

**TAIWAN LOOKS TO EXPANDING ITS
FINANCIAL BUSINESS IN CHINA**

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Executive Summary

1. As early as in the 1990s, about one decade earlier than the relaxation of rules, Taiwanese banks and securities firms had already set up representative offices in Hong Kong to serve their Taiwanese clients with manufacturing interests in China.
2. Between 1991 and 2012, nearly 80% of Taiwan's outward investment in the manufacturing sector went to China. Mainland-based Taiwanese companies now numbered over 70,000. Taiwanese financial firms would lose many of their Taiwanese customers to other foreign firms if they could not have direct access to China's financial market.
3. Taiwan's sluggish economy in recent years has also made the further deregulation of outward investment in China's financial sector an urgent necessity. The interest rate spread for Taiwanese banks had eroded from 2.8% in 2008 to 1.5% in 2012, which is half of China's current 3%.
4. The insurance sector suffered from not only the low interest rate and the resultant lower investment return, but also a saturated market. Its insurance premium as a percentage of GDP was 17% in 2011, the highest in the world.
5. The Taiwanese market for securities firms has also shrunk as many local companies with investments in China have raised financial capital in Hong Kong's stock market. The share volume traded in Taiwan's stock market and the revenue generated from brokerage (52% of securities firms' total revenue) have declined as a result.
6. The fragmentation in the financial sector remains largely unresolved despite the country's implementation of the 2001 and 2004 financial reforms. In the face of such difficulties, the Ma Ying-jeou administration tends to actively pursue cross-strait rapprochement to satisfy Taiwan financial sector's development needs.

7. As a result of policy support, Taiwan's investment in China's financial sector increased swiftly from US\$0.5 billion in 2010 to US\$1.7 billion in 2012. Between 2010 and 2012, around 27% to 45% of Taiwan's total outward investment in the financial sector went to China. This is a sharp increase compared to only 3% from 2002 to 2007.
8. Most of Taiwanese financial firms set up branch offices in Shanghai, Suzhou (Jiangsu province) and Shenzhen (Guangdong province) where many Taiwanese enterprises cluster and where GDP per capita is higher. In particular Shanghai's potential to become a regional financial centre makes it the first choice for Taiwanese financial firms to put down roots there.
9. In the long term, revenue growth of Taiwan's financial firms will come from its mainland Chinese customers. It is estimated that China's retail banking and life insurance market will become the second largest in the world by 2015 and 2020 respectively. Its stock market is also likely to be the world largest in terms of stock market capitalization by 2030.
10. In spite of the great business potential, the credit information in China has yet to be transparent and a complete regulatory framework is still in development. Taiwanese firms may achieve more business success via cooperation with local Chinese and foreign firms in this emerging market.