The Implications of Australia’s Economic Integration into Asia and Deepening Partnership with Taiwan

October 2012

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15th October 2012.

Acknowledgement

I would like to thank Nofel Wahid, Research Analyst, at The Australian APEC Study Centre at RMIT University for his research and charting contributions to the writing of this report.
EXECUTIVE SUMMARY

Australia has strong economic linkages with the Asia-Pacific region due to its close proximity, the impressive growth of Asian economies and the pursuit of policies to engage with and in the region. Those reasons should ensure deepening and strengthening linkages.

The prospect of stronger Asian growth and economic development also brings challenges for Australia. The record terms-of-trade shock Australia experienced over recent years has resulted in major benefits, but it has also presented difficulties for non-commodity trade exposed sectors.

The challenge for different stakeholders ranging from Australian businesses to the Government is to participate and benefit in and from Asia’s economic rise. This requires a continuation of efforts to build strong and enduring economic links with the region that reflect Australia’s national interests – interests that are closely interwoven with those of regional neighbours.

Part of that process involves Australian business integrating more closely with Asian markets in ways that add value and increase national productivity in Australia and contribute to regional economic development.

More specifically, in the context of this report, there are growing opportunities for Australia and Taiwan to strengthen their relationship through higher levels of bilateral trade and investment, including collaboration in areas such as education, tourism, financial services, scientific research and development and in other forms of intellectual property creation.

Both economies have a strong dependency on China’s continuing economic growth. There are also prospects for developing even deeper trade and investment links with China. In Australia’s case, this is likely through higher commodity and services trade, while the signing of the Economic Cooperation Framework Agreement (ECFA) in 2010 has already opened new avenues for Taiwan.

Managing the opportunities presented by the profound changes underway in the Asia-Pacific is a major challenge for all regional economies. Regional fora such as APEC where member
economies meet to discuss regional issues will play an important role. They provide a platform for the region to map out a shared future, and one of collective opportunity and prosperity.

SECTION 1: INTRODUCTION

This report provides an overview of Australia’s economic relationships and aspirations in the Asia-Pacific and stresses the relevance of regional arrangements that further Australia’s role in the region. The report also outlines Australia’s economic linkages with Taiwan and how those linkages might be further developed to the benefit of both Taiwan and Australia.

Both Taiwan and Australia have an increasing dependency on China’s continued economic growth, although this will moderate to some extent as the Chinese economy adjusts to a lower growth trajectory and major structural shifts from external trade-driven growth to more domestic sources. The bilateral economic relationship between Taiwan and Australia can be further strengthened by building on the complementarity of the existing economic relationship, as well as by pursuing policies that continue to open and liberalise markets, particularly in the agricultural sector in Taiwan. While Australia has been reforming its economic structures for decades, and Taiwan for a relatively shorter period, there are now few barriers to prevent a deepening and broadening of bilateral economic ties.

The pursuit of opportunities is essentially a matter for the private sector in both Taiwan and Australia to prosecute, and their interest in doing so will be depend on businesses risk assessments of the respective economies, especially in relation to trade and investment. Nevertheless, there are challenges to enhancing the bilateral relationship such as the uncertainty arising from the parlous state of the global economy affecting the outlook for trade and investment across-the-board.

While Australia’s ‘one China policy’ does set limits and conditions on the official bilateral relationship between Australia and Taiwan, that policy has not prevented Australian support for Taiwan’s membership of, for example, the World Trade Organisation (WTO), the Asian Development Bank (ADB) and Asia-Pacific Economic Cooperation (APEC). It also has not precluded the recognition of Australian-Taiwanese bilateral interests as expressed in a range of
bilateral notes on specific trade and services-related interests, as well as a note of understanding on an Investment Promotion Accord and on double taxation arrangements.

The negotiation of the Economic Cooperation Framework Agreement (ECFA) between China and Taiwan in 2010 is leading to increased trade and investment flows. It should pave the way for a significant deepening and broadening of economic relationship between China and Taiwan. In that sense, the concept of a ‘Greater China’ becoming a preeminent sub-regional economic bloc will gain momentum and contribute to regional economic growth and stability.

This report highlights areas of greater prospective trade and investment between Australia and Taiwan which could occur irrespective of the absence of, for the political reasons noted above, a formal government to government trade and investment agreement between the two. In a broader regional context, as members of APEC, Australia and Taiwan are pursuing measures to promote the Bogor goals of open trade and investment in the region. They are both strong advocates of APEC’s structural reform agenda, capacity building initiatives to strengthen policy and regulatory institutions as well as APEC’s regional initiatives for regional cooperation and economic integration. In addition, Taiwan and Australia can, and should, unilaterally pursue policies that will enhance their competitiveness domestically, in the region and globally. Specific and coordinated measures to promote economic linkages between businesses in both Taiwan and Australia should yield economic benefits to both. Such measures could arguably generate, in value terms, the same benefits to be derived from any formal economic agreement between them.

Ways could be explored to facilitate Taiwan’s participation in the Trans Pacific Partnership (TPP) negotiations – with an ultimate view to gain membership – in the context of China’s current strategic policies, assuming this acceptable to other TPP parties. Membership in the TPP would not only benefit Taiwan, but would also be of benefit to Greater China, Australia and the Asia-Pacific region as a whole.

The global outlook

Five years after the global financial crisis, the global economy is still in a state of great uncertainty. The United States economy is burdened by a weak housing recovery and a
prolonged household deleveraging process that is suppressing domestic demand and consumption, the main drivers of US growth. Not surprisingly then, US economic growth is still anaemic; the unemployment rate is high at 7.8 per cent. The US also faces considerable uncertainty over how presidential politics will affect the upcoming fiscal contraction stemming from the expiry of the ‘Bush tax cuts’, as well as automatic spending cuts legislated by the US Congress. The IMF has argued that a failure to defer the upcoming fiscal contraction will likely bring about a US recession that will undoubtedly undermine the global economy significantly, if not precipitate another global recession.

Although fears of a Euro Area breakup have abated in recent months, especially since the European Central Bank’s uncapped commitment to buy European sovereign debt from secondary markets, Europe is still in recession, and is expected to remain so for some time. The continued difficulty faced by European economies in managing their fiscal imbalances is expected to continue, limiting the prospect of any short to medium term recovery.

