

Minister of Economic Affairs' Speech for Luncheon with
European Chamber of Commerce Taipei (ECCT)
September 23, 2008

Chairman Pellegrin, Honorable Guests, Ladies and Gentlemen: Good afternoon!

It is indeed my great pleasure and privilege to be invited to today's luncheon. I am especially delighted to see so many outstanding members of the ECCT gathered here. Just this past June, the ECCT celebrated its 20th anniversary. During these past two decades, the chamber has played a central role in forging closer trade and business relations between Taiwan and Europe. I deeply appreciate all of the efforts made by the ECCT in this regard, and for its contribution to improving Taiwan's overall competitiveness and investment climate.

Today I would like to take a moment to give a short briefing on Taiwan's economic situation, on trade relations between Taiwan and EU, and on the importance of an FTA between Taiwan and the EU.

Taiwan's trade and economic development

As you are well aware, Taiwan has a highly export-dependent economy. The recent global economic slowdown has definitely affected the immediate prospects of our domestic economy. Fortunately, our

economic fundamentals remain strong; and close cooperation between the government and the private sector has further positioned Taiwan to weather this difficult time. In 2007, our foreign trade rose 9% to a record 466 billion US dollars. Our exports to the EU grew 11% to 27 billion dollars, and Taiwan's imports from the EU rose 9% to 19.9 billion dollars. In the first eight months of this year, our foreign trade totaled 358 billion US dollars, up 20% from the same period of 2007. Exports grew 17% to 183 billion dollars, and imports grew 23% to 175 billion dollars. These figures are especially remarkable in the present global economic climate. Although markets in Europe, US and Japan are weakening, our exports to emerging markets and to Southeast Asia remain strong. We anticipate that Taiwan's export growth rate will maintain at the 10% level this year, netting a trade surplus of around 10 to 15 billion US dollars.

Current trade and economic policy

Four months have passed since President Ma came into office on May 20. Since then, the new administration has been fully engaged in reforming Taiwan's economy, building an environment conducive to trade and investment, and honing our competitive position. A looser regulatory environment, ambitious public works projects, and investment promotion are all key elements in the new government's strategy for growth.

In terms of relaxing the regulatory environment, the government has implemented direct cross-strait charter flights on weekends and opened up

Taiwan to tourism visits from mainland China. It is also moving forward with plans to further develop the "Mini Three Links," eased investment restrictions between China and Taiwan, and allowed PRC investments in Taiwan's stock markets.

As for encouraging investment, my ministry estimates that big-ticket private investment will reach as high as NT\$1.08 trillion in industries such as optoelectronics, semiconductors, iron and steel, petrochemicals. The MOEA will also be holding a "Taiwan Business Alliance Conference" on October 6th to 7th this year to attract more domestic and foreign investment.

Cross-strait relations have also made significant strides under the new administration. On July 4, cross-strait weekend charter flights were launched and Taiwan opened to visits by mainland tourists. The direct flights have considerably reduced the time and cost of cross-strait travel. And the influx of mainland tourists will support growth in Taiwan's tourism industry. The government is also committed to opening direct cross-strait shipping services to reduce transportation costs and enable greater efficiency in cross-strait logistics. Investment-wise, the MOEA has raised the ratio ceiling on mainland-bound investment from Taiwan to 60%. These measures will inject fresh momentum into Taiwan's economy, while paving the way for peaceful and mutually beneficial cross-strait interactions. They will also build on the advantages of the cross-strait economic network, creating new opportunities for transnational businesses

in partnership with Taiwan. We sincerely invite the members of the ECCT to join with Taiwan enterprises in tapping this win-win potential.

Economic and trade relations between Taiwan and the EU

Taiwan and the EU have long maintained stable economic and trade relations. Today, the EU is the world's largest economy; and its rising importance is reflected in the growth of ties between Europe and Taiwan.

At present, Taiwan is the 12th-largest trading partner of the EU; and the EU is the 4th-largest trading partner of Taiwan. In 2007, bilateral trade between Taiwan and the EU amounted to 46.9 billion US dollars, representing 10% of Taiwan's total trade value. This approaches the 11% figure with the United States and demonstrates how far the EU-Taiwan trade relationship has come.

