SUMMARY

Economic environment

1. The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as Chinese Taipei) remains one of the world's most important economic and trading entities. In 2012, it ranked 19th in the world in terms of the size of its GDP on a purchasing-power parity basis and was the 18th largest exporter and 18th largest importer. Possessing scant natural resources, the island economy imports virtually all its energy needs and raw materials; on the export side, its manufacturing operations satisfy a large proportion of global demand for semiconductors, flat panel displays, precision machine tools, and a wide range of other products.

2. Economic growth is heavily dependent on exports of goods and services, which are equivalent to some 73% of GDP. The sharp drop in global demand owing to the 2008-09 global economic crisis exposed the risks associated with dependence on a relatively limited range of manufactured exports, prompting the authorities to seek new engines of economic growth and diversify the economy.

3. After growing by 2.1% in 2013, the export-oriented economy is expected to benefit from firmer external demand in the medium term as OECD economies are likely to post stronger rates of expansion. The economy's vulnerability to external demand volatility represents the main risk in the medium term. The government's fiscal position means that it has limited resources with which to combat fluctuations in external demand.

4. The economy has become increasingly linked with China and the government is expected to further develop these links and liberalize cross-Strait economic relations, in particular through negotiations under the Economic Cooperation Framework Agreement (ECFA). The ECFA should boost services-sector growth thanks to increased tourism from China due to the introduction of direct flights between the two territories. Increasing tourist arrivals are expected to support employment, thus encouraging household consumption to continue as the main growth driver.

5. With competitive advantages in the information technology manufacturing industries, Chinese Taipei is highly competitive and has development potential, according to several world competitiveness reports released in recent years. Nevertheless, the government faces significant economic challenges and has set out a programme of economic reforms: signing free-trade agreements; reforming its taxation, land regulation, services sector, and health system; liberalizing cross-Straits economic policies and pursuing structural reforms notably the Economic Power-Up Plan and the launching of the Free Economic Pilot Zone Plan.

6. Chinese Taipei remains a net investor abroad with outbound FDI flows almost treble the amount of inbound direct investment. China is by far the main destination for capital outflows. Inbound direct investment as a share of GDP remains low by regional standards even though most sectors are open to inbound FDI.

Trade policy framework

7. Trade policy formulation and implementation have remained largely unchanged with the Ministry of Economic Affairs taking the lead administrative role. High level policy coordination is assured by the Committee of Global Economic and Trade Strategy chaired by the premier.

8. The broad trade policy objectives of Chinese Taipei continue to be focused on its further integration into the global economy through its active participation in the WTO and, increasingly, the negotiation of free-trade agreements and economic-cooperation agreements, the strengthening of trade facilitation and promotion activities, and the reduction of trade barriers in overseas markets. Since the signing of the ECFA with China in 2010, the government has looked to negotiate trade deals with countries that do not recognize it diplomatically, its first successes in this regard being the economic cooperation agreements signed with New Zealand and with Singapore in 2013. Similar agreements with other economies are likely to follow in the medium term and the government is interested in joining the U.S.-led Trans-Pacific Partnership (TPP) as well as the ASEAN-backed Regional Comprehensive Economic Partnership (RCEP). The prospect of

further FTAs should support attempts to reform and liberalize the domestic economy over the next few years.

Main trade policy developments

9. The tariff remains Chinese Taipei's main trade policy instrument, accounting for around 5% of total tax revenue. The contribution of trade-related taxes (including business tax, commodity tax, and tobacco and alcohol tax) to total tax revenue increased from 22.8% in 2009 to 26.8% in 2013; business tax consistently accounted for two thirds of total trade-related tax during the review period.

10. The tariff schedule has barely changed since the previous Review. It consists of *ad valorem* duties, specific duties, and alternate duties. In 2013, *ad valorem* rates covered 98.2% of all tariff lines, enhancing the transparency of the tariff structure. However, there are still 150 rate bands: 86 *ad valorem*; 16 specific; and 48 alternate rates. The tariff thus remains relatively complex, involving a multiplicity of rates. Non-*ad valorem* duties, in particular in agriculture, tend to conceal relatively high *ad valorem* equivalents (AVEs).