The impact on regional economies

The weak global economic outlook and its negative impacts on business and consumer confidence across-the-board pose considerable risks for trade-exposed Asian economies such as China, Australia and Taiwan. The US and EU are major trading partners for Asian economies and continued economic difficulties in western economies present significant development challenges for the Asia-Pacific region. GDP growth in ‘Developing Asia’ – which includes China, India and the ASEAN-5 economies – is forecast to moderate from 7.8 per cent in 2011 to 7.1 per cent in 2012, with the easing attributed to weak external demand from advanced economies.

4 See reference 2 above.
A slowdown in growth in the Asia-Pacific region puts pressure on the region’s external trade-reliant economies to structurally rebalance and find other sources of growth. Structural reforms are not costless, as is evident from China’s current economic slowdown. As the Chinese economy slowly transitions away from an external trade- and investment-driven growth model to one that emphasises growth of internal demand through higher consumption, it will present notable challenges for its regional economic partners, including Australia and Taiwan.

China is Australia’s largest trading partner; 27 per cent of Australia’s exports go to China, while 19 per cent of its imports come from China. And given that a large portion of Australia’s trade with China is commodity-based, Chinese structural reforms that dampen the demand for intermediate commodity inputs can have potentially far-reaching consequences for Australia.

China is Taiwan’s largest export destination with nearly 27 per cent of all Taiwanese exports going to China. In that respect, a Chinese slowdown is concerning to Taiwan.

**Regional institutions and their role**

International and regional institutions such as the WTO, APEC and ASEAN play an important role in addressing some of the issues affecting the Asia Pacific region. There are three major tracks of work that are of particular importance to the region. They are: i) efforts to resuscitate the WTO Doha Development by changing negotiating tactics from its earlier comprehensive approach, ii) promoting the concept of a trade and investment liberalisation agreement, the Trans Pacific Partnership, within the Asia-Pacific region and iii) the idea to develop and improve connectivity between financial markets in the Asia-Pacific region through the creation of the Asia-Pacific Financial Forum (APFF).

The TPP is an effort to develop a multilateral agreement that aims to liberalise trade and investment both between and within economies in the Asia-Pacific region. Its original signatories include Brunei, Chile, Singapore and New Zealand, with Australia, Malaysia, Peru, United States and Vietnam currently negotiating to enter the agreement. In addition, Canada, Mexico, Japan,

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5 Department of Foreign Affairs and Trade, Country fact sheet: Australia

6 Department of Foreign Affairs and Trade, Country fact sheet: Taiwan
the Philippines, South Korea and Taiwan have also expressed interest in the TPP. China’s approach to the TPP is unclear at this stage.

Work is also under consideration to promote greater financial market development and connectivity between regional economies in the Asia-Pacific. Financial market development not only promotes more trade and investment, but also has important productivity implications for economies. Greater market connectivity will enable capital to flow more efficiently and cost-effectively from regional economies with high savings to those with high investment needs. It will allow both savers and investors to access deeper and more liquid financial markets, enabling financial innovation that enhances productivity and growth in both the formal and informal sectors of the economy.

It is within this context that APEC Finance Ministers recently agreed to consider the merits of a proposal by the APEC Business Advisory Council (ABAC) to develop a platform, the Asia Pacific Finance Forum, through which to discuss subject of financial market connectivity in the Asia-Pacific.7

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7 Press release: ‘Australia to host international symposium on an integrated financial market for the Asia Pacific’, 31 August 2012.

SECTION 2: AUSTRALIA’S INTERNATIONAL TRADE AND INVESTMENT LINKAGES

International trade and investment makes a very important contribution to Australia’s economy. Australia’s total two-way trade (exports and imports) with the world totaled almost A$600 billion in 2011. At nearly A$312 billion, exports accounted for approximately 20 per cent of GDP. Commodities such as iron ore and coal were the main export items, making up nearly 60 per cent of total exports. And those commodity exports mostly went to 4 primary locations – China (40 per cent), Japan (20 per cent), South Korea (12 per cent) and India (9 per cent).

A private sector estimate indicates that Australia’s non-resource exports, which can be classified into 3 groups (rural merchandise, manufactured merchandise and services), have hardly grown in real domestic currency terms in recent years. This has been attributed to increased cost pressures resulting from the resources boom-led appreciation in the Australian dollar. The private sector source also noted that: ‘Australia’s stocks of investment in Asia have not increased in value since 2007, driven by low asset valuations and uncertainty about global economic growth.’

On the other hand, foreign investment into Australia rose by A$60 billion (3 per cent increase) in 2011, with foreign direct investment (FDI) inflows accounting for about half of that. Overseas investment from Australia grew by a lower margin of A$9 billion (1.4 per cent rise). Most notably, portfolio outflows in the form of purchases of overseas financial securities, which usually makes up about 40 per cent of total overseas investments, fell by more than A$5 billion as continued stress in international financial markets dampened the risk appetite of investors.

There is no doubt that a large proportion of FDI in Australia was directed towards the mining sector as commodity producers took advantage of the positive terms-of-trade shock by expanding capacity. Australia’s record terms-of-trade shock came about as a result of high economic growth.

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10 See reference above.
12 See reference above.
and rising urbanisation in Asian economies, leading to strong demand for Australian primary commodities used in construction and heavy industries, ranging from iron ore used to make steel to coal used to fire power plants. Australia’s success in avoiding a recession in the global financial crisis has been attributed, by-and-large, to the strong external demand from Asian economies.

However, these strong trade and investment linkages are not just a by-product of favourable macroeconomic trends emanating from Asia. Economic and trade policy reforms initiated in Australia in the 1980s, and sustained to date, has meant that Australia has one of the most open economies in the world that is attractive to foreign investors.

Box A: Australian trade policy objectives and principles

In April 2011, the Australian Government published a trade policy position paper listing the five principles underpinning the Government’s trade policy agenda. Those principles are:

• Unilateralism – Beneficial trade policies should be pursued in their own right, and should not depend on *quid pro quo* negotiations based on narrow perceptions of self-interest.

• Non-discrimination – Removal of protections offered to one country should also apply to others.

• Separation – Trade policy priorities should be separate from foreign policy objectives.

