

# 2013 Taiwan Market Report

The 18<sup>th</sup> Asian Securities Forum

October 23-25, 2013

## I. Executive Summary

In May 2013, Taiwan's exports increased by 0.9% from the same month in 2012, while industrial production fell 0.1% and export orders were down 0.4% year on year, due mainly to the uncertain prospects of the global economy. Consumer prices (the CPI) increased by 0.74%, and the unemployment rate decreased to 4.06% from 4.07% in April. On the financial side, the month's M2 monetary aggregate grew by 4.32%, while the stock price index averaged 8,272 points. The May Taiwan Business Indicators showed that the domestic economy still faced many challenges, with the overall light signal of the monitoring indicators staying at yellow-blue for the ninth consecutive month.

The improving global economy is a positive factor for Taiwan's export sector, but the persisting high uncertainties may still weigh on export growth. For the internal sector, businesses and consumers are showing signs of rising confidence according to many domestic sentiment surveys. However, the stagnation of real wages and the reduced public budget may subdue private consumption. Overall, Taiwan's economy is expected to get better in 2013, but will still face several challenges.

In order to strengthen the country's responses to external influences like the European debt crisis and to improve prospects for long-term growth, Premier Sean Chen announced the "Economic Power-Up Plan" in mid-September 2012. The plan will address internal issues such as imbalance in the industrial structure, mismatch between labor supply and demand, and declining exports. These initiatives should ensure that sound progress is kept up toward endowing Taiwan with a vigorous and sustainable new economy.

% change on previous year	Historical Data				Current Data (2013)			
	2009	2010	2011	2012	Mar.	Apr.	May.	Jan.-May.
GDP	-1.81	10.72	4.03	1.26	1.67	-	-	-
CPI	-0.87	0.96	1.42	1.93	1.37	1.04	0.74	1.45
Unemployment rate	5.85	5.21	4.39	4.24	4.17	4.07	4.06	4.14
Exports	-20.3	34.8	12.3	-2.3	3.3	-1.9	0.9	1.2
Imports	-27.5	44.2	12.1	-3.8	0.2	-8.2	-8.0	-0.9
Export orders	-8.3	20.6	7.2	1.1	-6.6	-1.1	-0.4	-1.3
Industrial production	-8.1	26.9	4.6	-0.1	-3.0	-0.9	-0.1	0.5
Monetary aggregate (M2)	7.2	4.6	5.8	4.17	3.78	3.71	4.32	3.67
Stock market**	6,460	7,950	8,155	7,468	7,907	7,893	8,272	7,956

Note: \* The DGBAS has provisionally estimated that Taiwan's real GDP grew 2.40% in 2013.

\*\* Stock index (monthly average).

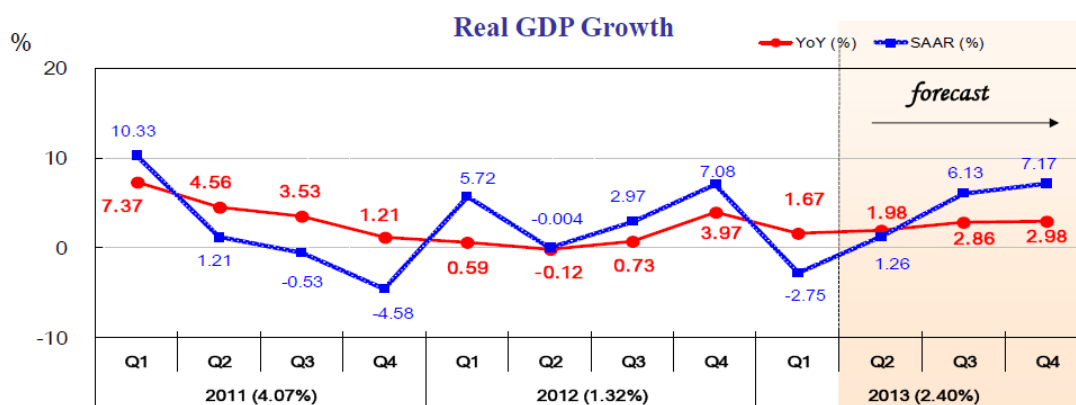
Sources: The Central Bank of China (CBC) and the Directorate-General of Budget, Accounting and Statistics (DGBAS).

## II. Economic Performance and Projections

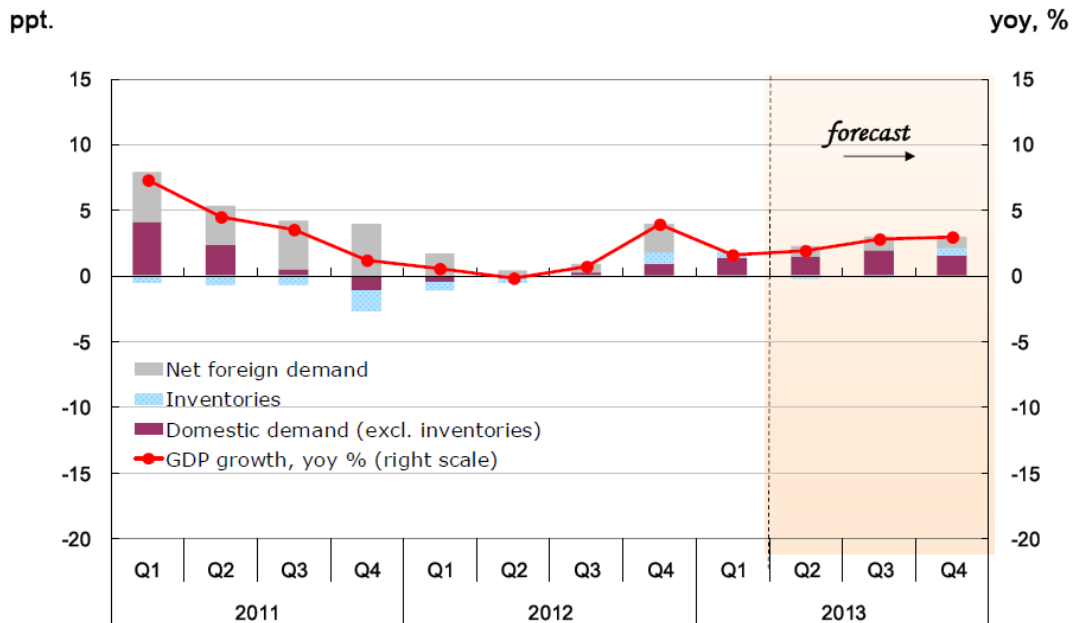
The global economic outlook is weaker than expected at the beginning of this year, which has dampened Taiwan's export growth. According to the latest preliminary estimation by DGBAS, the year-on-year (yoy) growth rate of Taiwan's real GDP was 1.67% in Q1 2013. Meanwhile, the 2013 GDP growth forecast has been revised to 2.40%, down 1.19 of a percentage point from February's forecast of 3.59%.

