Chiu C. H., 'Taiwan's Current Financial Reform and Its Perspectives', *Review of Pacific Basin Financial Markets and Policies*, Vol. 3, No. 1, (2000), p. 82.

⁵⁶ See Christopher Howe, 'Taiwan in the 20th Century: Model or Victim? Development Problems in a Small Asian Economy', *The China Quarterly*, (2001), Table 5.

⁵⁷ *Ibid.*, p. 37. Size is defined by Howe to include space, resources and organizational capacities.

⁵⁸ *Ibid.*, p. 37.

⁵⁹ Greene, J. Megan, *The Origins of the Developmental State in Taiwan: Science Policy and the Quest for Modernization*, (Cambridge, Massachusetts: Harvard University Press, 2008), p. 11.

⁶⁰ Ting Ming-Hwa, 'The Benign and the Belligerent: Re-Framing Taiwan's Role in Southeast Asia's Stability', 亞太研究論壇第三十八期, (December, 2007), p. 53. Website: http://www.rchss.sinica.edu.tw/capas/publication/newsletter/N38/38_01_03.pdf (Viewed on June 4, 2007)p. 53. I thank my supervisor, Chen Hsin Chih for reminding me of the importance of this point.

⁶¹ *Ibid.*, p. 70.

security requires.⁶² Given the changes in the global political economic context as well as Taiwanese political economy during this period, analysis of how financial liberalization had proceeded in Taiwan provides a case study to challenge the convergence thesis. Nevertheless, notwithstanding the mounting external and internal pressures, Taiwan has been largely successful in sustaining control over the pace of a gradual and selective liberalization of capital account and the rules governing trade in financial services.

Although external pressures stemming from the ‘Wall Street-Treasury-IMF complex’ may compel the state to liberalize its financial sector, such pressures often are not the sufficient condition to effect total compliance. Thus, both domestic and international considerations are imperative and cannot be ignored in order to understand Taiwan’s approach to financial liberalization which has been tailored to the country’s situation and complements its development purpose notwithstanding the mounting internal and external pressures to accelerate the process.

With the ongoing global financial crisis since 2008, the pendulum seems to be swinging away from the neoliberal norm of unfettered free movement of capital as the IMF has recently acknowledged the benefits of capital controls under certain circumstances.⁶³ However, such new view is not sanctioned by other international commitments, such as in recent trade and investment treaties that restrict the use of capital account regulations. In its zeal to pursue a free trade agreement with the US (and thereafter with other countries in region) and attempt to jump on the bandwagon of Trans-Pacific Partnership (TPP) agreement, it will be interesting to see the Taiwanese state’s response to the demand of such free trade negotiations that continue to propagate financial liberalization and seriously restrict policy space to contain financial speculation through the investor-state dispute settlement (ISDS) provision widely found in such agreements.

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⁶² Wu Rong-I, 'Entry into the WTO and the Internationalization of the Taiwan Financial Industry', *Review of Pacific Basin Financial Markets and Policies*, Vol. 4, No. 3 (2001) p.328.

⁶³ See Kevin P Gallagher and Jose Antonio Ocampo, 'IMF’s New View on Capital Controls', *Economic & Political Weekly*, (2013), March 23, Vol 48, No 12, pp.10-13.

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Appendix 1

A Typology of External Financial Liberalization

Liberalization of	Direction of liberalization	
	Inward	Outward
Capital movements	<ul style="list-style-type: none"> • Liberalization of rules governing foreign direct investment, including sectoral restrictions, screening practices, and performance requirements • Liberalization of foreign access to domestic equities and real estate • Liberalization of rules governing foreign borrowing by domestic firms and the international operations of domestic banks • Deregulation of sale and purchase of short-term domestic securities by foreigners 	<ul style="list-style-type: none"> • Deregulation of outward direct and portfolio investment by nationals • Liberalization of restrictions on repatriation of capital and disinvestment by foreign nationals and firms • Liberalization of restrictions on payments for invisibles, including profits and dividends • Deregulation of domestic foreign currency accounts, for residents and nonresidents • Deregulation of sale and purchase of short-term foreign securities by domestic residents
Entry	<ul style="list-style-type: none"> • Liberalize entry of foreign banks, securities firms, and other nonbank financial intermediaries 	<ul style="list-style-type: none"> • Permit or encourage domestic banks, securities firms, and nonbank financial institutions to establish foreign branches and networks