11. The 2013 tariff comprised 8,728 lines at the eight-digit level: 30.2% of all tariff lines are duty free and 52.6% of lines have rates below 10%; 4.4% of lines are "nuisance" rates. The simple average applied MFN tariff rate, including the *ad valorem* equivalents (AVEs) of non-*ad valorem* tariff rates, was 7.8% in 2013, the same as in 2009 as no tariff cuts occurred during the review period. Based on the WTO definition, the average applied rate remained at 22.1% for agriculture, and at 5.0% for non-agricultural products. TRQs, mainly for agricultural items, dropped from 1.2% of tariff lines in 2009 to 0.8% in 2013. All tariff lines are bound. Applied rates are close to or coincide with their bound rates with a simple average bound tariff rate of 8.1%, which suggests broad predictability in the tariff.

12. Regarding trade facilitation, Customs has implemented a single window system to accelerate customs clearance and has introduced an authorized economic operator scheme to facilitate procedures for traders meeting certain requirements. Since the 2010 Review, Chinese Taipei has increased the scope of its import bans from 63 ten-digit HS items to 70 items. There are no QRs although prohibitions are in place for inbound cross-Strait trade involving 2,172 tariff lines, down from 2,243 tariff lines in 2009 for both security and commercial reasons.

13. The legislative and institutional framework for contingency measures remained largely unchanged during the period under review. Chinese Taipei has applied a total of 12 anti-dumping (AD) measures since 2003, affecting mainly the steel, textile, and chemical industries. It did not resort to countervailing or safeguard measures during the review period but maintained a number of AD measures. Special safeguards are applied in agriculture.

14. There have been no significant changes to the government procurement regime. The percentage of the total value added awarded to non-local suppliers fell from 28% in 2008 to 10.6% in 2009, but rose again to 26.5% in 2012. GPA membership has affected the operation of the government procurement regime due to the lengthened time-limit for tendering. Chinese Taipei participated in and contributed to the renegotiated GPA, which entered into force on 6 April 2014. According to the authorities, this should add market-access opportunities of NT$3 billion annually.

15. Different types of assistance, including subsidies for production and therefore trade, have continued to be provided for agricultural, fisheries, and industrial products and activities. Following the phase-out of tax incentives under the Statute for Upgrading Industries, a new incentive was introduced under the Statute for Innovative Industries to support innovation and R&D activities.

16. Government-owned enterprises continue to be dominant in several sectors, notably in electricity generation, petroleum, postal services, utilities, telecoms, banking, and land transport. The privatization process, which began in 1992, is currently suspended or under re-evaluation, except with regard to the aerospace sector. Trading activities of government-owned enterprises involve, *inter alia*, rice, the most important crop.

17. Regarding export measures, the government continues to maintain prohibitions and licensing requirements for certain exports mainly on grounds of security, public safety and environmental protection. The government also continues to provide tariff exemption, duty drawback, and the facilities and advantages of free zones. The export processing zones (EPZs) and free trade zones (FTZs) offer similar incentives for enterprises. Businesses allowed to operate in FTZs include trading, collecting, transhipment, forwarding, customs clearance, assembling, packaging, repair, manufacturing, testing, and technological services. Business allowed to operate in EPZs include manufacturing, financial services, management services, and information and communication. The authorities state that FTZs mainly aim at developing a global logistics industry, while EPZs focus on promoting investment and developing industries. In addition to exemption from import duties, imports to EPZs and FTZs are exempt from other indirect taxes and charges collected at the border.

18. There have been significant changes to the competition policy framework in terms of amendments in 2011 to the Fair Trade Act and the granting of independent status to the Fair Trade Commission in 2012. Certain activities such as import cartels may be exempted from the application of the Fair Trade Law. Price controls apply to some utility services, including energy and telecom services, and a price stabilization committee monitors prices of certain commodities and products with a view to coordinating their supply and demand when necessary.

19. There have been a number of legislative changes to the IPR-related legislation: the Copyright Act was amended in 2010 and 2014, the Copyright Intermediary Organization Act was amended in 2010, the new Trademark Act went into force in 2012, the Patent Act was most recently amended in 2014, and amendments were made to the Trade Secret Act in 2013. The authorities have been making efforts to shorten the examination process for patents. On enforcement, cases involving imported commodities infringing trademarks and copyright seem to have been declining. The authorities recognize IPR protection as an essential contribution to economic development and overall competitiveness, as well as to efforts in attracting foreign investment. IPR enforcement at the border is conducted by Customs, which may suspend *ex officio* the release of goods suspected of infringing IPRs.

20. The SPS and standards regimes remained largely unchanged during the review period. Products subject to mandatory technical regulations are subject to commodity inspection for conformity through market surveillance operations rather than using prior entry controls. SPS border inspection procedures have been streamlined. Domestic standards (including national and professional standards) are voluntary, except those designated as technical regulations. The standards policy is intended to promote standardization; to pursue quality improvement for products, processes, and services; to increase productivity; and to ensure adequacy of production, transportation, marketing, and consumption so as to promote public safety.