### 1. Economic Growth

In Q1 2013, due to weakened external demand and subdued private consumption, the year-on-year (yoy) growth rate of real GDP was 1.67%, according to the latest preliminary estimation by DGBAS. Meanwhile, the seasonally adjusted quarterly rate (saqr) of real GDP growth decreased from the previous quarter by 0.69%, and the seasonally adjusted annualized rate (saar) fell by 2.75%. In the whole of 2013, Taiwan's real GDP is projected to rise by 2.40%.



Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS).

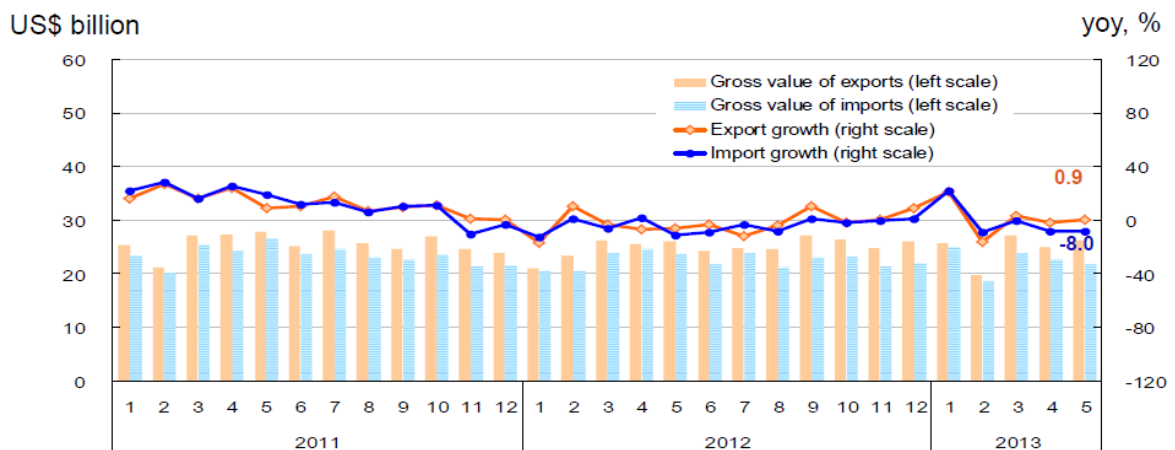


Source: Directorate-General of Budget, Accounting and Statistics (DGBAS), May 2013.

## 2. Foreign Trade

In May 2013, exports expanded 0.9% year on year, mainly due to increased export of electronic products, and plastics & rubber and articles thereof. Imports fell 8.0%, with chemicals the main contributor to the decrease. The month's foreign trade yielded a balance of US\$4.46 billion in Taiwan's favor.

Exports for the January through May 2013 period were up 1.2% from the same period a year ago.



Note: Trade data are adjusted according to the United Nations IMTS Compilers Manual (2004). Total exports include "exports" and "re-exports," and total imports include "imports" and "re-imports."  
Source: Ministry of Finance, June 2013.

### Major trade partners

China (including Hong Kong) and ASEAN have become increasingly important trade partners to Taiwan since 2000.

### Changes in Two-Way Trade with Major Trading Partners (yoy %)

	Exports						Imports					
	Total	USA	Japan	Europe	China (incl. Hong Kong)	ASEAN 6*	Total	USA	Japan	Middle East	China (incl. Hong Kong)	ASEAN 6*
2002	7.1	-2.7	-5.0	-5.9	29.4	7.4	4.9	-0.8	5.5	9.8	24.2	3.7
<b>2002 Share</b>	<b>-</b>	<b>20.2</b>	<b>9.1</b>	<b>13.9</b>	<b>32.1</b>	<b>11.9</b>	<b>-</b>	<b>16.1</b>	<b>24.2</b>	<b>6.4</b>	<b>8.7</b>	<b>14.7</b>
2003	11.3	-3.0	0.5	10.4	23.6	10.5	13.0	-6.9	19.6	43.7	30.9	5.2
2004	21.1	8.3	11.1	14.7	28.8	33.0	31.8	28.2	33.6	34.6	47.7	16.2
2005	8.8	1.3	9.4	-0.8	12.2	13.8	8.2	-2.8	5.3	36.5	16.2	3.8
2006	12.9	11.2	7.9	10.5	14.8	13.8	11.0	7.1	0.5	30.1	20.1	10.4
2007	10.1	-0.9	-2.2	9.7	12.6	16.7	8.2	17.0	-0.8	11.7	11.9	1.7
2008	3.6	-4.0	10.2	4.6	-0.8	7.3	9.7	-0.7	1.2	39.9	10.2	8.0
2009	-20.3	-23.5	-17.4	-24.6	-15.9	-21.5	-27.5	-31.0	-22.1	-42.2	-22.3	-22.8
2010	34.8	33.6	24.2	30.1	37.1	37.2	44.1	39.8	43.3	39.4	47.1	45.6
2011	12.3	15.6	1.2	6.2	8.1	22.7	12.0	1.5	0.5	14.7	20.5	13.4
2012	-2.3	-9.3	4.2	-7.8	-4.4	9.8	-3.9	-8.4	-8.9	20.2	-3.8	-3.9
<b>2012 Share</b>	<b>-</b>	<b>10.9</b>	<b>6.3</b>	<b>9.6</b>	<b>39.4</b>	<b>18.5</b>	<b>-</b>	<b>8.7</b>	<b>17.6</b>	<b>16.0</b>	<b>16.1</b>	<b>11.6</b>
2013 Jan.-May	1.2	-0.8	4.7	-11.5	3.4	4.5	-0.9	12.4	-8.1	3.3**	0.2	-0.7

\*ASEAN 6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

\*\* The first four months of 2013 compared with the same period of previous year (%).

