



**TRADE POLICY REVIEW**

REPORT BY

THE SEPARATE CUSTOMS TERRITORY OF TAIWAN, PENGHU, KINMEN AND MATSU

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.

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## **1 INTRODUCTION**

1.1. As a key link in global supply chains, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has responded to the global economic downturn in the wake of the last financial crisis by continuing our efforts to liberalize trade and enhance trade facilitation measures between 2014 and 2017. Despite these efforts, slow global recovery has led to insufficient global market demand, and this was reflected in the decline of trade growth in both 2015 and 2016. However, trade grew significantly in 2017.

1.2. In order to revitalize the economy, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu actively implemented the Four-Year National Development Plan (2013-2016). This plan's main objective was to stimulate economic momentum by accelerating systemic adjustments, relaxing regulations, hastening various national structural reforms, and increasing the potential for economic growth. Subsequently, key policies, namely the Four-Year National Development Plan (2017-2020), the New Southbound Policy and the "5+2" Industrial Innovation Plan, were also formulated and are being implemented to accelerate various structural reforms and advance the transformation of economic structures. With the sustained implementation of these plans, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu expects to continue to improve its internal economic structures and increase its potential for economic growth.

1.3. Furthermore, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has worked to improve the domestic regulatory environment for doing business during the review period. According to the World Bank's Doing Business report, the ease of doing business ranking for the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu improved from 19<sup>th</sup> place in 2014 to 11<sup>th</sup> place in 2016; in 2017, however, its ranking dropped to 15<sup>th</sup> place, revealing that there is still some room to improve the domestic business environment. Regarding regulatory reform, the government has also stressed the importance of increasing the transparency of the legal framework, to further improve the domestic environment for doing business.

1.4. During the review period, one key legislation milestone was the Financial Technology Development and Innovative Experimentation Act (the Act), which came into force on 30 April 2018. This Act was enacted to establish a Fintech innovative experimentation mechanism and create a safe environment for Fintech R&D and pilot trials of the financial industry and related sectors, while maintaining financial market order and protecting consumers' rights. This Act is applicable to experimenters that use innovative methods to engage in any financial services business requiring approval from the Financial Supervisory Commission (FSC). Natural persons, proprietary businesses, partnerships, and legal persons, as well as non-residents through an agent, all may apply to conduct innovative experiments. The government thus hopes to further enhance innovation in the financial services sector.

1.5. Despite the economic challenges faced by many WTO Members in the last four years, the multilateral trading system has once again proven to be a valuable mechanism underpinning opportunities for growth. As such, during the review period, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has continued to participate actively in the regular work of the WTO and has been closely following the development of economic cooperation and integration at the regional level. As a major beneficiary of economic globalization, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is always willing and ready to contribute to Aid-for-Trade and other assistance initiatives by making financial and other forms of contributions and assistance to developing country members, as well as to related WTO agencies.

## **2 ECONOMIC AND TRADE ENVIRONMENT**

### **2.1 Macroeconomic Environment**

2.1. While the global economy slowly recovered between 2014 and 2017, uncertainties are on the rise, reflecting the fragility of the recovery. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is fully aware that potential risk factors could still inhibit or undermine the momentum of global economic recovery, including trade policy measures, geopolitical tensions and natural disasters.

2.2. As shown in Table 2.1, the real GDP growth rate of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu was 2.86% in 2017, which was significantly higher than the previous year (1.41%), indicating the resilience of the economy. At the same time, the investment expenditures of some domestic manufacturers slowed down, resulting in a modest 0.11% decrease in the gross fixed capital formation for the year. The government is determined to take advantage of this overall improving economic situation by, inter alia, accelerating the transformation of the industrial structure and comprehensively expanding investment in infrastructure, with the aim of generating new growth momentum to make the domestic economy even more vigorous and robust.

**Table 2.1 Key economic indicators of national accounts, 2014–17**

(2011 = 100)

Indicator	2014	2015(r)	2016(r)	2017(p)
Gross domestic product				
At current prices (NT\$ million)	16,111,867	16,770,671	17,152,093	17,444,666
Annual change (%)	5.79	4.09	2.27	1.71
At 2011 constant prices (NT\$ million)	15,529,606	15,654,835	15,875,635	16,329,209
Annual change (%)	4.02	0.81	1.41	2.86
GNI per capita (US\$)	23,330	23,109	23,258	24,936
Gross fixed capital formation (GFCF)				
At current prices (NT\$ million)	3,493,834	3,493,267	3,584,910	3,580,972
Annual change (%)	3.41	-0.02	2.62	-0.11
Inflation rate (CPI change, %)	1.20	-0.30	1.39	0.62

r Revised version.

p Preliminary version.

Note: Data has been updated based on the benchmark revision released on 13 February 2018.

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

2.3. Regarding the economic structure of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, the services industry remained the most important economic sector, accounting for 62.9% of the GDP in 2017 and providing approximately 59.3% of employment. This was followed by the manufacturing sector that contributed around 30.8% to the GDP in 2017. The agricultural sector's share of the GDP was 1.7%.

## 2.2 Developments in External Trade

2.4. Due to an upswing in the global economy and sluggishness during the reference period, both the imports and exports of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu in 2017 reached double-digit growth. The trade surplus also experienced positive growth during the review period, expanding by 16.5% over the previous year.