• Transparency – Public consensus and support for trade policies can only be achieved through increased transparency on Government policy objectives and trade negotiations.

• Indivisibility of trade and economic reforms – The Australian Government has the objective of undertaking reforms that are beneficial for the Australian economy, regardless of whether other countries follow suit.

The Government’s policy priorities

Those five principles play an important role in determining Australia’s trade policy priorities, as

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13 Department of Foreign Affairs and Trade, (2011), ‘Trading our way to more jobs and prosperity’, pp. 7 - 9

follows (in order of importance):

1. The Government’s highest trade policy priority is to conclude the on-going negotiations for the Trans-Pacific Partnership (TPP), which aims to eliminate or at least substantially reduces barriers to trade and investment between member nations.

2. Australia, in the longer term, continues to aspire to the formation of a Free Trade Area of the Asia-Pacific (FTAAP).

3. The Australian Government believes that a successful conclusion of the Doha Round negotiations will offer great economic benefits to all parties.

4. The Government is also pursuing bilateral free trade agreements (FTAs) and closer economic cooperation agreements with regional Asian economies, including Australia’s three major trading partners – China, Japan and South Korea.

The Australian Government’s preference for signing multilateral FTAs is also reflected in a recent decision to join 15 other ASEAN economies to launch negotiations to establish a new regional free trade area – to be known as the Regional Comprehensive Economic Partnership. Australian Trade Minister Dr Craig Emerson said at the launch of negotiations in Cambodia, ‘A Comprehensive Economic Partnership Agreement would help put Australian businesses in the right place at the right time – in the Asian Region in the Asian Century ... It would also head off concerns about developing a “noodle bowl” of overlapping trade agreements within the region.’

Source: Department of Foreign Affairs and Trade

APEC trade
APEC economies, especially Asian members, have experienced significant economic growth over the past few decades. Not surprisingly, economic growth has been coupled with strong growth in trade and investment, both between APEC member economies and with the rest of the world. Intra-APEC merchandise trade between members rose from just under US$3.5 trillion in 1995 to over US$11 trillion in 2011\(^\text{14}\), implying an annual average growth rate of about 8 per cent. Two-way trade between APEC member economies and the rest of the world grew even

faster – rising from US$4.7 trillion in 1995 to US$19.7 trillion in 2011, an annual average growth rate of 9.4 per cent (Chart 1). In addition, FDI flows between APEC economies and the world also experienced strong growth, rising from just US$350 billion in 1995 to over US$1.3 trillion by end-2010.

Chart 1: APEC two-way trade and investment

Looking at trade more closely, two-way merchandise trade between APEC economies and the world increased from US$3.9 trillion in 1994 to US$16.5 trillion in 2011, while services trade rose from US$0.9 trillion in 1994 to just over US$3.1 per cent in 2011 (Chart 2).

Chart 2: APEC merchandise and services trade

While these strong growth figures in APEC’s trade and investment flows are impressive, they are hardly surprising given the sustained rise of Asian economies as a manufacturing hub in the global supply chain. However, it is noteworthy that these growth trends have been sustained even
in the aftermath of both the Asian Financial Crisis and more recently, the global financial crisis. Although the global financial crisis had a significant impact on trade and investment globally, not just in APEC economies, the rebound in APEC economies has been sharp.

Australia’s trade with APEC

Australia has strong economic linkages with APEC with 72 per cent of its total two-way trade in 2011 being with member economies. The strength of this relationship has changed little over time, ranging from 69 per cent in 2000 to nearly 72 per cent in 2011. However, the composition of major trading partners within APEC shows major shifts. China has now become Australia’s largest trading partner, taking up 28 per cent of Australia’s two-way trade with APEC. Japan remains Australia’s second major trading partner, but it has lost some market share with its weighting falling from over 20 per cent in 2000 to about 17 per cent in 2011. The US relationship has also fallen relatively; from a 23% share in 2000 to 12% in 2011, and the EU’s weighting has fallen from 18 per cent in 2000 to just over 13.6 per cent.

Chart 3: Australia’s major APEC trading partners

Source: StatsAPEC, WTO, Author’s calculations.
Australia’s trade with Taiwan as a share of total APEC trade has also fallen from 4.8 per cent in 2000 to just over 3 per cent in 2010. This again reflects the fact that the composition of Australia’s trading partners in APEC has changed in the last decade as a result of Australia’s burgeoning trade relationship with China since the start of the mining boom in the early 2000s. However, the overall growth in trade with Asian members of APEC is a significant development reflecting the rising importance of emerging Asian economies for Australia. This has important implications for regional stakeholders, including Taiwan.
SECTION 3: THE AUSTRALIA-TAIWAN TRADE AND INVESTMENT RELATIONSHIP

Exports

Australia and Taiwan have a robust and important trade relationship, with Taiwan being Australia’s 5th largest export market. Australian exports to Taiwan increased notably in the last decade, rising from A$6 billion in 2000 to A$9.7 billion by the end of 2011.15 The trade in goods constitutes about 90 per cent of the total exports to Taiwan (Chart 4), mainly in the form of bulk commodities such as coal, iron ore, aluminium and copper which accounted for nearly A$6.5 billion of the A$9.1 billion worth of goods exported to Taiwan in 2011. In addition, Australia is also Taiwan’s 6th largest import source, with approximately 3.5 per cent of Taiwan’s imports coming from Australia.16

Chart 4: Australia’s exports to Taiwan

Imports

Australia imported nearly A$4.0 billion worth of goods and services from Taiwan in 2011, an increase of 2 per cent from the previous year. Similar to exports, the trade in goods makes up

15 See reference 10.
16 See reference 6.
nearly 95 per cent of total imports, with telecommunications equipment being the largest product category.

Overall, Australia’s two-way trade with Taiwan in 2011 amounted to A$13.6 billion, which is equivalent to 3.2 per cent of total two-way trade with APEC. Although this may appear to be relatively small compared to the volume of Australia’s trade with regional economies such as China, Japan and Korea, it is nonetheless significant given that Australia’s two-way trade with Indonesia is also equivalent to about 3.5 per cent of two-way APEC trade.