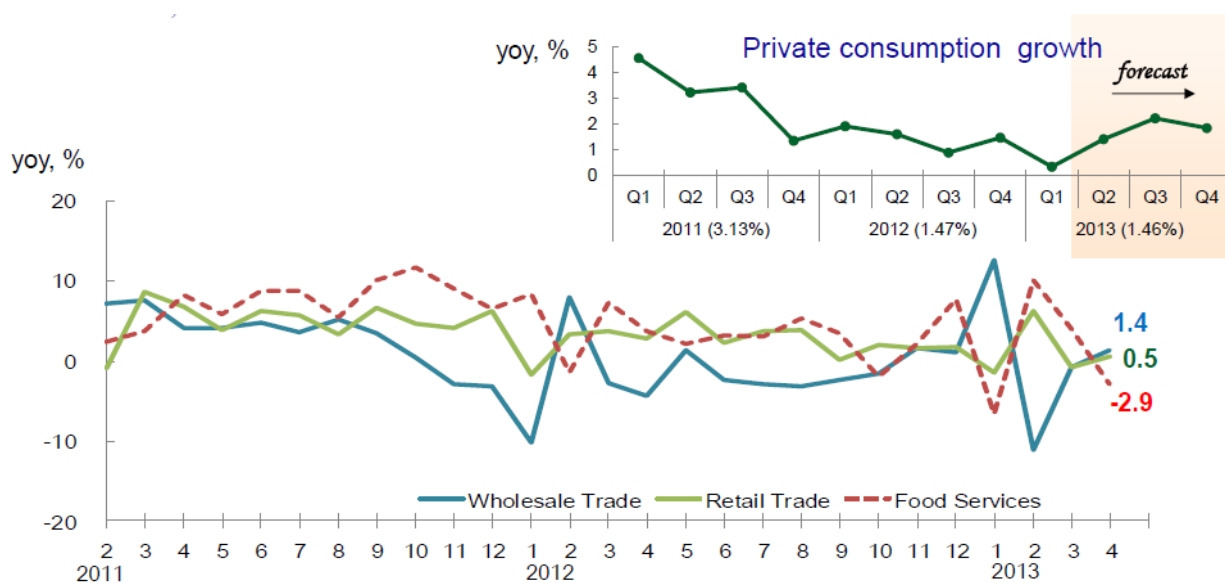
Source: Ministry of Finance.

## 3. Domestic Consumption and Investment

### a. Domestic Consumption

In Q1 2013, private consumption grew by 0.35% from a year earlier, while government consumption grew by 0.40%. In the whole of 2013, private consumption is projected to rise by 1.46%.

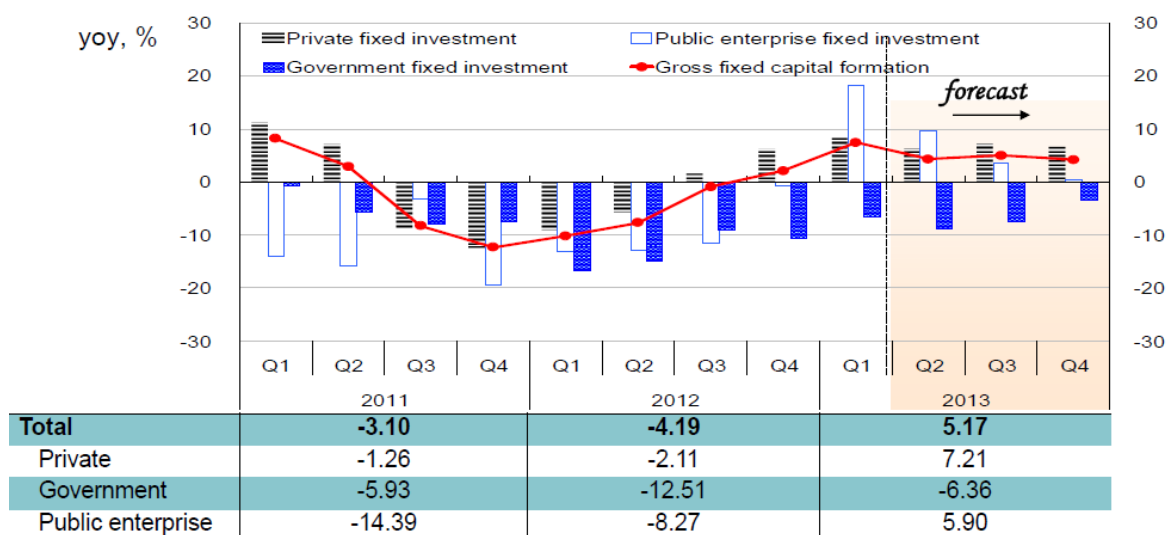
In April 2013, sales of trade and food services posted an annual increase of 1.0%. This included an increase of 1.4% in wholesale trade, an increase of 0.5% in retail trade, and a decrease of 2.9% in food and beverage services.



Source: Ministry of Economic Affairs, April 2013.

## b. Domestic investment

In Q1 2013, gross fixed capital formation was up 7.44% yoy, with private enterprises' gross fixed capital formation increasing 8.67%, mainly generated by new investment in semiconductor production, driven by the successive release of new ICT products. According to DGBAS's forecast, gross fixed capital formation is projected to increase by 5.17% in 2013.



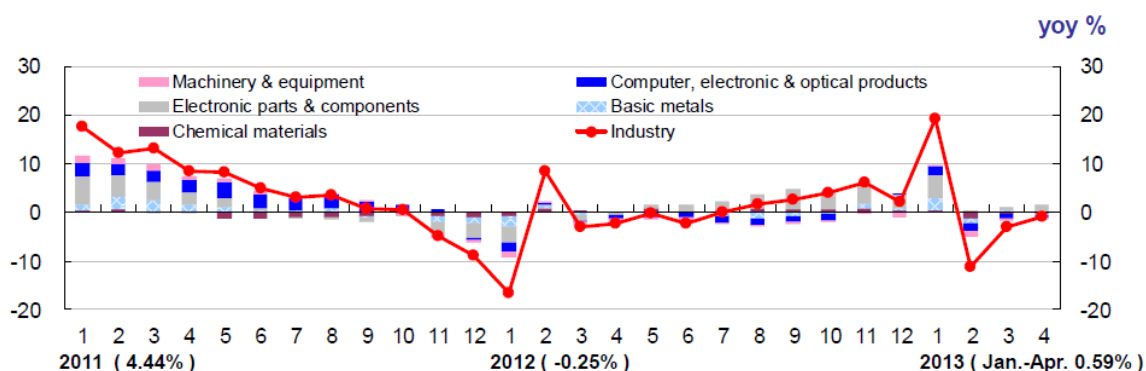
Source: DGBAS.

