SUMMARY

1. Since its previous Trade Policy Review in 2014, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu's (Chinese Taipei) relatively strong fundamentals and well developed outward-looking economy have helped maintain macro-financial stability and ensure the resilience of its export-led economy. During the review period, annual GDP growth ranged from 0.8% (2015) to 4% (2014), and its annual average rate for the period 2014-17 stood at 2.3%, a major slowdown compared to previous performance (averaging 4.3% over 2002-13). Monetary and fiscal stimulus measures are being used to spur economic recovery. Despite some innovation- and labour-related concerns, Chinese Taipei has maintained its position among the world's most competitive economies, with among the highest living standards, while registering a slight decline in income inequality. Weaknesses in some areas are being addressed via ongoing reforms. Whereas inflation evolved cyclically (0.6% in 2017), the unemployment rate dropped progressively (3.8% in 2017).

2. During the review period, trade and trade-related structural reforms (e.g. in the areas of trade facilitation, taxation, competition policy and intellectual property rights) were undertaken. Following a slowdown in 2015, both labour and total factor productivity increased in 2016-17 largely due to a rise in total production accompanied by a decrease in the number of working hours, thereby improving Chinese Taipei's international competitiveness. Since 2014, a loose monetary policy, involving four policy rate cuts from 1.875% to 1.375%, has provided a monetary stimulus to growth and helped to build a stable financial environment.

3. Chinese Taipei's managed floating exchange rate regime has allowed for exchange rate flexibility and foreign exchange intervention, thus helping to diminish or prevent speculative attacks. During most of the review period, the nominal exchange rate depreciated (except in 2017) – as did the real effective exchange rate, partly due to the strengthening of the US dollar. The current account registered a larger overall surplus, averaging 13.5% of GDP in the period 2014-17 compared to 8.6% over the period 2010-13, *inter alia*, reflecting weak internal demand and falling global oil prices. Foreign exchange reserves have increased steadily mainly due to their management returns. Gross external debt decreased from 33.5% of GDP in 2014 to 32.5% in 2016.

4. The openness of the Chinese Taipei economy to international trade, and its integration into the world economy and global value chains continued to be reflected by the steadily high ratio of its trade (exports plus imports) in goods and services to GDP. This stood at 117.7% in 2017, though lower than in 2014 partly due to weaker global demand. International trade and inbound direct investment trends reflect the continuous importance of Asia-Pacific as Chinese Taipei's main market and supplier, with China, Japan, the United States and the European Union remaining its major individual trading partners, whereas its main inbound direct investment partners were: the European Union; Hong Kong, China; and Japan. Chinese Taipei continues to encourage investment, through incentives and facilitation measures, in order to provide a new engine for economic growth. In 2018, Chinese Taipei's negative list containing investment prohibitions and restrictions was amended to allow overseas investment in ship leasing services and the cultivation of certain crops. Consideration is being given to removing a pre-investment screening review requirement and replacing it with a post-investment registration mechanism.

5. Since 2014, the overall structure and functions of the executive, legislature and judiciary of Chinese Taipei have remained broadly unchanged. However, a restructuring and streamlining of the executive branch has been ongoing with a view to increasing its flexibility and effectiveness; this has included the creation of a development council responsible for planning and supervising development policies. In addition to Chinese Taipei's development plan for the period 2017-2020, key economic strategies being implemented to drive innovation, promote regional cooperation and meet long-term infrastructural needs are respectively: the 5+2 Industrial Innovation Plan, the New Southbound Policy and the Forward-Looking Infrastructure Development Programme.

6. Chinese Taipei's trade policy continues to be based on the premise that trade openness, global and regional connectivity, economic growth and performance, living standards and innovation are strongly linked. It continues to pursue a combined unilateral, bilateral, regional and multilateral approach to trade policy. Chinese Taipei currently has RTAs in force with nine economies; those entering into force during this review period were RTAs with Singapore and New Zealand, covering goods and services, and a cooperation agreement with Paraguay. It

continues to offer non-reciprocal preferences to all least-developed countries. Since 2014, it participated as a complainant in three new WTO dispute settlement cases and reserved its third party rights in 22 cases.