**Table 2.2 Trade statistics, 2014–17**

(US\$ billion)

Year	Total exports	Growth rate (%)	Total imports	Growth rate (%)	Trade balance
2014	320.09	2.8	281.85	1.4	38.24
2015	285.34	-10.9	237.22	-15.8	48.12
2016	280.32	-1.8	230.57	-2.8	49.75
2017	317.25	13.2	259.27	12.5	57.98

Note: Methodology for trade statistic collection was converted to the General Trade System approach in 2016 and was backdated to 2014. Thus, the change rate in 2014 was based on the estimation of 2013 data as a reference point.

Source: Customs Administration, Ministry of Finance.

2.5. The geographical distribution of trade of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu was heavily concentrated in Asia during the review period. In 2017, for example, 72.41% of exports and 59.23% of imports took place with Asian trading partners, followed by North America (12.34% of exports and 12.30% of imports) and Europe (9.19% of exports and 12.12% of imports). Main trading partners included China; ASEAN; the United States; Japan; Europe; Hong Kong, China; and the Republic of Korea; together this group of WTO

Members accounted for 85.60% of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's total trade.

2.6. The major category of products exported by the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu was electrical machinery and equipment, accounting for 44.5% of total exports. This was followed by machinery and mechanical appliances, plastics and articles thereof, and optical instruments and accessories. Electrical machinery and equipment accounted for 26.0% of total imports, followed by mineral fuels, and machinery and mechanical appliances.

**Table 2.3 Key export and import products of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, 2014–17**

(US\$ million, % of total trade value)

Product/Year	Exports				Product/Year	Imports			
	2014	2015	2016	2017		2014	2015	2016	2017
Electrical machinery and equipment	125,334	119,995	124,047	141,305	Electrical machinery and equipment	59,074	55,288	58,406	67,286
	39.2%	42.1%	44.3%	44.5%		21.0%	23.3%	25.3%	26.0%
Machinery and mechanical appliances	32,738	30,397	30,196	36,605	Mineral fuels	65,598	37,657	31,716	40,432
	10.2%	10.7%	10.8%	11.5%		23.3%	15.9%	13.8%	15.6%
Plastics and articles thereof	21,599	18,627	17,573	20,276	Machinery and mechanical appliances	29,503	28,818	33,577	34,662
	6.7%	6.5%	6.3%	6.4%		10.5%	12.1%	14.6%	13.4%
Optical instruments and accessories	20,789	16,035	14,827	16,395	Optical instruments and accessories	11,245	10,291	10,245	10,603
	6.5%	5.6%	5.3%	5.2%		4.0%	4.3%	4.4%	4.1%
Mineral fuels	20,574	10,795	9,821	10,905	Organic chemicals	10,823	8,146	7,374	9,307
	6.4%	3.8%	3.5%	3.4%		3.8%	3.4%	3.2%	3.6%
Vehicles other than railway or tramway rolling-stock	10,414	10,234	9,333	9,720	Iron and steel	10,415	7,306	6,442	7,969
	3.3%	3.6%	3.3%	3.1%		3.7%	3.1%	2.8%	3.1%
Organic chemicals	12,038	8,687	7,832	9,543	Vehicles other than railway or tramway rolling-stock	7,223	7,468	7,340	7,953
	3.8%	3.0%	2.8%	3.0%		2.6%	3.1%	3.2%	3.1%
Iron and steel	10,647	8,044	7,714	9,653	Plastics and articles thereof	7,809	6,778	6,445	7,016
	3.3%	2.8%	2.8%	3.0%		2.8%	2.9%	2.8%	2.7%
Articles of iron or steel	7,811	7,255	6,706	7,689	Miscellaneous chemical products	7,289	6,153	5,973	6,225
	2.4%	2.5%	2.4%	2.4%		2.6%	2.6%	2.6%	2.4%
Copper and articles thereof	3,773	3,470	3,453	4,735	Copper and articles thereof	5,543	4,459	4,340	5,672
	1.2%	1.2%	1.2%	1.5%		2.0%	1.9%	1.9%	2.2%

Source: Customs Administration, Ministry of Finance.

2.7. As for trade in services during the review period, services exports amounted to US\$42.2 billion on average annually, whereas service imports averaged US\$52.4 billion. This indicates that the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu remained a net importer of trade in services. However, due to the shrinkage in net payments from manufacturing services, charges for the use of intellectual property, and other business services, the deficit exhibited a decreasing trend over the last four years.

### 2.3 Development of Foreign Investment

2.8. Outbound foreign direct investment (FDI) from the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu generally showed growth trends on a year-by-year basis from 2014 to 2017. On average, outbound and inbound investment during 2014-2017 amounted to US\$20.5 billion and US\$7.6 billion, respectively. The government is highly committed to continuing its efforts to create an investment-friendly environment by effectively addressing the "five shortages" (i.e., the shortages of land, water, power, skilled professionals and labor) that hinder attracting foreign investment. Strategies and measures taken by the government to address these shortages include (1) releasing state-owned land at discount prices, making use of idle private land in government-developed zones, and developing and repurposing land for industrial use; (2) development of new resources, water conservation, water allocation and emergency backup

systems to ensure water reliability for industrial purposes; (3) phasing out nuclear power, stabilizing electricity supplies, and curbing air pollution; (4) addressing the shortage of skilled professionals through personnel retention, recruitment and cultivation techniques; and (5) matching workers to unfilled positions while developing the work force, improving wages and working conditions, and promoting industry-academia cooperation to bridge the education-to-employment gap.