The most recent trade policy review of Taiwan conducted by the World Trade Organisation (WTO) showed that tariffs make up a declining share of around 4.5% of total tax revenue. 17 52.7 per cent of all tariff lines were subject to applied MFN tariffs of no greater than 10 per cent, while the average applied MFN tariff rate was estimated to be 7.8 per cent in 2009.

The WTO also found existing tariff structures to be relatively complex, involving multiple rates (86 *ad valorem*, 16 specific, 48 alternate duties). However, all tariff lines were bound and most applied rates coincided with bound rates, imparting a high degree of predictability to Taiwan’s tariff schedule.

The WTO’s formal review of Australia’s found that average tariffs on exports and imports for MFN status-holders were 2.8 per cent by end-2010. 18 With 96 per cent of all tariffs within the zero to five per cent range; tariffs contributed to less than 2 per cent of the total tax revenue. The tariff structure was also assessed to be relatively simple with only seven rates (four *ad valorem*, one specific, one compound, and one alternate). The WTO also reported that further unilateral reductions are expected by 2015.

This comparison of each economy’s tariff structure suggests that Taiwan would gain in terms of promoting higher trade and investment by not only reducing tariffs unilaterally, but also simplifying its tariff structure by reducing the different number of existing tariff lines, as well as easing other non-tariff barriers.

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Trade liberalisation often involves political economy costs but the costs of compensating adversely affected sector are offset by broader economic gains to society.

Box B: Benefits of unilateral trade liberalisation

Australia has gained significant economic benefits over the last three decades from unilateral trade reforms, which entailed reducing domestic trade barriers without depending on specific international agreements, bilateral or otherwise.

Previous studies conducted by Australia’s Productivity Commission (PC) noted that unilateral reforms to lower trade and investment barriers present the most direct and effective means of delivering the benefits derived from higher trade and investment to consumers, businesses and the economy more broadly.

A more recent 2010 study showed that further unilateral reforms to Australia’s current tariff levels – which are already relatively low as reported earlier – will deliver added gains in GDP. The study found that the estimated gains from unilateral tariff reductions were likely to be higher than full bilateral tariff reductions in relation to Thailand and the United States, countries with which Australia has already signed FTAs.

Table 1: Benefits of zero tariffs – Productivity Commission (2010)

Bilateral investment flows

Taiwanese investment in Australia totaled A$4.9 billion in 2011, up from A$1.1 billion in 2001. Australian investment in Taiwan rose significantly since 2000, rising from just A$523 million to over A$3.7 billion in 2011. Nearly 60 per cent of Australian investment in Taiwan is in the form of capital flows into Taiwan’s stock market.

More generally, both Australia and Taiwan have relatively liberalised investment regimes, with both economies placing a high degree of importance on the need for investment inflows. Notwithstanding this common understanding and reliance on foreign investment, there are differences in investment regimes and policies.

Investment policy regimes in Australia and Taiwan

Australia has bilateral investment promotion and protection agreements (IPPAs) with 22 economies which grant MFN treatment for foreign investment, provide protections against nationalisation/expropriations and establish dispute settlement mechanisms. In addition, there are also double-taxation avoidance (DTA) treaties in place with a number of economies.

See reference 12.

Argentina; Chile; China; the Czech Republic; Egypt; Hong Kong, China; Hungary; India; Indonesia; Laos; Lithuania; Mexico; Pakistan; Papua New Guinea; Peru; the Philippines; Poland; Romania; Sri Lanka; Turkey; Uruguay; and Viet Nam (FIRB online information. Link: http://www.firb.gov.au/content/international_investment/bilateral.asp?NavID=27 [7 September 2010]).
Investment proposals into Australia are subject to a ‘national interest’ test, which is not codified under legislation and is determined on a case-by-case basis.\textsuperscript{21} The screening of investment proposals is conducted by the Foreign Investment Review Board (FIRB) and triggered when an investment proposal crosses a set threshold; when a foreign entity applies to control a 15 per cent equity stake in an Australian business valued at least A$244 million.

Screening provides for consideration of community concerns about foreign ownership of certain Australian assets, but this is balanced against economic benefits that arise from foreign investment. More generally, foreign investment restrictions are maintained in certain sensitive sectors, such as airports, banking, residential real estate, telecommunications, and transport (civil aviation and shipping).

FIRB considered 10,865 applications for investment in 2010-11 and approved 10,293.\textsuperscript{22} The table below provides figures on the number of applications assessed over the past six years and the respective outcomes of proposals.

### Table 2: Applications considered since 2005-06

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<td>14</td>
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<tr>
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</table>

Source: Foreign Investment Review Board, Annual Report 2010-11, pg. 20

As the table above indicates, 4,606 applications were approved unconditionally in 2010-11, while 5,687 applications were approved subject to some conditions.

\textsuperscript{21} Foreign Investment Review Board, Guidance Note 1

\textsuperscript{22} Foreign Investment Review Board, Annual Report 2010-11, pg. 19
Taiwan’s investment policy regime

Taiwan considers investment to be an important driver of economic growth. It is well positioned at the international level in terms of indicators for ease of doing business and investment risk. Taiwan has implemented measures to liberalise both inward and outward investment barriers, especially with respect to South-East Asia and, in particular, China.\textsuperscript{23}

Taiwan also has an investment screening regime. The screening process is triggered when a foreign entity proposes to take more than a one-third controlling interest in Taiwanese firm, with the screening undertaken by the Ministry of Economic Affairs (MOEA).\textsuperscript{24} The threshold in this case is higher than Australia’s when measured by controlling equity percentage.

Prohibitions or restrictions on inbound investment are based on criteria ranging from national security, ‘good customs and practices’ and, on health or environmental considerations. Some of the industries subject to investment prohibitions or restrictions include forestry and logging, manufacture of certain chemicals used for explosives, certain pesticides and herbicides, firearms and weapons, certain types of land transportation, postal services, postal saving and remittance services, ‘radio television’ and ‘radio broadcasting’, and special recreational services.

The screening process also adheres to time targets with the approval process usually expected to take about two days on average for investments valued at NT$500 million. For investments valued at between NT$500 million to NT$1 billion, the expected screening time averages three days, and rises to three weeks for investments valued at more than NT$1 billion or more.