7. Chinese Taipei has maintained a strong record of notifications to the WTO, although an up-to-date notification on domestic support to agriculture is pending. New measures have been taken to foster greater public participation in, and transparency of, policy formulation through the establishment of an online public policy platform and the introduction of deadlines for responses by the public sector to stakeholder comments. Efforts to improve the business environment, which is already highly ranked according to World Bank indicators, include enacted or planned legal reforms to: relax restrictions on the recruitment of overseas professionals; support SMEs; and create a friendlier environment for start-ups and entrepreneurs.

8. The general thrust of Chinese Taipei's trade policy has remained relatively unchanged during the period under review. The tariff remains one of the main trade policy instruments and a significant source of tax revenue (5.2% of total tax revenue in 2016). Although over 98% of tariff lines are *ad valorem*, and therefore transparent, the tariff involves a multiplicity of rates (92 *ad valorem* duties, 42 alternate duties, and 16 specific duties), the same as in 2013 but differently allocated. As a result of a reduction of average *ad valorem* equivalent (AVEs) rates, the implementation of the expansion of the Information Technology Agreement (ITA) and tariff nomenclature changes, the simple average applied MFN tariff rate was slightly reduced from 7.8% in 2013 to 7.2% in 2018. Tariff protection varies substantially across and within sectors averaging 17.8% for agricultural products and 5.1% for industrial goods in 2018 (WTO definitions). Peak tariff rates continue to apply to agriculture and range from zero to 1,059.6% (betel nuts); as in 2013, the majority of rates (81.2%) are at 10% or below. Under its multilateral agricultural market-access commitments, Chinese Taipei applies tariff-rate quotas (TRQs) whose high out-of-quota rates make, in effect, certain imports almost prohibitive; during the review period, their average fill ratio ranged from 47.1% in 2015 to 56.5% in 2016. To accelerate industrial development and accommodate domestic supply and demand, industrial raw materials, staple goods and daily necessities continued to benefit from tariff reduction or exemption. All tariff rates/lines are bound and binding commitments relating to the ITA expansion are to be fully implemented by 2021; the average gap of 0.3 percentage points between applied and bound MFN rates suggests high predictability in the tariff. Efforts to expand RTAs contributed to the reduction of the simple average preferential tariff rate from half to less than a third of the MFN average applied tariff rate.

9. During the review period, Chinese Taipei's trade facilitation developments included the ratification of the WTO Trade Facilitation Agreement (TFA) in 2015, the adoption of amendments clarifying relevant legislation (Customs Act), the enhancement of integration of online operations with the Customs-Port-Trade Single Window, facilitation in the exchange of certificates of origin, and the introduction of expeditious customs clearance services. The customs valuation regime and its main method used, the transaction value, have remained unchanged; an advance ruling system on non-preferential rules of origin has been enforced as from 2016. In addition to other charges, a 0.04% Trade Promotion Service Fee continues to be collected on incoming and outgoing merchandise; harbour dues for overseas routes remain 60% higher than for domestic routes.

10. Import prohibitions, restrictions and licensing remain in place to, *inter alia*, protect public morals, human life or health as well as to enforce obligations under international agreements. The scope of import bans rose from 70 ten-digit HS items (2013) to 91 (2018); the coverage of import permits increased to 131 items (126 in 2014). During the review period, the legislative framework governing anti-dumping and countervailing measures was revised in certain areas, and anti-dumping action remained relatively stable. Chinese Taipei continued to use anti-dumping provisions, mainly against imports of carbon steel plate originating mostly in Asia; it initiated 11 anti-dumping investigations (2013-16) and had 19 final measures in effect as at end-2017. Although no countervailing measures have been taken so far, in April 2018 Chinese Taipei initiated a countervailing duty investigation against certain steel products from China. Price- or volume-triggered special safeguard (SSG) action has been taken against imports of several agricultural product categories.

11. Chinese Taipei continued not to levy any taxes on outgoing merchandise. During the review period, the scope of export prohibitions was expanded; the coverage of licensing and approvals remains relatively important. Customs duty and internal taxes paid on incoming raw materials

used in exports continue to be refundable. Indirect tax incentives for enterprises operating in export processing and free trade zones remained in place. Export finance, guarantees and credit insurance at preferential terms have assisted manufacturers in expanding exports *inter alia* to the ASEAN, South Asia, Australia, and New Zealand markets in line with the New Southbound Policy objectives.