2.9. Regarding the sectoral distribution of outbound FDI, in addition to investment in the financial and insurance services sector, the major sectors receiving investment from the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu were electronic parts and components manufacturing and retail services. Approximately 84.55% of outbound investment went to China, the British Overseas Territories in the Caribbean, Singapore, the United States, and Viet Nam.

2.10. Regarding inbound FDI, the manufacturing sector attracted the majority of investment in 2017. Most inbound FDI in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu went to the electronic parts and components manufacturing sector, followed by the information and communication sector, and the finance and insurance sector. The leading sources of inbound investments were the Netherlands, the British Overseas Territories in the Caribbean, the United Kingdom, Japan, and American Samoa, accounting for 74.12% of the total inbound FDI.

**Table 2.4 International investment statistics, 2010-13 and 2014-17**

(US\$ million and % of change from previous period)

Year	2010-13 average		2014-17 average	
Outbound FDI	17,706.96 (-5.77%)	20,474.21 (6.17%)	2014: 17,570.25 2015: 21,710.68	2016: 21,793.83 2017: 20,822.07
Inbound FDI	5,021.62 (11.75%)	7,552.29 (9.14%)	2014: 6,104.66 2015: 5,040.91	2016: 11,284.69 2017: 7,778.90

Note: Amounts are of examined and approved FDI.

Source: The Investment Commission, Ministry of Economic Affairs.

### 3 DEVELOPMENT OF TRADE AND INVESTMENT POLICIES

#### 3.1 Macroeconomic Policy

3.1. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has long been a free market economy. Overall macroeconomic policy is an important source of support for economic and trade development. Faced with new global economic and trade situations following the global financial crisis, the government promoted "All-round Construction" and the "Economic Power-up" Plans as the two main components. The aim was to launch a concerted effort for all-round national construction, accelerate systemic adjustment, and relax regulations to boost potential economic growth.

3.2. To foster domestic economic development, priority has been given to meeting the infrastructure needs over the next three decades. To this end, the "Forward-looking Infrastructure Development Program" was formally launched in 2017 to provide a framework for future infrastructure development. The program focuses on eight areas of infrastructure development: (1) railway projects to provide safe and fast transportation; (2) water environment construction to build resilience to climate change; (3) green energy infrastructure to ensure environmental sustainability; (4) digital infrastructure to create a smart and connected nation; (5) urban and rural projects to balance regional development; (6) child care facilities to reverse declining birth rate trends; (7) food safety infrastructure to ensure food quality and protection; (8) human resources infrastructure to nurture talent and boost employment.

#### 3.2 Trade and Investment Policy

3.3. On average, between 2014 and 2016 the trade dependency rate of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu was 103%, with export dependency at 56%, and import dependency at 47%. This very high degree of trade dependence implies that the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is relatively more sensitive to changes in the global trade environment.

3.4. Consequently, diversifying overseas markets and broadening the scope of trade policy were the main trade policy directions of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu during the review period. The objectives are to enhance trade promotion initiatives to access emerging markets in Southeast Asia, South Asia, and Oceania through implementation of the New Southbound Policy, and to improve links with technologically advanced countries. As a crucial link in global value chains, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will continue, along with all members, to pursue free trade to the fullest extent on a mutually beneficial basis to achieve a better shared future. In addition, creating a friendly business environment is also a key component of its investment policy, and recent efforts have primarily targeted reducing investment barriers and promoting a more accessible and transparent regulatory environment. It is committed to expanding domestic demand and developing trade in services, enhancing its international competitiveness, reducing its dependence on specific trading partners and certain imported and exported products, and reducing trade barriers.

3.5. As an important participant in both the Asia-Pacific and the wider global supply chains and trading systems, it is essential for the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu to respond rapidly to changes in the global economic environment. Given this, the government continues to strengthen economic and trade relations with important trading partners such as the EU, the US, Japan and Korea, to enhance linkages with various supply chains and to enhance technology cooperation. Furthermore, it launched the New Southbound Policy to provide an overarching framework for the development of a new and comprehensive relationship with additional partners in the Asia-Pacific region, and to redefine the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's critical role in this region for the 21<sup>st</sup> century.

3.6. Specifically, the New Southbound Policy is designed to boost links with partners in this region through activities in the following four key areas:

- Economic and trade cooperation: The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will forge new partnerships with the objectives of integrating and expanding supply chains, connecting domestic demand with markets, and undertaking cooperative infrastructure projects.
- Exchanges of skilled personnel: The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is intensifying bilateral exchanges and training of young scholars, students and industry professionals with partner countries and promoting innovative ways to share complementary human resources with a people-centered focus.
- Resource sharing: Capitalizing on the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's soft powers to promote bilateral and multilateral cooperation in culture, tourism, medical care, technology, agriculture, and small and medium-sized enterprises. The aim of this outreach is to improve the quality of life in partner countries, as well as to create opportunities for deepening the economic engagement of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu with the respective partners.
- Regional connectivity: Expanding institutional cooperation with partner countries and strengthening consultation and dialogue. Effectively utilizing private groups, overseas expatriate networks, and other channels to enhance stability and prosperity in the region.

3.7. Taking partner countries' needs into account, the focus of the New Southbound Policy is currently to implement five flagship programs and three prospective areas to bring about positive mutual benefits. The five flagship programs are (1) Regional Agricultural Development, (2) Medical and Public Health Cooperation and the Development of Industrial Chains, (3) Industrial Talent Development, (4) Industrial Innovation and Cooperation, and (5) the New Southbound Policy Forum and Youth Exchange Platform. The three prospective areas are cross-border e-commerce, tourism, and infrastructure development.