Taiwan maintains bilateral investment protection agreements with 29 countries\textsuperscript{25}, and each agreement contains a MFN clause that is applied on a reciprocal basis. By end-2009, Taiwan

\textsuperscript{23} In 2009, the World Bank ranked Chinese Taipei 61\textsuperscript{st} (out of 181 countries) for overall ease of doing business, 3 positions lower than in 2008. Similarly, Chinese Taipei’s ranking dropped by 4 positions to 70\textsuperscript{th}, in terms of protecting investors (World Bank, 2009). In 2009, Chinese Taipei was ranked fifth-lowest-risk country for investment among 50 nations evaluated by the Business Environment Risk Intelligence (BERI) (Taipei Times, 10 May 2009).

\textsuperscript{24} See reference 17, pg. 103.

\textsuperscript{25} Argentina, Belize, Burkina Faso, Costa Rica, the Dominican Republic, El Salvador, The Gambia, Guatemala, Honduras, India, Indonesia, Liberia, FYR of Macedonia, Malawi, Malaysia, the Republic of the Marshall Islands, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, St. Vincent, Saudi Arabia, Senegal, Singapore, Swaziland, Thailand, the United States, and Viet Nam.
had concluded income double tax avoidance agreements with 17 countries. It maintains bilateral agreements exempting income tax on shipping and air transport enterprises with 13 economies.

**ECFA and cross-strait investment**

The Economic Cooperation Framework Agreement (ECFA) is a preferential trade agreement that was signed between China and Taiwan in 2010 to promote more trade between the two economies by reducing tariffs and other non-tariff barriers. The agreement is expected to boost bilateral trade between China and Taiwan significantly, with early benefits mostly in favour of Taiwan.

The ECFA offers tariff concessions to 539 Taiwanese products and 267 Chinese product categories and is expected to accrue benefits to the value of nearly US$14 billion for Taiwan and US$3 billion for China.\(^{26}\) In addition to tariff concessions, China is also expected to ease trade restrictions on 11 services sectors ranging from banking and insurance to medical care services. In response, Taiwan is expected to ease trade restrictions on 7 services sectors, including banking and cinema.\(^{27}\)

The Chinese-Taiwanese trade and investment relationship is a sensitive matter, but one that has seen significant improvements in recent years. Taiwan regulates all outgoing investment proposals targeting China, with the latest statistics indicating that there were 37,488 proposals for investment in China in 2009 valued at close to US$80 billion. This followed limited liberalisation of the outbound cross-strait direct investment aiming to broaden the range of investment opportunities available to Taiwanese businesses. The ceiling on outbound cross-strait investment by Taiwanese businesses was raised from 40 per cent of their net worth to 60 per cent in August 2008.\(^{28}\) The ceiling on capital flows to China by individual investors was also raised from US$2.67 million to US$5 million per person per year.\(^{29}\)

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\(^{26}\) Taiwan Times, ‘ECFA signing scheduled for June 29’, 25 June 2010
rss=news_Politics_TAIWAN)

\(^{27}\) BusinessWeek, ‘China Pulls Taiwan Closer With Historic Trade Deal (Update1)’, 12 August 2009.

\(^{28}\) Government information Office online information.
A ban on non-Taiwanese investors from raising funds in Taiwan to invest in China has also been lifted. In addition, local subsidiaries of non-Taiwanese businesses have been exempted from any investment caps. Investment review procedures conducted by the MOEA’s Investment Commission were also streamlined with special assessments of individual proposals only being required if the size of the investment is larger than US$50 million.30

There are restrictions in place for outbound cross-strait investment in specific manufacturing, agriculture, services, and infrastructure construction sectors, with the list of prohibited sectors reviewed annually. China and Taiwan do not have bilateral agreements for investment protection but have indicated interest in negotiating an agreement.

Regulations are in place for inbound cross-strait direct investment. This is based on a positive list of 192 product categories or markets where investments originating from China are welcome.31 In 2008, restrictions on Chinese companies listing on Taiwan’s stock market were eased and China’s qualified domestic institutional investors (QDIIs) were allowed to invest up to a maximum of US$500 million in the Taiwanese stock market. The aim of such policy liberalisation was to aid the development of a funds management industry in Taiwan, as well as enabling the financial sector to deepen and become more liquid.32

The cross-strait investment regime has been liberalised in the last two years in an effort to make Taiwanese financial markets more competitive and connected to other regional markets, especially China’s. Restrictions preventing non-Taiwanese companies, with over 20 per cent of equity ownership held by Chinese investors, from gaining a secondary market listing on Taiwan’s stock exchange have now been removed.33 This has opened the door for Taiwan to

Mainland Affairs Council online information.
Link: http://www.mac.gov.tw/english/index1-e.htm
29 Government Information Office online information.
30 Mainland Affairs Council online information.
Link: http://www.mac.gov.tw/english/index1-e.htm
31 See reference 17, pg.31.
32 Mainland Affairs Council online information.
Link: http://www.mac.gov.tw/english/index1-e.htm
33 Mainland Affairs Council online information.
Link: http://www.mac.gov.tw/english/index1-e.htm
attract more foreign capital, as well as providing opportunities for Taiwanese investors to gain exposure to other asset classes and products to help them diversify their risk and reduce the likelihood of systemic pressures developing within the financial system.

Notwithstanding the significant strides made by Taiwan and China in recent years to enhance economic cooperation, some investment-related challenges and restrictions remain. The identification of shared gains from easing or eliminating restrictions should contribute to enhancing cross-strait trade and investment.
SECTION 4: AUSTRALIA’S INTERNATIONAL ENGAGEMENT IN THE ASIA-PACIFIC REGION AND THE G20

As Asia continues to grow, a major global shift in the economic and financial wealth of the region relative to Europe and North America is occurring. This transformation in the global economic order presents great opportunities for Australia in the region.

Reflecting the profound changes represented by the growth of Asian economies, the Australian Government has commissioned a white paper to study Australia’s engagement; “Australia in Asian Century.”