## 4. Industrial Production

In April 2013, the industrial production index posted an annual decrease of 0.88%, with manufacturing output down 1.18% and building construction down 14.72%.

The decrease in manufacturing output came largely from decreasing production of machinery and equipment, while new orders suffered a negative impact from the sluggish recovery of the world economy and the depreciation of the yen.

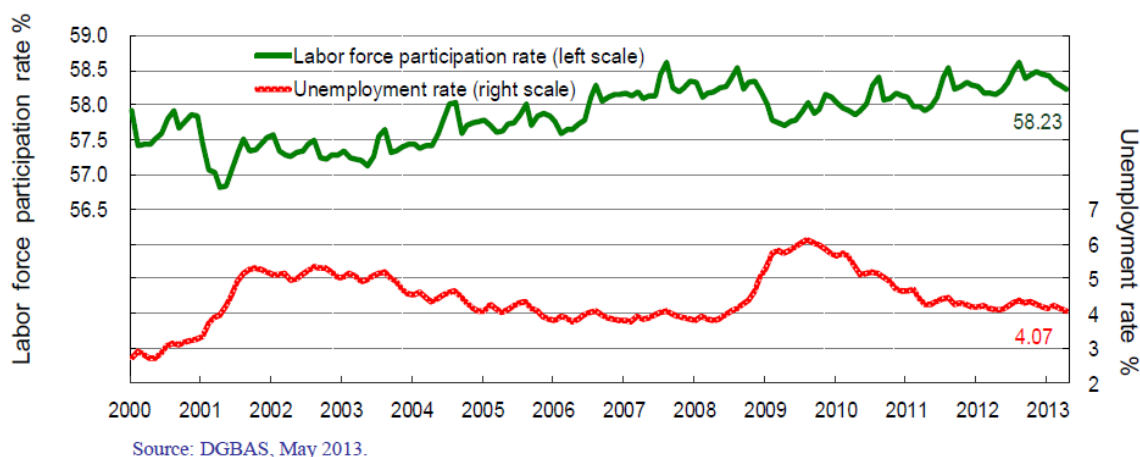
Industrial production for the January through April 2013 period were up 0.59% from the same period a year ago.



## 5. Unemployment Rate and Labor Force Participation Rate

In April 2013, the unemployment rate stood at 4.07%, the lowest reading since August 2008, down 0.10 of a percentage point from the previous month. The seasonally adjusted unemployment rate was 4.19%.

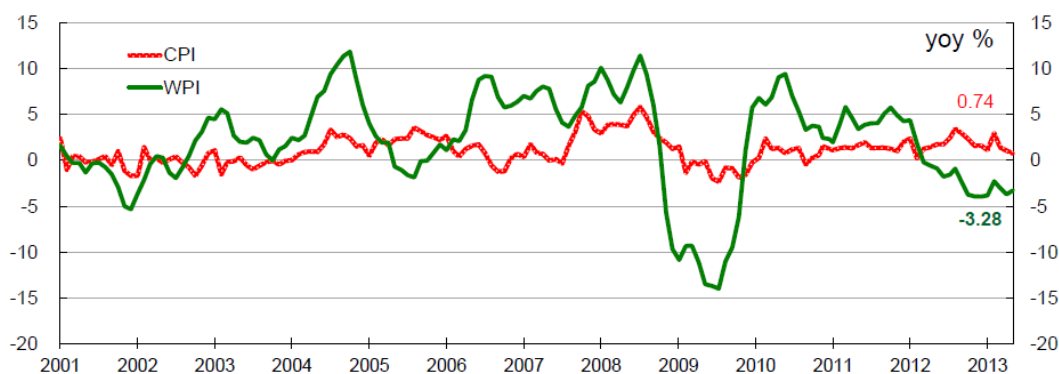
The labor force participation rate decreased by 0.05 of a percentage point from the previous month to 58.23%, up 0.08 of a percentage point from a year earlier.



## 6. Prices

In May 2013, Taiwan's CPI increased by 0.74% from the same month last year (with the CPI measured from a baseline of 100 in 2011). The increase was mainly due to upward movement in the prices of vegetables, meat and water, and electricity & gas supply. Core prices (excluding fruits, vegetables and energy prices) increased 0.61%.

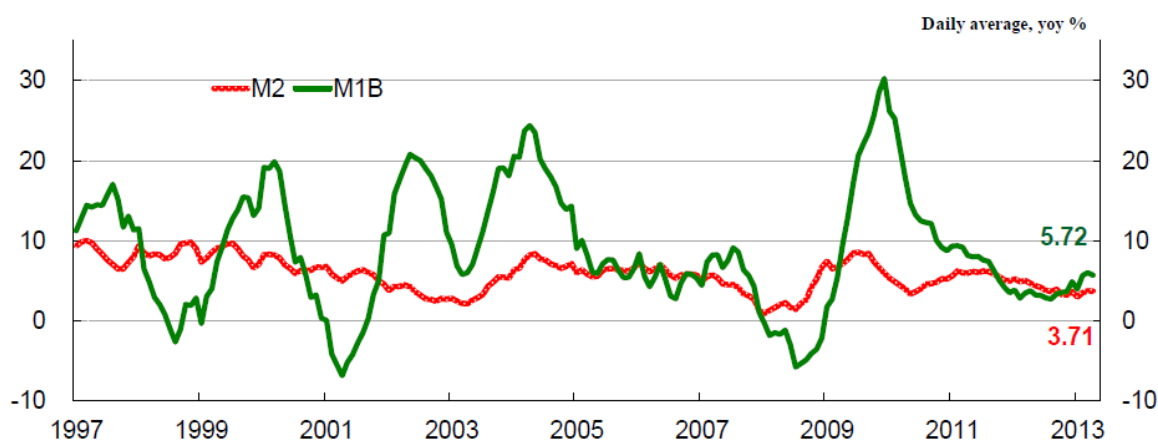
In the same month, the WPI fell by 3.28% year on year, mainly because of drops in the prices of basic metals, petroleum & coal products and chemical materials.



Note: The 2011-base revisions of the CPI and WPI have been completed.  
Source: DGBAS, June 2013

## 7. Money Supply

In April 2013, the annual growth rate of M1B and M2, measured on a daily average basis, fell to 5.72% and 3.71%, respectively. This was mainly due to slower growth of bank loans and investments, plus the effect of a major deposit transfer by the Taiwan Insurance Guaranty Fund to a life insurance company (which is not included in the monetary aggregates).