3.8. Regarding investment policy, during the review period, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu paid close attention to providing a business-friendly environment that would help to attract FDI. We reviewed our domestic reforms on investment in

relation to the findings in the World Bank's Doing Business Index (DBI). The core strategy was to enhance the ease of doing business, improve regulatory transparency, and adhere to global best practices.

### 3.3 Industrial Policy and Reform

3.9. In the past four years, several major industrial development programs such as the Backbone Enterprises Program, and the Industry Upgrading and Transformation Program have been launched to facilitate the potential of carefully selected industries to lead the transformation of industrial innovation models. The objectives of these programs are to advance economic growth, increase employment opportunities and improve income distribution by boosting industrial optimization and transformation.

3.10. The flagship 5+2 Industrial Innovation Plan was launched in 2016 to serve as the primary industrial development policy undertaking. The aim of this plan is to transform industrial innovation, moving towards high-value-added, service-oriented and solutions-oriented business models. It envisions achieving industrial innovation, job creation, equitable wealth distribution, and sustainability. The seven (5+2) innovative industrial pillars are: the Asia Silicon Valley, Smart Machinery, Green Energy Technology, Biomedical Industry, Defence Industry, New Agriculture, and the Circular Economy. Details of each are briefly outlined below.

- **Asia Silicon Valley Development Plan:** This plan has two primary objectives: first, promoting innovation and R&D for IoT devices and applications; and second, upgrading the startup ecosystem. Its strategies include optimizing the economy's startup and entrepreneurship ecosystem, enhancing linkages with renowned clusters worldwide, building a complete IoT supply chain by integrating the economy's hardware advantages with software applications, and constructing diversified demonstration sites for smart products and services.
- **Smart Machinery:** The Smart Machinery Industry Promotion Program is composed of two parts, "Industrialization of Smart Machinery" and "Intelligent Transformation of Industrial Machinery." The aim is to develop total solutions and establish a smart machinery industry ecosystem via "Industrialization of Smart Machinery" while applying total solutions to help enterprises adopt smart manufacturing via "Intelligent Transformation of Industrial Machinery." Along the way, we will take account of the requirements for intelligent transformation among small and medium enterprises (SMEs) and encourage the adoption of digitalization in the production process so that a network of connected devices can be realized through the Smart Machine Box (SMB). We will help domestic industries upgrade smart manufacturing and expect to have 9,000 devices connected to the network by the end of 2022. For businesses already equipped with smart technology, we provide assistance to speed up their move to reach smart manufacturing through R&D projects.
- **Green Energy Technology Development:** A safe, stable, efficient and clean energy supply system that also creates sustainability is considered a way for the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu to achieve its vision of a nuclear-free homeland. By 2025, the proportion of domestic power generated by renewable energy and gas is expected to increase to 20% and 50%, respectively, while that by coal generation will be reduced to 30%. We aim to make solar energy and wind energy key components of future green energy development. A testing hub that integrates energy creation with energy saving, energy storage, and system integration technologies has recently been established as an initial step in this direction.
- **Biomedical Industry:** The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu aims to make itself into a major hub for biomedical R&D in the Asia-Pacific region. First, we intend to promote the integration of biomedical supply chains by consolidating individual regional companies into bio-tech clusters. We will also work to attract overseas investment as a means of enhancing domestic biomedical R&D capabilities and facilitate global deployments. Moreover, we will help integrate medical services into peripheral bio-tech industries to foster the development of specialized medicine. Our

goal is to develop 20 new drugs and 80 different high-value medical devices which are able to enter the international market by 2025.

- **Defence Industry:** The defence and aerospace industries are two of the principal areas in the government's 5+2 innovative industries program. In the past, many critical technologies have migrated to the civilian sector. Thus, our government intends to promote both the defence and aerospace industries to underpin the development of all relevant sectors.
- **New Agriculture:** The three main pillars in this program are to establish new agriculture paradigms, construct a safety system for agricultural products, and enhance the capabilities of agricultural marketing. The strategies, such as promoting agricultural insurance programs, encouraging organic and environmentally-friendly farming, promoting green environmental payments on farmland, and setting up an on-line trading platform for agricultural products are being implemented to stabilize farmers' income and make full use of the multi-functional value of agriculture in a sustainable way.
- **Circular Economy:** The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is dedicated to establishing a circular economy of supply and demand for energy resources using concepts of recycling and resource efficiency. By 2025, we expect the rate of recycled domestic resources to increase to 17%, and the targets for incineration and landfill reduction to increase to 7% for general waste and 3% for industrial waste treatments, respectively. To reach these goals, we will assist companies in developing and adopting environment-friendly technologies with lower levels of pollution, fewer carbon emissions, greater safety, and higher recyclability in order to realize the circular economy. In the process, we have started the "New Material Recycling Industry Park" project in Dalinpu, Kaohsiung to demonstrate the economic benefits of using fewer resources and establishing a sustainable business. The hope is to create a sustainable circular model by means of well-designed energy and resource links.

### 3.4 Energy Policy

3.11. The fact that 98% of energy resources are imported indicates the lack of energy self-sufficiency in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu. As part of global efforts to reduce greenhouse gas emission following the Paris Agreement, the government has embarked on an energy transition policy to initiate energy transition and reform of the electricity industry, while promoting the development of independent green energy industries to tackle the challenges of rapid changes in various political and economic circumstances.