12. Measures involving various tax and non-tax concessions such as grants and low-interest loans continued to support production and trade of certain agricultural, fishing, oil and gas and manufacturing activities, as well as to *inter alia* encourage SMEs, R&D, science-based activities, the reasonable operation of enterprises, private participation in infrastructure projects and regional development. Chinese Taipei's relatively complex indirect tax structure remains unchanged and certain tax rates were raised (e.g. non-value-added business tax, tobacco tax and profit seeking enterprise income tax). As from 2017, overseas companies undertaking online sales of services to local consumers have been required to register as businesses, obtain a tax identity number and file VAT in Chinese Taipei.

13. The number of Chinese Taipei standards has been reduced over the review period and those adopted in technical regulations (mandatory) stood at 2.1% (2017) of all standards; 99% of standards remain equivalent to international ones. The regulatory framework governing SPS and related measures was amended in several areas including quarantine. The quarantine fee for incoming and outgoing animals, plants, wheat, barley, corn, and soy beans continues to be charged on an *ad valorem* basis. A traceability label system for local agricultural products was introduced. During the review period, Chinese Taipei was subject to three TBT-related specific trade concerns.

14. Public-sector involvement in the economy persists as privatization efforts remain widely opposed. Public-sector participation continues to be spread over several activities including rice, sugar, tobacco and liquor, petroleum, aerospace, shipbuilding, electricity, water supply, banking and finance, engineering, and postal services. Market monopolies are retained in electricity, water supply and postal services. Chinese Taipei is a member of the WTO Agreement on Government Procurement (GPA), and continues to use non-GPA covered public procurement to support SMEs, environment-friendly products, indigenous suppliers and people with disabilities; according to the authorities, price preferences available to local suppliers for contracts not subject to GPA commitments have never been applied. Changes were made to the main public procurement legislation and procurement remains decentralized. The share of non-local suppliers in the total value awarded varied and peaked at 25.5% in 2017, while their share in the number of contracts awarded was relatively stable. In value terms, open tendering remains by far the most used procurement method (79.6%) followed by limited tendering (14.2%).

15. The competition policy regulatory framework, which covers all activities and enterprises (including publicly owned enterprises) except those subject to sector-specific laws, has been subject to the widest in range, largest in scale and most influential reforms since its entry into force. They included: the Fair Trade Commission's institutional independence and exclusive responsibility for enforcement; the distinction of free competition issues from fair competition issues; the threshold in the definition of monopolistic enterprises; the revision of merger regulations and investigation rules; and the establishment of an anti-trust fund. In mid-2015, the largest fine ever was imposed for abuse of monopolistic status. Price monitoring and/or stabilization measures *inter alia* on energy products, construction materials, bulk commodities, pharmaceuticals and telecom services remain in place. Consumers' rights were generally strengthened following amendments in the consumer protection legislation.

16. Chinese Taipei's intellectual property rights legislation has been strengthened with amendments in areas such as patents, trademarks and copyrights including certain alignments with international provisions, whereas work is under way in other areas. E-filing of patents and trademarks has resulted in fewer complications and delays. Cooperation with certain overseas intellectual property offices was reinforced through specific agreements. Overall, Chinese Taipei's IPR enforcement system, considered among the most efficient in the region, continued to ensure protection to rights holders.

17. The agriculture sector continues to account for a small share of GDP (1.7%) and employment (4.9%), and most food is imported. Chinese Taipei's overall target of 40% food self-sufficiency suffered a setback in 2015 due to climatic conditions. Production of various agricultural

items remains protected by high tariffs (up to 1,059.6%), SSGs and various support mechanisms. Mitigating and disaster relief programmes are also available. While programmes continue to encourage crop diversification and import substitution, according to the authorities, new agricultural policy goals aim to create a multi-functional agricultural sector, rather than merely providing subsidies as in the past. Chinese Taipei offers an environmental payment option to rice farmers to encourage a movement away from price support for rice and no longer purchases tobacco at guaranteed prices. Assistance to increase productivity has also been available through new programmes to introduce new technology into the sector. Export subsidies are not provided. Key challenges facing the sector include fragmented farms and ageing farmers, low incomes in the sector and vulnerability to natural disasters.