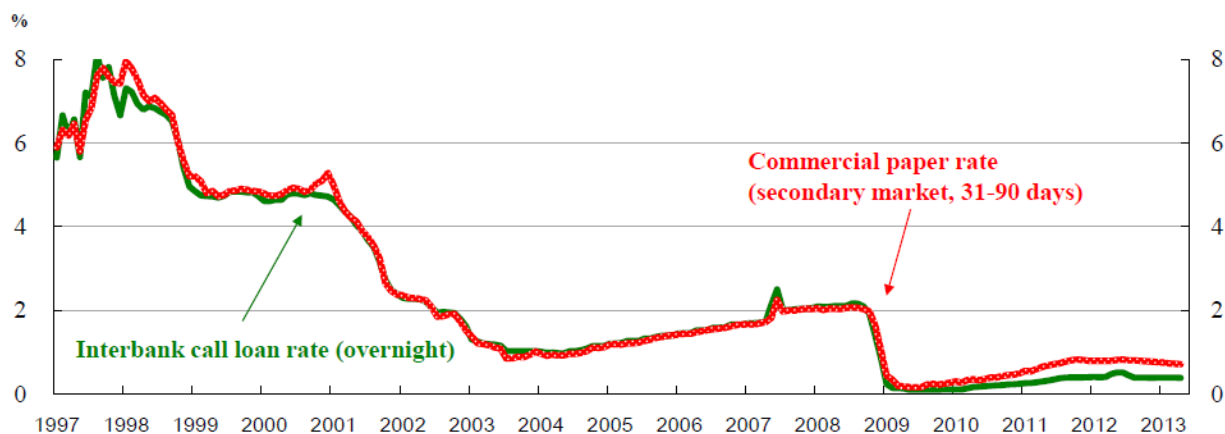


Source: Central Bank of China (Taiwan).

## 8. Short-term Interest Rates

In April 2013, interest rates remained at low levels, with the commercial paper rate at 0.71%, down from 0.72% in March, and the interbank rate remaining at 0.386%.

Since global economic uncertainties remain and Taiwan's economy is experiencing a mild recovery along with muted inflationary pressures, the CBC decided to keep policy rates unchanged in March 2013. In the future, the CBC will continue to closely monitor the evolution of economic conditions.

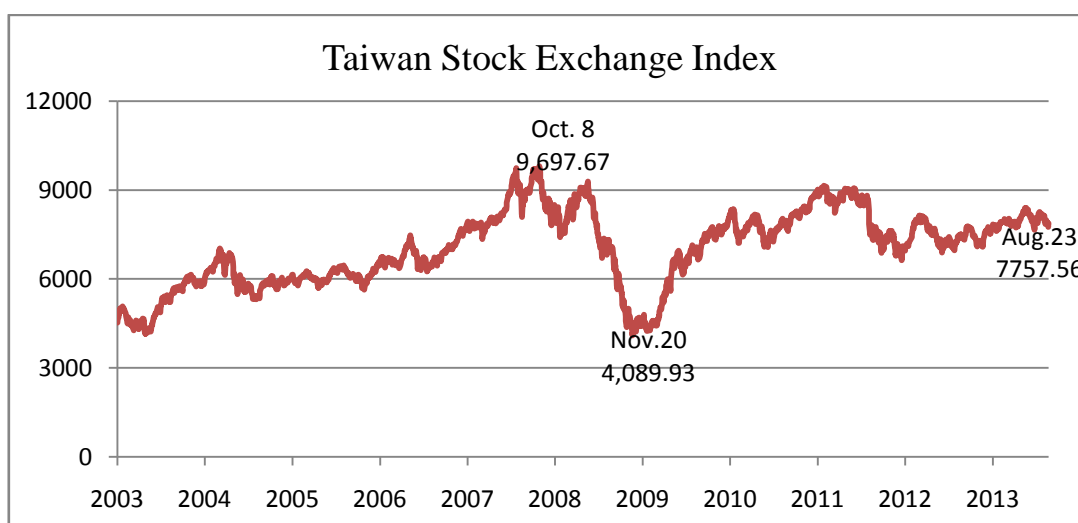


Source: Central Bank of China (Taiwan).

## 9. Stock Price

In April 2013, the average closing level of Taiwan's stock exchange index was 7,893, down by 0.17% from March 2013.

In May, stock market activity rallied on the back of recent developments indicating a likely revision of the capital gains tax on domestic stock transactions, and increased inward remittances of foreign investment.



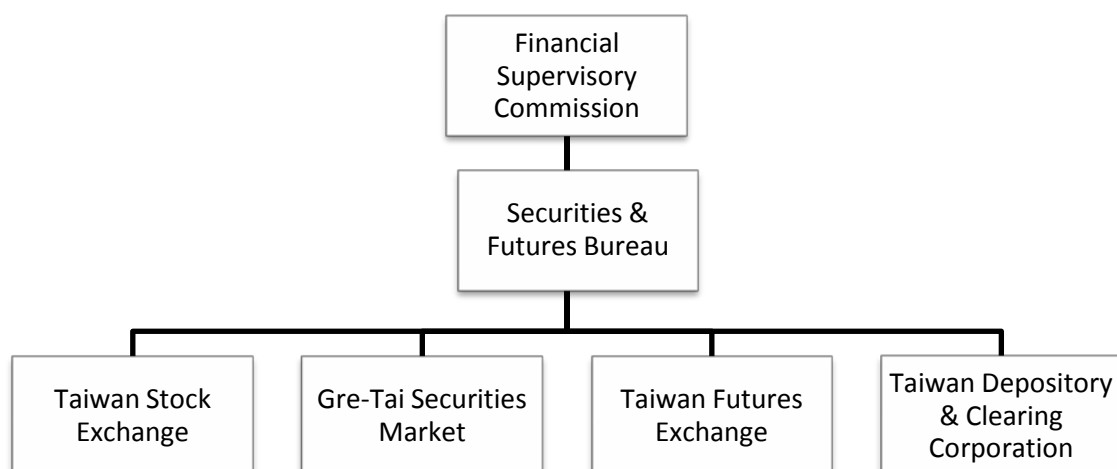
## III. Taiwan Securities Markets

### 1. Securities Market Infrastructure Overview

The Taiwan stock market, with its fully automated trading systems and book-entry mechanism, is known as one of the most active securities markets in the Asia-Pacific region. The Taiwan Stock Exchange (TWSE) is the primary equities market in Taiwan. In addition to the TWSE, there are two other regulated markets, i.e. the Gre-Tai Securities Market (GTSM), the market for bonds and small-and-medium sized enterprises (SMEs); and the Taiwan Futures Exchange (TAIFEX), the 55 principal derivatives market in Taiwan. Every trade is cleared and settled by the relevant market. The Taiwan Depository and Clearing Corporation (TDCC) provides the custodian and book-entry service.