<table>
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<th>Box C: Australia in the Asian Century White Paper</th>
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<tr>
<td><strong>Objective</strong></td>
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<td>The White Paper aims to examine Australia’s past and future links with the Asian region. It will review Government policy settings and strategies as well as activities and contributions of the business sector and civil society stakeholders in meeting the opportunities and challenges for Australia arising from Asia’s re-emergence as an economic power bloc.</td>
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<td><strong>Context and scope</strong></td>
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<td>Asia’s economic transformation through high economic growth has been unprecedented. As a result, poverty in Asian economies has fallen drastically and living standards have improved. New urbanised middle classes have developed across the region with a higher demand for goods and services and a better quality of life. A consensus view is that these transformative trends are still in train, and Asia will grow and develop further in the decades to come in the ‘Asian Century.’</td>
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<td>The Asian Century no doubt offers unprecedented opportunities for Australia and others, but it also presents challenges. Australia and other Asian economies have to continue to cooperate in all aspects of their relationship ranging from finding new sources of growth in the aftermath of the global financial crisis to ensuring smooth phase transitions as regional economies structurally adjust in response to longer term demographic trends.</td>
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Regional engagement has been a critical focus of Australian policy over many decades. The Asian Century white paper is one step in the continuous process in the development and the shaping of Australia’s relationships with the region. There are many facets of the relationship including various friendship and regional economic agreements and more recently the East Asian Summit. The formation of Asia-Pacific Economic Cooperation (APEC) in 1989 reflected Australia’s strong interests in promoting economic and technical cooperation with regional partners. And as noted earlier, Australia has entered into a range of bilateral agreements with regional economies and is currently negotiating agreements with others. It is also an active participant in the TPP.

The White Paper will attempt to answer how those different developments are likely to play out in the regional context and what their implications will be for Australia.

What does the Asian Century mean for Australia?

The White Paper Advisory Panel notes that Australia’s policy frameworks seek to enhance the wellbeing of the Australian people, which it identifies as being shaped by economic development, enhancing opportunities and greater security. It argues that wellbeing covers all aspects of Australian society and needs to be considered for current and future generations.

The Panel notes that the White Paper will examine Australia’s links with the diverse nations of Asia, analyse implications of the Asian Century for Australia’s economic, social, political and strategic environments, and consider current Australian policy settings and strategies within a framework that emphasises the capabilities and opportunities available to the Australian people.

The White Paper will also be complemented by other government reviews recently completed, such as the update to the National Long-term Tourism Strategy; as well as on-going processes such as those relating to the International Education Advisory Council, the Prime Minister’s Task Force on Manufacturing and the Cyber White Paper; and future scheduled reviews, such as the next Defence White Paper.

The APEC agenda

APEC is a major economic forum in the Asia-Pacific in which Australia pursues its regional economic, technical cooperation and social interests in the region in the context of greater openness and connectivity between regional economies. APEC pursues that objective by promoting trade and investment liberalisation, business facilitation, and economic and technical cooperation.

Strengthening regional economic connectivity through the removal of barriers to trade and investment, enhancing supply chain connectivity, as well as improving the business environment and market conditions ‘behind the border’ is another key priority for APEC. It also assists member economies to build the institutional capacity necessary to design and implement policy reforms.  

APEC supports the multilateral trade negotiations being conducted (albeit currently stalled) at the WTO and complements the goals of the G20’s Framework for Strong, Sustainable and Balanced Growth in the Asia-Pacific Region.

Private sector representatives play an important role in furthering APEC’s agenda and goals. The need for a process of engaging the private sector to promote economic and structural reforms was recognised relatively early and the APEC Business Advisory Council (ABAC) was subsequently formed in 1995.

The Australian perspective on international trade agreements

Although the Australia Government’s trade policy expresses a clear preference for multilateral FTAs with a global reach that endows wider benefits to all economies, it is nevertheless tempered by contemporary global realities – perhaps none more so important than the fact that the WTO’s Doha Round of trade and investment liberalisation has stalled, and a comprehensive agreement is unlikely to be resolved any time soon. In response, the Australian Government is negotiating FTAs with a number of economies from the Asia-Pacific region, as well as with others from beyond the region. However, Australia has also committed to not enter into any trade

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agreement that falls short of the benchmarks set by the WTO. Australia is also championing new ways to resuscitate the Doha Round negotiations.

Australia has six FTAs currently in force; of which, five are bilateral (New Zealand, Singapore, Thailand, US and Chile), and one is a multilateral FTA with the Association of South East Asian Nations (ASEAN) that also includes New Zealand. It also recently concluded FTA negotiations with Malaysia in May 2012 with the agreement awaiting domestic approval.

In addition, Australia is currently engaged in bilateral FTA negotiations with China, Japan, Korea, India and Indonesia, as well as three multilateral negotiations which include the regional Trans-Pacific Partnership (TPP) Agreement, an agreement with the Gulf Cooperation Council (GCC) and a Pacific trade and economic agreement (PACER Plus). The TPP is regarded as a priority objective in the current phase of negotiations of trade agreements.

**Trans-Pacific Partnership (TPP)**

The TPP is a multilateral free trade and investment agreement that aims to liberalise both at- and behind-the-border trade and investment restrictions in APEC economies. It is primarily focused on the trade in goods and services, rules of origin and technical barriers to trade, reforms to liberalise investment regimes as well as dealing with issues related to intellectual property, government procurement and competition policy. The TPP attempts to build on the Trans-Pacific Strategic Economic Partnership Agreement (P4) between Brunei, Chile, New Zealand and Singapore, which entered into force in 2006. Currently Australia, Canada, Malaysia, Mexico, Peru, the US and Vietnam are negotiating with each other and with P4 members to broaden the P4 agreement and establish the TPP.

The TPP has the potential to form a building block for Asia-Pacific regional economic integration, and Australia is interested in actively shaping the direction of that initiative.

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In addition, the emphasis placed on investment and the trade in financial services under the TPP also reflects Australia’s concerns to promote open markets for financial services and for other services sectors.

As a “living agreement” the TPP would allow for membership expansion. It is meant to be a pathfinder initiative that would help pave the way for implementation of the Free Trade Area of the Asia-Pacific (FTAAP).

**The East Asia Summit**

The East Asia Summit (EAS) is a regional leaders' forum for strategic dialogue and cooperation on the key strategic challenges facing the East Asian region. Membership of the EAS comprises of the ten ASEAN countries, as well as Australia, China, India, Japan, New Zealand, South Korea, the US and Russia. The 18 EAS member countries collectively represent 55% of the world's population and also account for almost 55% of global GDP. EAS economies also receive more than 74% of Australia's total exports.