3.12. Our energy transition policy is to become a nuclear-free homeland and raise the proportion of renewable energy generation to 20% by 2025. Based on the precondition of stable energy supply, we anticipate that the remaining 80% of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's energy will be generated by thermal power plants. To accomplish this, we aim to increase power generation by natural gas-fired plants to 50% and reduce power generation by coal-fired plants to 30%. We are planning to actively develop renewable energy, including solar, wind and geothermal energy. In the meantime, we are promoting conservation to maximize energy efficiency. We are also hastening construction of the new LNG receiving station to increase imports of natural gas, contributing to the decrease of pollution and carbon emissions attributed to thermal plants.

### 3.5 Labor Reform

3.13. In order to make the relevant provisions of the Labor Standards Act more consistent with the practical needs of employers and employees, the revised provisions of the Labor Standards Act were promulgated on 31 January 2018, and implemented on 1 March. The recent amendments to the Labor Standards Act are designed to uphold the principles of security and flexibility, while achieving the following policy goals: two days off for workers per week, consistent regulations regarding holidays, flexible use of overtime work hours and annual leaves, a minimum of 11 consecutive hours of rest between shifts, and so on. In addition, to provide for more effective enforcement, the Ministry of Labor has strengthened supervisory mechanism of the government

and autonomous bargaining mechanism within enterprises, and implemented multiple controls for administrative supervision to protect labor rights.

### **3.6 The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu in the Global Trading System**

#### **3.6.1 Participating in the multilateral trade regime**

3.14. During the review period, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu was committed to participating actively in the WTO on all fronts, including the regular work of committees and councils, the DDA, and the Ministerial Conferences, in particular regarding finalization of the Trade Facilitation Agreement (TFA) and its ratification. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu also firmly supports the elimination of subsidies contributing to IUU fishing, the promotion of e-commerce, and the participation of micro, small and medium enterprises in international trade. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has also actively engaged in various negotiations regarding accession, plurilateral negotiations on ITA expansion, the Environmental Goods Agreement (EGA), and the Trade in Services Agreement (TiSA) negotiations. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is committed to supporting and engaging in future negotiations, with the goals of fulfilling our obligations as a WTO member and contributing to opportunities to develop and enhance a new global trade order.

#### **3.6.2 Using the WTO dispute settlement mechanism to maintain trade rules**

3.15. Regarding the participation in the dispute settlement mechanism, over the past four years, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has launched three separate disputes against Canada, Indonesia, and India as a complainant and participated in several disputes as a third party. Our use of the WTO dispute settlement mechanism demonstrates our determination to safeguard our trade interests. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will continue to make good and judicious use of the trade dispute settlement mechanism as an important means to ensure our trade interests.

#### **3.6.3 Promoting trade and development, and providing assistance and cooperation**

3.16. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu fully appreciates the importance of trade and development, as well as projects related to aid for trade to facilitate the integration of developing country members into the world trading system. During the review period, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu contributed to both the Advisory Centre on WTO Law (ACWL) and the Standards and Trade Development Facility (STDF).

3.17. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu also continued to work with like-minded members to implement international cooperation projects, establishing a diverse range of stable cooperative relations and sharing its own development experience to promote the economic and social development of partner countries during the review period. Some of the bilateral cooperation projects undertaken included: the ICT Technical Cooperation Project in Belize to improve the efficiency of customs clearance; the Tropical Vegetable and Fruit Cultivation and Extension Project in Fiji to improve production techniques and expand export markets; and the Sweet Potato Production and Marketing Project in Swaziland to promote agro-processing development and marketing capacities. The WTO has showcased these as successful projects. Using the multilateral mechanism, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has assisted developing country members with social and economic development. Measures undertaken included donations to international institutions, the establishment of special funds to cooperate with international institutions, and project collaboration with international institutions. In this last regard, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's International Cooperation and Development Fund maintains cooperation with international development banks, covering education, development of small and medium enterprises, agriculture, and environmental sustainability.

3.18. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu fully understands that advancing the integration of developing countries and the LDCs into the global trading system

is the key to achieving the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs). The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is committed to continuing its assistance to developing countries to achieve the United Nations' SDGs by strengthening a diverse range of stable cooperation relationships with aid agencies, international organizations, and international non-governmental organizations that address such critical global issues as reduction of poverty and inequality, while mitigating the challenges of climate change.

### **3.7 Regulatory Reform and Liberalization**

3.19. Regulatory reform has been one of our policy priorities. In order to boost economic development, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu accelerates regulatory adjustment and deregulation by reviewing unreasonable regulations based on the principles of maximizing benefits for the public, as well as simplifying administrative procedure to provide greater convenience. Facing the development of the global digital economy and numerous start-ups, competent authorities reformed relevant regulations, and the National Development Council (NDC) established the regulatory adaptation platform for start-ups to respond to questions about how they should apply related laws and regulations. On the other hand, the NDC works as a platform to coordinate among the competent authorities on recommendations put forward by the business community, including overseas chambers of commerce, to facilitate the harmonization of domestic regulations with international standards. As a result of inter-departmental meetings and coordination efforts, major progress in various financial and economic areas from 2014 is summarized below:

#### *Financial sector*

- The liberalization of procedures for establishing offshore insurance units (OIU) in 2015, allowing insurance services providers to offer international insurance services and to expand the scale of the domestic insurance services market and its level of globalization.
- Restrictions on securities companies providing specific international securities business were relaxed, effective from 2015. Offshore securities branches of a securities company undertaking business with overseas customers are no longer subject to the application of related provisions of the Trust Enterprise Act, the Securities Investment Trust and Consulting Act, or the Futures Trading Act.
- With prior approval from the financial regulator, local subsidiaries of offshore financial institutions may outsource customer financial information management to overseas service providers.
- In 2018, the Financial Supervisory Commission (FSC) has amended regulations governing the Go Incubation Board for Startup and Acceleration Firms by relaxing the conditions for start-up firms to apply. Those firms now have the opportunity to acquire needed capital through the open market.
- In 2015, the FSC promulgated the Act Governing Electronic Payment Institutions. By January 2018, six electronic payment institutions have already obtained licenses issued by the FSC to extend electronic payment services and build a comprehensive digital cash flow environment.
- The FSC has relaxed the investment limits for the insurance industry investment futures fund and futures ETF. The measure will increase flexibility in the use of funds in the insurance industry and promote investment efficiency. In 2017, to assist the green industry obtain funds and promote environmental sustainability, as well as the sound development of a diversified domestic bond market, the FSC supervised the formulation of a concrete green bond promotion plan by Taipei Exchange TPEX and also approved its General Introduction to the Taipei Exchange Operational Directions for Green Bonds.
- In 2018, the FSC issued an order allowing foreign central and local governments to issue international bonds on professional boards in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu. This measure is aimed at enriching the roster of bonds in

the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and spurring sound development of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's bond market.

- In order to let insurers have higher capacities and a broader spectrum in terms of their overseas and foreign currency investments, the FSC has amended some provisions of the Regulations Governing Foreign Investments by Insurance Companies since 2015. The main points of the amendments include allowing insurance companies to participate in foreign currency-denominated syndicated loans; invest in foreign municipal bonds, foreign private debt funds and real estate funds, foreign currency NCD issued by domestic banks or the branches of foreign banks in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; and loosening restrictions on insurers' investments in foreign corporate bonds and real estate.

#### *Intellectual property*

- Legislative amendments to the Patent Act to relax requirements relating to the grace period for patent applications were adopted in 2016. These amendments included new grace period provisions and extended the term from 6 to 12 months. This improved the possibility for a patent to be granted if the applicant made a public disclosure before making the application, which will benefit inventors in terms of protecting their rights.
- Following the addition of criminal liability to the Trade Secrets Act in 2013, Taiwan Intellectual Property Office (TIPO) continued to help corporations establish a correct trade secret management system and develop strategies for coping with infringements. TIPO also continued to hold seminars with judicial personnel to help judicial and enforcement personnel better understand the practices of industries. In addition, TIPO worked with the EU and the US to host trade secret seminars to exchange views on respective legal regimes and relevant practices.
- In 2017, TIPO conducted a comprehensive review of the current guidelines for pharmaceutical patent term extension. After careful consideration of the feedback from different sectors, TIPO completed the draft amendment to the guidelines, which then took effect on April 1, 2018. This change is expected to afford greater protection to medical and pharmaceutical innovation, enabling them to tap into innovative potential while boosting the economy.
- In 2017, the partial amendment to the Pharmaceutical Affairs Act was passed. This Act introduced patent linkage to facilitate resolutions to patent infringement disputes between patentees and generic drug companies prior to market entry of the generic drugs. It will protect the intellectual property of patentees and reduce the risk of patent infringement by generic drug companies. The competent authority, namely the Ministry of Health and Welfare, will set up a platform for uploading patent information, as well as implement subsidiary regulations. After that, the amendment will take effect.
- During the review period, the government continued working to revise the Copyright Act in response to rapid advancements in digital technology and the internet.

#### *Movement of professionals*

- To attract skilled domestic and overseas professionals, the government has relaxed requirements for foreign professionals with respect to visas, employment, residence, finance, taxes, insurance as well as the international living environment, and proposes 27 reform strategies. The government is also strengthening the mechanism to attract outstanding students and youth entrepreneurs to come to the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and has passed the "Act for the Recruitment and Employment of Foreign Professionals".
- The creation of a "start-up entrepreneur visa" category and relaxation of restrictions on the employment of overseas white-collar workers for innovative new ventures in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu. Specific measures

include requirements regarding past work experience and the employer's turnover threshold for overseas professional workers to obtain a work permit, as ways to encourage cross-border flows of skilled professionals and start-ups.

- In 2017, in order to solve the problem of applying for work permits and visas for spouses of overseas professionals, the Ministry of Labor (MOL) provided flexible regulations for part-time work to let spouses of overseas professionals take some hourly-paid jobs and to meet certain qualifications required by employers.

#### *Tax reform*

- In order to establish a competitive, fair, and reasonable income tax system that complies with international taxation trends, the amendments to the Income Tax Act were promulgated on 7 February 2018. The main contents of the income tax reform are as follows:
- The personal standard deduction was raised from NT\$90,000 to NT\$120,000 (NT\$240,000 for a taxpayer filing jointly with his or her spouse); the special deduction for wage income and the special deduction for the disabled were raised from NT\$128,000 to NT\$200,000, respectively; and the special deduction for pre-school children was raised per child per year from NT\$25,000 to NT\$120,000 to relieve the tax burden on salary earners, middle-and-low income earners, and taxpayers who have children.
- The highest marginal tax rate for the individual income tax was reduced from 45% to 40% to encourage professionals to stay in the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.
- By abolishing the partial imputation tax system on dividends, a new dividend tax regime was put into practice in 2018. This regime allows taxpayers to choose either to incorporate dividend income into their consolidated income and calculate their tax based on progressive income tax rates, with a tax credit of 8.5% of the total dividend amount, with a ceiling set at NT\$80,000 per household; or to opt for the single tax rate of 28% on dividend income, and computed separately from their consolidated income.
- The withholding tax rate on dividends accruing to non-residents was raised from 20% to 21%. This will reduce the tax burden discrepancy between domestic and foreign investors.
- The profit-seeking enterprise income tax rate was raised from 17% to 20%. However, profit-seeking enterprises with a taxable income of not more than NT\$500,000 are subject to annual adjustments with a tax rate of 18% for taxable year 2018, a tax rate of 19% for taxable year 2019 and a 20% rate for taxable year 2020 and thereafter.
- The surtax rate on undistributed earnings of companies shall be reduced from 10% to 5%. A profit-seeking enterprise organized as a sole proprietorship or a partnership that was not required to calculate and pay income tax, and the profit arising from the above business shall be included in the partners' or the sole proprietor's individual consolidated income.