## ■ Regulatory Framework



## ■ Market Structure by Products

<p>Taiwan Stock Exchange &amp; Gre-Tai Securities Market</p> <p>Equity Cash</p> <ul style="list-style-type: none"> <li>➤ Stocks           <ul style="list-style-type: none"> <li>Main Board: Taiwan Stock Exchange</li> <li>SME Board: Gre-Tai Securities Market</li> </ul> </li> <li>➤ Warrants</li> <li>➤ Taiwan Depository Receipts (TDRs)</li> <li>➤ ETFs</li> <li>➤ REITs</li> </ul> <p>Fixed Income</p> <ul style="list-style-type: none"> <li>➤ Government Bonds</li> <li>➤ Corporate Bonds</li> <li>➤ Convertible Bonds</li> <li>➤ Straight Bonds</li> <li>➤ Foreign Bonds</li> </ul>	<p>Taiwan Futures Exchange</p> <p>Equity Derivatives</p> <ul style="list-style-type: none"> <li>➤ Index Futures</li> <li>➤ Single Stock Future</li> <li>➤ Index Options</li> <li>➤ Equity Options</li> </ul> <p>Other Derivatives</p> <ul style="list-style-type: none"> <li>➤ Bond Futures</li> <li>➤ Interest Rate Future</li> <li>➤ Gold Futures</li> <li>➤ Gold Options</li> </ul> <hr/> <p>Gre-Tai Securities Market</p> <p>Over-the-Counter Products</p> <ul style="list-style-type: none"> <li>➤ Convertible Bond Asset Swaps</li> <li>➤ NTD Interest Rate Derivatives</li> <li>➤ Bond Derivatives</li> <li>➤ Structured Notes</li> <li>➤ Equity Options</li> <li>➤ Credit Derivatives</li> </ul>
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## 2. Securities Market

### 2.1 Taiwan Stock Exchange (TWSE)

TWSE was established in 1961, and is the primary equities market in Taiwan. TWSE has enjoyed a reputation for having maintained an orderly market and a cost-effective trading capability since its inception.

The Taiwan stock market is one of the world's most active securities markets. At the end of July 2013, total market capitalization of 881 listed companies on the TWSE amounted to US\$ 767.47 billion. The average daily trading value was US\$ 2.78 billion, translating into a market turnover rate of 97.33% in 2012.

TWSE has implemented many reform measures in the past few years in order to bring it in line with international practice, and to better reflect investors' diversified needs. The Taiwan market is set to continue making progress towards liberalization and internationalization.

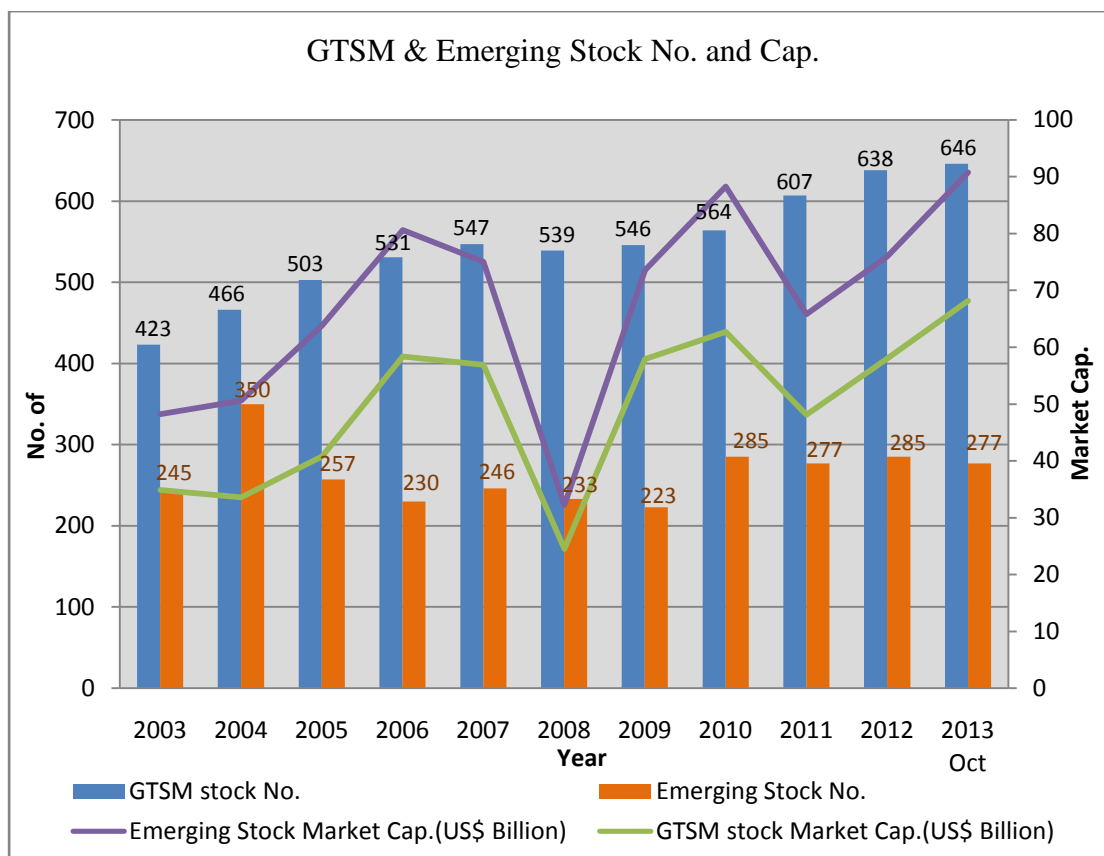


### 2.2 GreTai Securities Market (GTSM)

GreTai Securities Market (GTSM) is a diverse financial service center in Taiwan that offers the trading of stocks, bonds and derivatives. Founded in 1994, GTSM is a public interest entity aiming to promote the development of Taiwan's securities market. Since its inception, GTSM has been playing an active role in helping emerging high-tech industries and small and medium enterprises list stocks and raise funds on capital market and in the expansion of

Taiwan's securities market.

GTSM has always been guided by our missions of providing "expanded capital access and solid investment venue." With our strategy in ensuring information transparency, fair trading practices, and greater financial diversification, we are committed to offering as a top-quality platform where innovation drives progress and more options are provided to corporations and investors.