**Australia and the G20**

The G20 is an international forum where Leaders and Finance Ministers from 20 economies, including Australia, develop policy responses to challenges confronting the global economy. Although the G20 was first established in 1999, it came into prominence during the global financial crisis.

Since 2008, the G20’s work agenda has expanded to focus on a number of different policy areas ranging from reforms to minimise structural imbalances within the global economy to reforms of the international monetary system, as well as focusing on complementing the work of the Basel Committee on Banking Supervision and on reforms to capital markets to make the international financial system more resilient.

Australia is scheduled to chair the G20 in 2014, and has committed to consulting non-G20 members to incorporate their views into the workings of the G20.
SECTION 5: ISSUES FOR CLOSER COOPERATION WITH TAIWAN AND THE ASIA-PACIFIC REGION

This report has highlighted the nature and breadth of Australia’s economic engagement with Asia-Pacific region. There is no doubt that linkages described in the report will be deepened and diversified in the decades ahead.

As the commodity boom moderates a more concentrated focus by Australian businesses in non-resource sectors including importantly services, would add value and present an important structural development in the Australian economy and which will impact on Australia’s regional partners.

A pathway to closer cooperation

Higher education and tourism are examples of two service sector industries to be exploited by Australia and Asia for mutual benefit. As Asian income levels rise further, Asian demand for high-value services ranging from education to tourism should rise. Australia, with its high quality universities and tourist appeal is well-positioned in the region to benefit from the growth in demand for these services.

In fact, Australian universities have already made significant strides in that respect. The RMIT University based at Melbourne has over 74,000 students, with over 30,000 being international students predominantly from Asia. RMIT University began its offshore education program with a partnership with Singapore’s Institute of Management in 1987. Since that time, RMIT’s offshore program has expanded to cover partnerships with 13 international education providers. Most notably, RMIT University has two offshore campuses in Viet Nam with more than 6,000 enrolled students.

RMIT University is one of many Australian universities expanding to the Asian education market. Monash University recently became the first Australian university to obtain a license to operate in China, in addition to its major presence in Malaysia since 1998. Monash has recently also expanded into India.
That said, there are presently no Australian universities operating in Taiwan. And Taiwan does not feature in the top-ten list of countries of origin for students enrolling in Australian universities in Australia. This may be a reflection on the outreach programs of Australian universities when considering the fact there are nearly 30,000 students coming to Australia from countries as far afield as Brazil and Saudi Arabia. The education sector should clearly be an area of considerable potential for the Australian-Taiwanese bilateral relationship.

Greater cooperation between Australia and Taiwan in education also does not have to be limited to just the trade in educational services. Taiwan is known for its expertise in high technology goods with world-class multinational corporations. These multinational companies ought to consider establishing research and development facilities in Australia, even funding Australian universities to undertake cutting-edge research to take advantage of the highly-skilled science and technology graduates produced by Australian universities.

Australia presents an attractive market for Asian companies searching for skilled graduates not just in science and technology, but also in business and commerce, which are vital to the next generation of Asian start ups and multinational corporations. This is reinforced by the fact that an overwhelming share of international students in Australia are Asians; many of whom are likely to return to their countries of origin upon attaining their educational qualifications.

A recent University of Melbourne report titled, ‘Developing an Asia Capable Workforce’, highlighted the importance of developing human resource skills in Australia that will be Asia-centric. It will enable Australian businesses to operate effectively in Asia as they look to build-up their presence in regional economies. The report went on to define its vision of a ‘Asia Capable Workforce’ as one where more Australian workers are capable of speaking Asian languages, are familiar with Asian work practices and processes, as well as being in tune with cultural norms and sensitivities. The findings of this report reflect a realisation across-the-board from government policymakers to business and community leaders that Australia’s and Asia’s future prosperity and wellbeing are tied together, and that Australian society has to lay the groundwork to thrive in a shared regional future.

A heightened focus on education and tourism services also fits very well with the overall need for greater regional cooperation and integration. Education and tourism go beyond simply establishing commercial links; they also help to foster the people-to-people contacts that are essential for the free exchange of ideas and best practices.

Greater connectivity between financial markets in the region will be a critical development in strengthening economic and financial relationships. Promoting regulatory and policy convergence in regional financial markets would support regional economic integration and better align the interests of regional savers with regional investment needs.

Australia has the largest asset management industry in the Asia Pacific and the fourth largest in the world. Australia’s high-quality fund managers can provide a unique value-add to regional clients by providing expert wealth management and investment banking advisory services. This is especially relevant for Taiwan, given recent policy reforms encouraging international fund managers to access Taiwanese financial markets. The contemporary environment offers significant opportunities to Australian fund managers to invest in Taiwanese assets to diversity their portfolios. Such developments would encourage and support Taiwan to develop as an offshore financial centre serving the region and China.

Australia’s deep and liquid financial markets, governed by a robust prudential regulatory policy regime, are also an excellent investment destination for Asian investors. Given the size and depth of the Australia’s financial markets, it is no surprise that the Australian–US dollar currency pair is the fourth most widely-traded currency pair in the world, and a particularly popular asset class for Asian sovereign foreign exchange reserve managers.

More recently, the State Government of Victorian led a 600-strong trade delegation, Australia’s largest-ever, on a trade mission to China. One of the key priorities for the trade mission was to develop closer relationships with financial market participants in China and, in particular, Shanghai. The aim of the trade mission was to encourage the development of cross-border business opportunities in areas of wealth management and funds management services, and carbon emissions permit trading.

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Financial services trade between Australian and Asia, while relatively small, have been growing steadily over a number of years, and this momentum is expected to pick up pace as both the Australian and Asian financial markets grow in size and liquidity. Australia is estimated to have approximately A$1.8 trillion assets under management and is expected to grow to A$2.5 trillion by 2025. This growing pool of investment assets will increasingly be deployed to newer markets to earn higher returns, of which Taiwan can be an attractive destination.

Carbon markets where emission reduction permits are traded also present a new and highly important asset class for the future. Even though international trading in carbon permits is still at a nascent stage, the importance of such permits will no doubt increase over time as more governments move towards putting a price on carbon and reducing carbon emissions.