Source: Haggard, Stephan and Maxfield (1996: 36),

Appendix 2

Regulation of Cross-Strait Capital Flows

In Taiwan, the Act Governing Relationships between Peoples of the Taiwan Area and the Mainland (hereafter the Act) was specially enacted in 1992 to regulate cross-strait communications and economic activity. Its purpose was to protect Taiwan from China's economic influence, and to restrict Taiwanese investment and business operations in China. The Act imposed strict restrictions on cross-strait capital flows. For instance, neither local or foreign firms can use funds raised in Taiwan to invest directly or indirectly in China. Also, a firm is not permitted to list in Taiwan if it was funded by a certain amount of Chinese capital, if a Chinese entity held more than a 20 percent equity stake, or if the entity was a controlling shareholder.

The improving bilateral in recent years has led to progressive easing of restrictions on cross-strait capital flows and financial operations as well as gradual removal of long-standing obstacles to cross-strait trade in services. In June 2008, Taiwan relaxed quotas on Taiwanese fund investment in China's stock exchanges. Portfolio investment inflows from China were liberalized when the long-standing ban on investment from China in Taiwan's securities and futures was lifted in December 2008. In November 2009, Taiwan signed the Memorandum of Understanding on Cross-Straits Banking Supervision Cooperation with China in order to enhance the prospects of its financial sectors to become another Renminbi offshore center after Hong Kong. In January 2010, a cross-strait banking, insurance, and securities MOU took effect. China's qualified domestic institutional investors (QDIIs) were permitted to enter Taiwan's financial markets subject to certain ceiling for certain sector. For instance, China-controlled stakes was capped at 10 percent for important sectors such as public utilities and natural gas. The Economic Cooperation and Framework Agreement (ECFA) which entered into force on 12 September 2010 provided a framework for further negotiations aimed at liberalizing trade in goods, services and investment. Under the most recent ECFA services agreement, which was signed on 21 June 2013, China has agreed to liberalize 80 services sectors and Taiwan will open 64 sectors including the financial services sector.

Source: Wang and Chen (2011: 7); Rosen and Wang (2011: 40-41); Meltzer (2013: 10); Subacchi and Huang (2013: 7).

Appendix 3

Promotion Plan for the Biotechnology Industry in Taiwan

Area of attention	Task
1. Related Laws & Regulations	<ul style="list-style-type: none"> a. Complete related laws and regulations for pharmaceutical biotechnology b. Complete related laws and regulations for agricultural biotechnology c. Strengthen the protection and improvement of intellectual property rights (IPR) of biotechnology d. Reinforce inspection and efficiency for biotechnology products
2. R&D and Applications	<ul style="list-style-type: none"> a. Enhance biotech-related national projects b. Enhance research projects that focus on Asia, diseases prevalent in Asia, etc. c. Set up biotech industry infrastructure
3. Technology Transfer & Commercialization	<ul style="list-style-type: none"> a. Promote the implementation of domestic biotechnology R&D results to industry b. Strengthen the introduction and technology transfer of foreign biotechnology to industry c. Strengthen the development of the biotechnology service industry
4. Investment Promotion & Incubation	<ul style="list-style-type: none"> a. Use government funds to encourage local private sector involvement b. Stimulate local VC industry to invest in Taiwan biotechnology c. Enhance investment incentive programs d. Strengthen company incubation capability of biotech-focused science parks
5. Biotech Service Industry & Industry Promotion	<ul style="list-style-type: none"> a. Develop biotech industry market information and business development services b. Connect with overseas biotechnology clusters c. Promote Taiwan as the Asian center for biotechnology research d. Enhance public knowledge and perception of the biotechnology industry

Source: The Biotechnology and Pharmaceutical Industries Program Office, Ministry of Economic Affairs, available at <http://www.bpipo.org.tw/en/policy.html>