### 2.3 Taiwan Futures Exchange (TAIFEX)

Taiwan Futures Exchange (TAIFEX) was established in September 1997 and opened for business on 21 July, 1998. Since the inception, TAIFEX has effectively developed the hedging function, successfully created a more diversified environment offering the choice in investing and managing funds. The priority objective is to establish a more efficient, lower cost trading environment with core competency. TAIFEX have also actively promoted international exchanges and cooperation, a step-by-step move marching toward the goal of "world-class futures exchange."

TAIFEX is a corporation limited by shares. TAIFEX shareholder base comprises institutional holders from four relevant industries, namely, futures, securities, banking, and securities/futures-related industries. According to FIA,

TAIFEX was ranked 21st in the first half of 2013 among the top derivatives exchanges of the world. TAIFEX was also awarded again as the Derivatives Exchange of the year 2009 by the Asia Risk Magazine. Among the various product line, stock index options and futures, including TAIEX and mini-TAIEX contracts, remain the flagship products and amount 95.12% of the trading volume in the Exchange. Average daily volume in 2012 was 626,928 contracts.

#### **2.4 Taiwan Depository & Clearing Corporation (TDCC)**

Established in October 1989, the Taiwan Securities Central Depository (TSCD) started its operation in January 1990. The company was renamed as Taiwan Depository & Clearing Corporation (TDCC) in March 2006 after the merger of TSCD and Debt Instruments Depository and Clearing Co., Ltd. (DIDC). TDCC is the only central securities depository (CSD) in Taiwan, providing securities depository, clearing, and settlement services for equities, fixed income, and money market. Different from most of the other CSDs in the world, TDCC's depository account features a two-tier legal structure with one-tier operational processing. TDCC maintains over 2,200 participants' accounts as well as 15 million investors' accounts.

With over 23 years experience, TDCC demonstrates the ability to deliver quality services while forging ahead with the market and the competent authorities to create a secure and efficient market environment. Today, as our participants and marketplaces continue to extend around the world, TDCC will actively participate in global events and cultivate good relationship with other CSDs to acquire necessary knowledge and skills to ensure safety and soundness of the local market infrastructure.

### **IV. Regulatory Developments and Prospects for the securities industry**

#### **1. Cross-strait Trade in Services Agreement brings new business opportunities**

More than two years of negotiations finally paid off in the signing of a Cross-strait Trade in Services Agreement by Taiwan and mainland China on June 21. The agreement calls for the opening of the market to services in 11 areas, passing a new milestone in the realization of the Economic Cooperation Framework Agreement (ECFA).

Financial services are among the key points of the services agreement, and the mainland's opening to Taiwan in this respect exceeds its WTO commitments—and is even better than the treatment accorded to Hong Kong under the Closer Economic Partnership Arrangement (CEPA). Taiwanese banks are allowed to set up rural banks in China, and in Fujian Province they can establish sub-branches in different cities. Since sub-branches and branches enjoy the same treatment in business scope while sub-branches are required to hold relatively small operating capital, this will reduce the cost of setting up business bases and accelerate Taiwanese banks' development in the Chinese market.

In the field of securities, China has agreed to raise its stake to 49%, or even up to 51% in accordance with the securities patterns and securities companies in different regions, to allow Taiwanese shareholding of more than 50% in joint-venture fund management companies, to allow the amount of securities assets under group management to be used when applying for qualified foreign institutional investor (QFII) status in China, and to allow Taiwanese financial institutions to invest in China's capital market as RMB qualified foreign institutional investors (RQFIIs). These opening measures not only reduce restrictions on investment by Taiwanese companies but make it easier for Taiwanese securities companies to obtain QFII status.

## **2. Government implements new capital gains tax rules**

An amendment of the capital gains tax, passed recently by an extra session of the Legislative Yuan, abolishes the 8,500-point stock index threshold for imposition of the tax, retroactive to January 1 this year. The Ministry of Finance indicates that for ordinary investors, the amendment means that capital gains from listed stocks will be exempt from the capital gains tax, and should therefore boost momentum in the stock market.

The biggest change is the removal of the 8,500-point threshold. Under the old provisions, whenever the stock index at closing was at 8,500 points or above, earnings on the sale of stocks would be taxed at a rate of 0.02% to 0.06%, depending on the stock index bracket. The new system abolishes this kind of calculation and switches to calculation based on four different types of investor: those who sell 10,000 or more IPO shares within a year, those who sell 100,000 or more GreTai Market shares within a year, those who sell unlisted shares, and those who are not residents of Taiwan.

Starting in 2015, large investors who sell shares worth NT\$1 billion or more within a year will be taxed by “imputed income primarily, and actual income secondarily.” Under the “imputed income” method the National Taxation Bureau will combine all of a single person's accounts under the same ID

number, and then impose an income tax at the rate of 0.1% on the amount in excess of NT\$1 billion that is sold within one year. If the taxpayer chooses the “actual income” method, when he or she files a tax return the actual income on the sale of shares will be taxed separately at the rate of 15%. Losses can be offset against earnings.

For profit-seeking enterprises, the recent amendment of the capital gains tax changes nothing. All such entities will be taxed by the “imputed income” method, with a deduction of NT\$500,000 and an alternative minimum tax rate of 12%. For those that hold shares for three years or more, the tax will be halved.

### **3. Securities firms now allowed engaging in offshore securities business to enhance global competitiveness**

To expand the scope of Taiwan's capital markets and enhance the global competitiveness of its securities firms, on 7 December 2012 the Financial Supervisory Commission and the Central Bank of the Republic of China (Taiwan) jointly proposed draft amendments to selected provisions of the Offshore Banking Act ("the Act"). The amendments was passed by the Legislative Yuan on 31 May 2013 and promulgated on 19 June 2013.

Key points of the amendments include the following: (1) Securities firms that meet requirements regarding their scale of operations, financial soundness, and comprehensive internal control systems will be eligible to apply for permission to establish an offshore securities branch subject to a separate set of accounts. The offshore securities branch may operate business within the scope permitted for securities firms, such as commission agency, brokerage, and agency business of securities or other financial products denominated in foreign currency approved by the competent authority; buying or selling of securities or other financial products denominated in foreign currency approved by the competent authority; underwriting securities issued outside the territory of the R.O.C.; consulting in connection with asset allocation or financial planning, and services in connection with the sale of securities or other financial products denominated in foreign currency approved by the competent authority; and other securities-related foreign exchange businesses approved by the competent authority. (2) Provisions regarding tax preferences for offshore securities branch, which will remain in effect for 15 years, were adopted with reference to the current taxation system for offshore banking branches. (3) Provisions concerning supervision of offshore securities branch were adopted referred to current "Securities and Exchange Act" and related regulations.