#### *Fisheries management reform*

- The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has actively strengthened the legal framework for fisheries management in accordance with international trends and requirements. In this regard, three fisheries acts have been promulgated, including enactment of the Distant Water Fisheries Act and amendments to the Act to Govern Investment in the Operation of Foreign Flag Fishing Vessels and the Fisheries Act. These laws and regulations have transposed the measures adopted by international fisheries management organizations into domestic legislation, especially the Monitoring, Control and Surveillance (MCS) measures such as authorization to fish, vessel position monitoring, observer program, landing declaration, port inspection,

number of fishing vessels and catch limits, restriction on fishing periods and areas, restriction on the type of fishing gear and fish species, transshipment, etc. Through the imposition of heavy fines or criminal sanctions as the main penalties and supplemented with other management actions such as suspension and revocation of fishing licenses, forfeiture of catch, fishing gear and fishing vessels, and clear requirements for the violating vessel to stop fishing and return to a designated port within a given timeframe, as well as imposing additional sanctions to recidivism, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has succeeded in implementing stronger actions on deterring IUU fishing activities.

3.20. Regulatory transparency was also a main area of reform during the review period. The government continues to enhance the participation of stakeholders in the development of regulations and to improve the quality of regulations by improving the rule-making process. Effective from 1 October 2016, for example, all proposals for new regulations or for revisions of existing regulations are subject to a mandatory 60-day public notice and comment period. However, government agencies are allowed to deviate from the 60-day rule in case of emergencies, when obviously unable to announce changes in advance, or when the regulation must be promulgated within a shorter time. In addition, a user-friendly website (<http://join.gov.tw>) was established in 2016 for tracking proposed regulatory amendments and submitting comments, as well as to further elevate the level of transparency and public participation. It is worth mentioning that the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu ranked number one in the 2017 Global Open Data Index published by Open Knowledge International (<https://index.okfn.org/place/>).

### **3.8 Bilateral and Multilateral Economic Integration**

3.21. At the end of 2017, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu had four bilateral free trade agreements (FTAs) and three economic cooperation agreements (ECAs) with eight WTO Members, namely Panama, Guatemala, Nicaragua, El Salvador, Honduras, Singapore, New Zealand, and Paraguay. In addition, 32 bilateral investment agreements (BIAs) with WTO Members are in force. Most of these agreements came into effect before this current review period, thus the main focus was on monitoring and reviewing the implementation of these agreements. During the review period, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, and New Zealand fully implemented their commitments on trade in goods, services and investment under the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation (ANZTEC). In ANZTEC, the degrees of trade liberalization are 99.88% and 100% for products facing zero tariffs traded between the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu and New Zealand, respectively, while the services sector and investment market for both parties are fully opened. By monitoring and reviewing the implementation of ANZTEC, the functioning of ANZTEC was found to be sound and was effective in promoting bilateral trade. The first meeting to review the Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP) was held in 2015 and aimed to continue promoting implementation of the agreement.

3.22. As a genuine supporter of the concept of open regionalism, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has been playing a proactive role in the Asia-Pacific Economic Cooperation (APEC) forum since our accession in 1991. Major issues that the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu participated in during the review period in APEC included trade and investment liberalization and facilitation, regional economic integration, next-generation trade and investment issues, the development of micro, small and medium enterprises (MSMEs), digital opportunities, inclusive trade and women's development, food security, and public health and medical cooperation.

3.23. Specifically, key initiatives for which the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu has been serving as a lead or main sponsor during the review period were the creation of the APEC Women and the Economy Sub-Fund (with the U.S. and Australia); the APEC Strengthening Public-Private Partnership to Reduce Food Losses in the Supply Chain (2013–2018); the program on Improving Natural Disaster Resilience of APEC SMEs to Facilitate Trade and Investment; the New Era of Growth for APEC SMEs through Online-to-Offline [O2O] Business Models program; the APEC Accelerator Network Initiative (ANN); the program on Innovation for Women and Economics Development; the APEC Skills Development Capacity Building Alliance

(ASD-CBA); and the Innovation for Women and Economic Development – Facilitating Women's Livelihood Development and Resilience with ICTs (2013–2016). At the same time, we made substantive contributions to the Collective Strategic Study on Issues Related to the Realization of the FTAAP and subsequent discussions. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu firmly believes that APEC is not only a mechanism for regional economic cooperation but also complements the multilateral trading system and is an important pillar for promoting global trade and investment liberalization.