21. According to the authorities, all technical regulations are aligned with international standards. Technical regulations, which form the basis for issuance of conformity certificates, are mandatory and applied mainly to electrical products, chemical products, machinery, and agricultural products. Products subject to technical regulations must undergo a commodity inspection for conformity before they are placed on the market. Inspections are required for imported, exported, and domestically produced goods. As of February 2014, in addition to 1,853 agricultural and fishery products, 1,137 commodities were subject to mandatory inspections; among which 756 chemical products and 381 mechanical, electrical, and electronic products. The authorities maintain a website, available to the public, for enquiries on products subject to commodity inspection.

Sectoral policy developments

22. The structure of the economy is virtually unchanged since the previous Review. Agriculture accounts for less than 2% of GDP but despite its limited and deceasing role in the economy, continues to be a major recipient of government assistance, including border protection and domestic support. There has been no significant change to the legislative and institutional framework of the agriculture sector since the previous Review. Chinese Taipei relies heavily on imported food and has a trade deficit in food products. In terms of the total value of production, the main subsectors are fruits, pig rearing, and vegetables. Rice, while representing a limited share of the total value of agricultural production, continues to be the major recipient of government assistance, including border protection through tariffs, tariff quotas, special safeguard

measures, state trading arrangements, as well as domestic support including direct payments, price support, and interest subsidies. The average applied MFN tariff for agricultural products (WTO definition), including AVEs, is 22.1%, the same as in 2010, compared to 5% for non-agricultural products.

23. The economy relies heavily on energy imports with fuels accounting for over 25% of the overall import bill in 2013, up from 21% in 2009, and 98% of the total energy supply is imported. Import tariffs on energy products are relatively low with an average tariff of 1.5%. Licensing is required for the import and/or export of some energy products. Subsidies have also been provided to encourage the establishment and operation of petroleum facilities in mountain and offshore island areas.

24. During the review period, manufacturing accounted, on average, for a quarter of GDP, and around 88% of merchandize exports. Despite the government's aim to optimize and restructure manufacturing industries, it appears to have been unable to sufficiently counter developments such as excessive concentration on ICT, relatively low value-added and insufficient product innovation.

25. Services remain the biggest sector in the economy, accounting for about 66% of GDP and 59% of employment. The government identified certain services sectors as "key" industries as the main focus for further development. Despite this, there have been no significant changes in the legislative or institutional framework in the main services sectors, and there have been no significant liberalization measures to further open market access to non-local service suppliers.

26. Chinese Taipei's GATS commitments cover about 120 of the roughly 160 services subsectors. It lists MFN treatment exemptions for the acquisition of land and air transport services, which are to be regulated on the basis of reciprocal treatment and/or bilateral arrangements. Market-access limitations concern, *inter alia*, financial services (including banking, insurance, and asset management), telecommunications (including satellite communications, land-based mobile communications, radio, and TV), and some professional services (such as legal services, accounting, and taxation).

27. The government has selected ten key services industries, and other industries, as the main focus, to promote its industrial development policy. The services industries are: medical tourism, music and digital content, international logistics, fundraising for high-tech and innovation-oriented industries, urban renewal, international promotion of its cuisine, the MICE (meetings, incentives, conferencing, and exhibition) industry, WiMAX technology, Chinese-language e-commerce, and expanded recruitment of overseas students. A number of key strategies were set out in the action plans for these industries, including developing international markets, cultivating talent with foreign language and international marketing expertise, and providing loans, guidance, and assistance for overseas market expansion.

28. Among significant subsector developments, the telecommunication sector has expanded rapidly, at an annual average rate of 20% during the review period, roughly ten times that of the GDP growth rate. Total revenue from telecommunication services accounted for about 3% of GDP in 2013, of which mobile services represented the largest share. The tourism sector has also been developing fast, and is one of the government-designated key emerging industries to boost economic development. In 2012, there were 7.3 million international travellers, an increase of 20% from 2011. The largest source of arrivals was China, followed by Japan, and Hong Kong, China. The fast growth of tourism reflects, among other things, the increase of cross-Straits flights, the opening up to groups and independent visitors from China, and the launch of an open skies regime with Japan and with the Republic of Korea. In financial services, government shares in total banking assets increased from 52% to 59% during the review period. The banking sector is characterized by over-banking with over 400 institutions classified as banks. Only 39 are commercial banks but these hold 76% of total banking assets.