Australia has legislated a price on carbon which has been fixed at $A23 a tonne of emissions for the first 3 years, starting in July 2012. From mid-2015, the carbon price will float freely as the emission trading scheme comes into operation. Under present policies it is intended that Australian emitters would be allowed to buy carbon permits from the EU from 2015. However, the current schemes could be subject to change should the opposition coalition parties succeed at the next federal election, due in around a year’s time. Assuming some form of emission trading schemes comes into play, it may be reasonable to conclude that any Australia’s emission trading scheme may link beneficially to international emission trading schemes, especially in Asia. Most notably, China is expected to start regional pilot carbon pricing schemes in the next two years with market analysts expecting a national carbon pricing mechanism by 2016.

Notwithstanding the carbon pricing plans of the Asian governments, a large number of carbon offset permits are already granted under the Clean Development Mechanism (CDM) regime established under the Kyoto Protocol. The CDM regime allows emitters from developed


39 Financial Times, ‘Australia to join EU carbon market’, 28 August 2012. Link: http://www.ft.com/intl/cms/s/0/68d0d31a-f0f5-11e1-b7b9-00144feabdc0.html#axzz27NEPmdz0

economies to offset their emissions by undertaking abatement projects in developing and emerging economies. Under Australia’s present carbon pricing scheme, there is a maximum limit set on the amount of emissions that can be offset through CDM projects, which has been set at 12.5 per cent of total emissions.

There will likely be opportunities for significant cooperation between Australia and Taiwan in this area. Australian businesses could explore the possibility of offsetting their carbon emissions in cooperation with Taiwanese businesses interested in CDM projects in the region. Recent APEC proposals for tariff reductions on environmental goods may lead the way to greater opportunities for enhancing bilateral trade or investment in environmental goods.
SECTION 6: CONCLUSIONS AND RECOMMENDATIONS FOR DEEPENING AUSTRALIA’S PARTNERSHIP WITH TAIWAN

Australia has strong economic and social links with the Asia-Pacific region. Australia’s future will be shaped by the economic growth and development of the Asian region and by deepening governmental, business and cultural links that Australia pursues with regional partners.

The Asian Century presents tremendous economic opportunities for Australians to prosper and to continue to enjoy high standards of living. As regional economies grow, higher trade and investment flows are expected to boost economic growth across the region, as well as ameliorating the impact of global financial and economic turbulence on the region.

While recent trends in trade and investment flows reflect to an important degree the benefits of the mining boom that Australia has experienced in recent years, adjustments to a moderation in the boom will necessitate structural changes for the Australian economy. The challenge for Australia is to develop other growth opportunities and to promote non-resources trade in goods and services, and investment.

The focus on greater economic cooperation with the Asia-Pacific should not just be limited to these objectives, but should also reflect on the positive gains that will flow from greater regional economic integration between businesses in the region. Increasingly, businesses, whether located in Taiwan, Australia or elsewhere, will become part of regional or global supply chains. This will drive convergence in both policy and regulatory arrangements of governments, and in business models.

Taiwan and Australia have effective bilateral arrangements in place that can facilitate a deepening in policy and business engagement between the two. Taiwan and Australia conduct annual Bilateral Economic Consultations which cover issues such as market access, agriculture and clean energy development. The Australia-Taiwan Business Council also encourages trade and investment between the two economies.
Actions that would enhance a deepening of the Partnership between Australia and Taiwan

Taiwan and Australia have the opportunity to deepen their economic relationship by pursuing domestic reforms that will enhance productivity and economic growth in their respective economies. The lack of a formal trade agreement between Australia and Taiwan does not prevent gains that are derived from domestic unilateral reforms in either conferring benefits to the other.

Taiwan and Australia should continue to deepen their relationship within APEC and use that forum as a means of influencing reforms across the region to enhance growth and opportunities in member economies. Furthermore, opportunities for engagement now available through the Bilateral Economic Consultation Framework should also be exploited to the full and deepened.

Taiwan and Australian businesses should benefit from shifts in economic structures and management now occurring in the region and globally. These developments will present opportunities for fostering stronger economic linkages between Australia and Taiwan. In particular trade and investment in services sectors such as education, tourism, financial services and environmental goods will become increasingly prominent. In addition, there can also be more cooperation between Taiwan and Australia in research and development, intellectual property creation and human capital development.

However, these developments will not just happen in a vacuum. It will require the concerted effort of all stakeholders, from governments to private businesses to individual communities. Existing avenues of engagement between Taiwanese and Australian businesses, such as the Taiwan-Australia Business Council, and others, should be explored more fully.

Governments have the opportunity to harness these favourable developments through appropriate policy support, which may vary in some cases from facilitating economic transactions and growth to removing or reviewing policies that in time have become barriers to greater economic cooperation. Governments will also need to harmonise policy and regulatory cooperation, particularly in financial markets, to meet the needs that businesses will require if they are to excel in a region undergoing economic integration.
More specifically, consideration should be given to the following proposals to enhance and deepen the partnership arrangements that exist between Australia and Taiwan:

- Widen official and business discussions under the BEC to include a group, or groups, with specific focus on education, financial services, tourism, carbon trading, clean energy development and intellectual property rights.

- Ministers and officials in both Taiwan and Australia could support a review of existing impediments to the trade in goods and services, and investment flows, between the two economies. The review could be amenable to early unilateral action with the intent of removing such impediments – priority could be given to environmental goods and services, scientific and IT goods and services.

- Taiwan should consider building a cooperative relationship with the Australian Productivity Commission with a view to establishing an independent advisory body in Taiwan to advise ministers and the community more broadly on the role that an independent body can play in promoting structural reforms to enhance competition and productivity in Taiwan’s economy.

- Both Taiwan and Australia should improve transparency in official and business publications on existing bilateral arrangements to raise business confidence on trade and investment opportunities and protections in both Taiwan and Australia.

- Peak university bodies in both Taiwan and Australia could enter into a collaboration with the intent of establishing and broadening the delivery of tertiary educational services to students in both economies, including investment in campuses and coordination with joint academic teaching and research programs.

- The BEC should consider commissioning a review to determine whether there is an interest in establishing a joint research group funded by the public and private sectors to promote collaboration between institutions in both Taiwan and Australia on leading research in IT and business technology, logistics and supply chains and biochemistry.