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Analysis: Tempting Taiwan

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A new era of improved political and economic relations with China has boosted Taiwan's equity market, in what some now reference as the "Chaiwan" effect. Icy ties have begun to thaw since Taiwan President Ma Ying-jeou took office last May and pledged to open dialogue.

Speaking at an investment forum in London **today**, Dr Shive Chi, the chairman of the Taiwan Stock Exchange (TWSE), encouraged the principle: "Taiwanese people are rich, and the Chinese are richer. We want to help our rich brothers. Remember, we in Taiwan can speak better Chinese than anyone else in the world… besides in China, of course".

Closer bilateral economic relations are apparent in capital markets in the form of relaxed barriers to capital inflows from China. Investment is now allowed in Taiwanese real estate, real estate investment trusts (Reits), and in the manufacturing sector, and an expanded range of direct and indirect investments can be made in services and infrastructure.

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Taiwan markets are optimistic, with the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) rising over 40% from the start of the year.

Despite the optimism, some analysts point to an inherent danger in the rosy picture. Chinese authorities may be deliberately encouraging imports from Taiwan to make obvious the island's dependence on the mainland, and to highlight the constructive effect of closer political relations.

Nonetheless, recent merger and acquisition (M&A) and procurement deals between the two reflect the "Chaiwan" principle.

In May, a mainland delegation including Haier group, TCL and Midea placed more than $2.2 billion (£1.3 billion) of orders for electronic products. In June, nine delegations committed to place $4.4 billion for TV panel procurement for this year.

Last month, Sinopec and Taiwan CPC agreed to jointly develop an offshore oil block in Australia. For decades Chinese companies were not allowed to invest in Taiwan, turning their attention to the likes of Hong Kong and Singapore. Now, China and Taiwan have agreed to pursue the Economic Coordination Framework Agreement (ECFA).

"The key word is 'framework,'" says Chi, "and we hope to sign-off by early next year." *(article continues below)*

To encourage the return of overseas capital, the government has authorised significant cuts in inheritance and gift taxes from over 50% to 10%. There are also plans to offer tax breaks for domestic investors who transfer overseas-based savings back to Taiwan.

"The Taiwan economy is famous for excess saving and carrying a trade surplus over the past four decades," says Chi. "The result is a large savings abroad; at present it is estimated in the range of $220 billion. We welcome Taiwanese companies coming home."

Other steps are being taken to increase the ease of access for American, British and European investors.

Peter Chiu, the senior executive vice-president of Taiwan Futures Exchange, says: "We plan to introduce global trading standards which include block trading, lower fees, and extending trading hours to include 9.45pm-12.00am to cover major European and American trading hours. From 2013, all listed companies must apply international accounting standards."

The FTSE has worked with the TWSE over the past four years to encourage reform, and to transform the emerging into a developed market. An outstanding issue is the inability to trade in New Taiwan Dollars ($NT) 24 hours a day, seven days a week.

"The $NT is not fully convertible, and we have to consider the stability of the $NT," says Chiu. "But we have spoken to the hard-to-convince central bank. We have a willingness to improve the framework for international investors."

According to Rosemary Wang, the deputy director general of Securities and Futures Bureau, Financial Supervisory Commission, the "Chaiwan" concept was originally coined by Koreans, referencing a distinct competitive advantage.

"Well, they are correct in saying there is an advantage," says Wang light-heartedly. "They say that in Taiwan, we speak better Mandarin than those in Hong Kong, better English than the Japanese, and better Japanese than the Koreans!"

Boisterous in the 1990s, when ranked as high as the 14th largest capital market, Taiwan has suffered through the turn of the millennium and fallen out of the top 25.