#### **4. RMB business kicks off in Taiwan**

The inauguration of the renminbi (RMB) remittance business in Taiwan has laid down an important new milestone in the island's relations with mainland China. Once the cross-strait currency settlement mechanism gets underway, companies transacting business across the Taiwan Strait will no longer have to carry out their settlements in US dollars, and this will save them huge amounts in terms of exchange-rate differences and transaction costs.

#### **5. RMB included in general forex business**

A memorandum of understanding on cooperation in currency settlement across the Taiwan Strait was signed by the two sides last year. Under that memorandum, Taiwan designated the Shanghai Branch of the Bank of Taiwan as its settlement bank for the NT Dollar on the mainland, and mainland China named the Taipei Branch of the Bank of China as its settlement bank for the RMB in Taiwan. On January 25 this year, the two sides further signed an agreement on RMB settlement; Taiwan's Central Bank then announced a revision of the Regulations Governing Foreign Exchange Business of Banking Enterprises, and on the 28th approved an application from the Bank of China's Taipei Branch to become an RMB settlement bank. This gave the go-ahead for the RMB remittance business in Taiwan.

The Financial Supervisory Commission (FSC) notes that, on December 13 last year, it issued an order abolishing the rules for opening deposits in and making remittances through Taiwanese banks by residents of mainland China. In the future, the RMB products offered by Taiwanese banks will need only to conform to existing forex regulations.

All of the forex businesses currently carried out by Taiwan's more than 3,000 designated forex banks (domestic banking units, or DBUs) can be denominated in RMB, including deposits, loans, and other financial-management products. Interest rates on RMB deposits can be decided by the banks themselves; they need not be approved by the Central Bank, or even reported to it.

#### **6. A diversity of opportunities in financial products**

According to the provisions of the revised Regulations Governing Foreign Exchange Business of Banking Enterprises, the ceiling on trading in RMB cash is set at 20,000 RMB per person per transaction or 20,000 RMB per day for transactions through accounts, and 80,000 RMB per day for remittances to mainland China. Bankers point out that Taiwanese individuals, companies,

and juridical persons alike may now open RMB accounts, and that those already having foreign currency composite accounts can use those accounts for settlement of purchases or deposits in RMB, without opening a separate RMB account.

The FSC points out that RMB deposits are viewed as a kind of foreign-currency deposit, and are, of course, covered by the Central Deposit Insurance system. Deposits up to NT\$3 million are fully insured.

Domestic bankers say that the opportunities brought by the RMB business are not limited to deposits, loans, and remittances, but also include RMB derivatives. Most DBUs, however, will initially focus on RMB deposits because of the time needed for product planning; in the future, financial institutions will introduce a more diverse range of RMB products such as RMB-denominated bonds, funds, and insurance from which Taiwan's people can choose.

## **7. Once-for-all opening of the RMB business**

Under this RMB opening, the FSC notes, local citizens and foreign individuals will be treated equally. All will be allowed to carry out business in RMB.

Hong Kong opened up RMB deposit and remittance businesses in 2004, but limited them to local residents. Non-residents were given permission to open RMB accounts in Hong Kong only in August last year.

The FSC explains that the RMB is treated as a kind of foreign currency, and that foreigners with a fixed residence in Taiwan are allowed to open NT Dollar and foreign currency (now including RMB) accounts in local banks, just as local citizens can. Foreigners without a fixed residence in Taiwan can now also open foreign-currency accounts (including RMB) in DBUs without restriction.

## **8. Taiwan has potential as an offshore RMB center**

Trade and economic relations between Taiwan and mainland China are extremely close; mainland China is Taiwan's biggest trading partner and Taiwan is mainland China's seventh-biggest trading partner, with bilateral trade reaching about US\$170 billion in 2012. According to statistics compiled by Taiwan's Investment Commission, the island's accumulated investment in China now stands at US\$123.3 billion, and the number of permanently resident Taiwanese managers and staff of mainland-operating Taiwanese companies, and their dependents, now tops one million. The



Taiwanese people also make more than 2.8 million trips to China every year, and all of this creates considerable demand for cross-strait remittances.

In former times, all of the financing for this huge amount of cross-strait trade had to be done via a third-country currency (the US dollar). With the cross-strait currency settlement mechanism in place, manufacturers, importers, exporters, and other businesses can now receive and pay funds directly in RMB without going through the US dollar; the exchange-rate losses this avoids, and the processing fees it saves, have made the trade process much simpler. The ability of people on the two sides of the Taiwan Strait to carry out direct RMB remittances will form Taiwan naturally into a funding pool for the RMB and set the island up to become an offshore center for the currency.

Hong Kong is currently the world's only offshore RMB center. Since it opened the RMB business in 2004, deposits there have risen to almost 600 billion RMB, nearly 10% of all deposits; of that total, RMB-denominated bonds (the so-called dim sum bonds) amount to almost 400 billion. The RMB has not replaced the Hong Kong dollar, but it has become a vital link in the allocation of assets for the people of the former colony. Taiwanese and foreign financial professionals point out that Taiwan has an environment, with the attendant advantages, that favor the development of an offshore RMB center; they caution, however, that the island still needs to develop related financial products and reinforce mechanisms (such as RFDI and RQFII) for the return of RMB to mainland China. The FSC indicates that in the future, the authorities on both sides of the strait will continue to communicate, coordinate, and cooperate closely to expand the scope of RMB businesses in Taiwan, helping the island to become the second offshore center for the RMB.

## **V. Conclusion**

This year is a key year for the rebound of the securities industry, facing a slow recovery of the overall economy with various negative issues in the market gradually settling down, the securities market appears to be “showing a silver lining behind dark clouds” with a rebound in sight.

Taiwan government implements the new capital gains tax rules, abolishes the 8,500-point stock index threshold for imposition of the tax, retroactive to January 1 this year. Closer-strait financial market opens more widely by signing Cross-Strait Agreement on Trade in Services in June 2013. The securities industry should grasp this opportunity and complete major

changes. We sincerely hope the securities industry together with the instructions of the authorities and assistance from associated institutions, will take up every challenge to create a rebirth of Taiwan's capital markets and hit new peaks.