3.24. In an effort to elevate our alignment with and readiness to participate in high-level regional trade agreements (RTAs) such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), during the review period the government undertook a major regulatory review, benchmarking the rules and obligations under the CPTPP and other recent RTAs. A number of legislative revisions have already been completed, including the revisions to the Pharmaceutical Affairs Act, the Cosmetic Hygiene and Safety Act, the Fisheries Act, etc. Other proposals for legislative amendments, including amendments to the Plant Variety and Plant Seed Act, Agro-pesticides Management Act, Draft Digital Communication Act, Patent Act, Trademark Act, Copyright Act, and Postal Act have also been deliberated. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will continue to review trade and investment regulations in order to develop a free and open economy and explore further opportunities to participate in regional economic integration mechanisms, including the CPTPP and RCEP.

### 3.9 Digital Economy

3.25. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu pays great attention to the issues associated with the development of next-generation trade and investment, particularly those related to the development of the digital economy. For developing countries, especially the least developed countries, connectivity with and access to opportunities underpinned by e-commerce remain important policy challenges that must be overcome. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu strongly believes that removing digital trade barriers at all levels and having equal opportunities to access the internet are the only ways to ensure that all members of the WTO can benefit from e-commerce and participate more fully in global value chains.

3.26. Domestically, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is accelerating industrial digital innovation. The Digital Nation and Innovative Economic Development Plan (DIGI+) was launched in 2017 to create an environment favorable to developing digital innovation and consolidating the forces driving industrial innovation and value-added applications. Meanwhile, other policy tools, such as digital infrastructures of the Forward-Looking Infrastructure Development Program and the AI Application Development Action Plan, will be included in the DIGI+ program and will be promoted concurrently in order to take advantage of synergies. DIGI+ and the digital economy in general are considered to be measures complementing the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's current industrial policy (i.e. the 5+2 Industrial Innovation Plan) and are also enabling factors for creating future competitive niches that will hasten the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's transformation into a smart digital economy. Refinement of the regulatory regime to create a digital-friendly environment was also an important part of the policy initiatives during the review period. The Personal Information Protection Act was amended in 2015 to add, inter alia, new categories of personal information and to provide flexibility in protection enforcement. A new VAT registration regime for cross-border e-commerce suppliers was introduced in 2017 for VAT filing and payment for the sales of internet-based services to ensure an equitable tax environment.

3.27. Internationally, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu is ready to share our experience and cooperate with developing partners to assist them in connecting with the world of e-commerce, and thus build a mutually beneficial trade environment. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu continues to maintain and operate the four model Digital Opportunity Centers (a former APEC program) located in Indonesia, the Philippines, Thailand, and Vietnam as hubs for enhancing access to digital opportunities at the community level through education and other capacity-building activities. Also, a new generation, solar-powered DOC opened in Myanmar in 2016. Joint partnerships between the private sector and overseas educational institutions of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu also organized digital opportunity volunteer services to offer ICT-related training and other services abroad.

3.28. The Financial Technology Development and Innovative Experimentation Act ("the Act") came into force on 30 April 2018. The Act was enacted to establish a Fintech innovative experimentation mechanism and create a safe environment for Fintech R&D and pilot trials for the financial industry and related sectors, while maintaining an orderly financial market and safeguarding consumers' rights. The Act is applicable to experimenters that use innovative methods to engage in any financial services business that requires approval from the FSC. Natural persons, proprietary businesses, partnerships, and legal persons, as well as non-residents through an agent, all may apply for innovative experiments. The experimentation period lasts up to one year, and the applicant may apply for a one-time extension of up to six months. However, if the experiment involves laws that should be amended, the experimentation period extension is not subject to the one-time only extension limitation, and the overall period may be extended to up to three years.

3.29. To sum up, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu understands that development of the digital economy is not only important for the participation of MSMEs, youth and female entrepreneurs in economic activities and international trade; it also helps strengthen the growth of rural areas and reduces the rural-urban gap. Therefore, in the WTO, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will continue to promote international regulations that facilitate the development of e-commerce industries and assist these industries in expanding their business opportunities through cross-border e-commerce.

#### **4 CONCLUSION AND FUTURE OUTLOOK**

4.1. Despite all the current uncertainties in the global trade environment, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu remains committed to maintaining the core values of the WTO and will continue to support the development and expansion of multilateral trade. As a firm supporter of the multilateral trading system, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will actively participate in regional economic integration through bilateral and multilateral trade and economic cooperation frameworks with a view to facilitate trade liberalization.

4.2. To fulfill its commitments, the government is striving to strengthen regulatory transparency, maintain environmental sustainability, enhance market openness, encourage fair competition, remove discriminatory trade barriers, improve the ease of doing business and investment, and facilitate regulatory harmonization in accordance with international standards. Currently, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's priority is to assume a greater role in international economic cooperation and provide assistance to developing and least developed country members.

4.3. In the past four years, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's deregulation policies have facilitated industrial development and made overall improvements to the domestic regulatory environment for doing business. As for maintaining environmental sustainability, the government has introduced the energy transition policy to reduce greenhouse gas emissions and act in accordance with the Paris Agreement to achieve its targets. The government has also engaged in reform policies to achieve the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) to implement equitable economic development.

4.4. Looking ahead, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu will maintain its pre-existing commitments on trade and investment liberalization and also take actions to support the multilateral trading system. In the increase in business uncertainty around the globe, we call upon all members of the WTO to redouble efforts to work together in order to achieve the very real benefits and increased welfare we can all derive from trade and investment liberalization that creates economic opportunity and growth for the citizens of the global community.

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