18. Over 60% of the surface area is forested, with reforestation efforts having gradually borne fruit over the past decades. The vast majority of forest is publicly owned. Initiatives to combat illegal logging and promote the utilization of locally produced timber have been taken. Public sector support in fisheries includes grants to fishermen to reduce their fishing capacities, and insurance policy contributions. Tariffs applied to fish imports average 20.4%. There were several legislative, regulatory and institutional developments over the review period, largely to strengthen Chinese Taipei's framework for preventing illegal, unreported and unregulated fishing. Farmers benefit from free water and both farmers and fishermen are eligible for reduced-price gasoline and diesel.

19. The mining and quarrying sector contributes a relatively small share to GDP and employment. All mineral wealth is publicly owned, with exploitation being undertaken under concession agreements. Chinese Taipei continues to import nearly 98% of its energy supply and as such remains vulnerable to global commodity price movements. An ambitious reform programme aims, *inter alia*, to increase the share of locally produced renewable energy in the total energy mix to 20%, to transition to use of cleaner energy, and to end nuclear generation by 2025. A recent amendment to the Electricity Act has liberalized the electricity sales market for electricity generated from renewable sources for the first time. Incentives are being provided, largely through feed-in tariffs, to encourage renewable energy generation. An electricity price formula and a price stabilization fund are aimed at mitigating the impact of price volatility in the short term. Publicly owned enterprises continue to play a significant role in the sector.

20. Manufacturing remains a pillar of Chinese Taipei's economy, accounting for around 30% of GDP, close to 27% of employment and more than 90% of merchandise exports. The main exports are electronic integrated circuits and micro assemblies and various chemical and basic metal products. Chinese Taipei envisages its industry being characterized by cross-industry technology integration in the future and supporting strategies are being put in place. Tariffs on manufactured goods range from zero to 30%; the highest rates apply to certain large passenger and commercial vehicles, vehicle parts and motorcycles. A wide range of general and sector-specific incentives (both fiscal and non-fiscal) are available to businesses.

21. The share of services in GDP and its share in total employment remained relatively stable during the period under review, and were 60% and 59.3% respectively in 2017. Despite a considerable decline in its service trade deficit, Chinese Taipei continues to be a net importer of services. Public-sector participation in the banking sector remains significant. During the review period, regulatory reforms in banking, *inter alia,* have covered improving banks' liquidity risk profile, adhering to international norms, and strengthening the framework to combat money laundering and terrorism financing. Legal reforms have aimed, *inter alia,* to strengthen supervision of the insurance sector and combat illegal activities.

22. Chinese Taipei's mobile phone and mobile broadband penetration rates remain high. There remain limits on overseas investment in certain types of telecommunications companies. A partially publicly owned telecom company continues to retain a dominant position in several market segments.

23. Public sector involvement in the transport sector remains significant; all airports are publicly owned and managed, and Chinese Taipei retains an equity stake in one airline and one shipping company. Inbound investment restrictions are in place with respect to ownership of locally registered airlines and ships. Only locally registered ships and airlines may provide cabotage services. Restrictions on inbound investment in certain road transport businesses remain in place.

24. The tourism sector is continuing to develop rapidly. Efforts are being made to diversify markets for overseas visitors and to improve and diversify Chinese Taipei's tourism offering. The sector remains open to overseas investment. New subsidy programmes have been introduced to encourage the development of the cruise and fly-cruise segments as well as to encourage visits from overseas incentive tour groups.

25. Chinese Taipei's real GDP is forecast to slow down before gaining momentum in the medium run. Despite its solid fundamentals, downside risks to the economic outlook remain. Notwithstanding its existing buffers, the economy remains vulnerable to exogenous risks such as those relating to developments in the global economic outlook and international trade, and regional geopolitical developments. Future prosperity and sustainable growth depend on implementing total factor productivity-enhancing structural reforms, especially those aimed at supporting the continuing shift of the economy from industry to services, with a greater focus on raising quality and increasing value added within this sector. These and related reforms, including tax, privatization, labour market and continued regulatory reforms, would increase the flexibility of the Chinese Taipei economy and its ability to respond to growing external competition, thus enabling it to continue meeting its economic and welfare objectives including inclusive growth and a narrower wealth divide.