The EU is also our leading source of foreign direct investment. As of August this year, direct investment by the EU in Taiwan had accumulated to 25.2 billion US dollars, or 25% of our FDI total. This figure outstrips the comparable levels for the US and Japan, which have provided 19% and 16% of Taiwan's total FDI, respectively. EU investment has been concentrated in the metal products, electrical parts, construction, finance, insurance, and wholesale and retail service sectors. Today, many high-profile EU companies have a strong presence in Taiwan, such as Phillips, Siemens, Carrefour, ABN AMRO Bank and ING. As for Taiwan's

investment in the EU, this figure had risen to 2.5 billion US dollars as of August 2008. Most of our investments in the EU are in the manufacturing sector, particularly electrical parts, computers and electronics. Foxconn, TPV, HTC, Delta Electronics, Giant, Asus, Acer and Tatung are among the big-league Taiwanese companies with manufacturing or service bases in Central and Eastern Europe.

At present, a total of 16 EU members maintain representative offices in Taiwan. In addition, the European Economic and Trade Office opened in Taipei in 2003. Due to business expansion needs, the EETO will double its office space at a new location in the International Trade Building. The EU is also planning to send one more official from Brussels to Taiwan to handle economic and trade affairs. This is further indication of EU's commitment to strengthening bilateral relations with Taiwan.

EU businesses have also expanded rapidly in Taiwan. In the past four years, for example, the ECCT has doubled in size from 350 to about 700 members. The chamber is also quickly scaling up its services with a staff that has grown from 7 to 14. This demonstrates the importance that both European and Taiwan firms place on the ECCT. And it reflects the tremendous influence that the chamber enjoys.

The ever-close relationship between Taiwan and Europe is also evident in the decision to set up the EU Center in Taiwan. The center will strengthen exchanges between the two sides in the areas of academia, economics, environmental protection, and technology. The EU has already

approached National Taiwan Normal University and other schools to participate in the public bidding for the EU Center, and we look forward to its inauguration soon.

The importance of an FTA between Taiwan and the EU

As I have already mentioned, the economic and trade relations between the EU and Taiwan are extremely close and growing fast. The EU has signed FTAs with many countries around the world, and it is now negotiating such agreements with India, South Korea and other nations. We believe that a Taiwan-EU FTA is vital to reinforcing and developing a closer economic and trade partnership between Taiwan and the EU. It would also serve the substantial trade and investment interests of both sides. Hence we consider the signing of an FTA with the EU to be a matter of utmost urgency. In his inaugural address, President Ma emphasized that, with the relaxing of cross-strait relations, it is also imperative that Taiwan further internationalize its economy. To this end, President Ma has pledged to promote global linkage and global economic integration. He has also placed a high priority on the signing of FTAs or comprehensive economic cooperation agreements between Taiwan and the United States, Singapore, Japan and EU. Taiwan also hopes to more closely link with ASEAN through an ASEAN 10 +3 +1 arrangement. I would thus like to take this opportunity to urge your support for the signing of an FTA between Taiwan and the EU.

To put it into numbers, the Chung-Hua Institution for Economic Research (CIER) has estimated that an FTA between Taiwan and the EU would increase Taiwan's GDP by 600 million US dollars (or 0.21% of GDP) and boost the EU's GDP by 3.3 billion dollars (or 0.04%). If both sides were to go further and open trade in services, the GDP benefits for Taiwan and the EU would be 1.4 billion US dollars (or 0.49%) and 3.5 billion dollars (or 0.04%), respectively. Taiwan's exports to the EU would increase by 5.24 billion US dollars, and the EU's exports to Taiwan would increase by 6.18 billion dollars.

At the June 12th "Europe Day" dinner party, attended by President Ma, Chairman Pellegrin called for Taiwan and the EU to start dialogue on FTA-like trade enhancement measures similar to those provided under an FTA. He mentioned that the preliminary results of the Copenhagen Economics report commissioned by the ECCT indicate that such measures would increase EU-Taiwan trade by billions of euros a year and accelerate GDP in Taiwan by one percent. Tariff reductions would expand access for Taiwanese electronic products to the EU market. And exports of machinery and electronic parts from the EU to Taiwan would also increase. Most importantly, lower trade barriers would make Taiwan an even more attractive portal for European companies to expand operations in Asia.

We are extremely grateful to the ECCT for taking the initiative to promote the signing of trade enhancement measures and the signing of an FTA between the EU and Taiwan. We are very interested in looking closer

at trade enhancement measures, since we believe they will further strengthen Taiwan-EU relations and lay a foundation for the eventual signing of an FTA between the two sides.

Ladies and gentlemen, I am firmly convinced that an EU-Taiwan FTA is vital to the future development of Taiwan-EU economic ties and business opportunities. An FTA would eliminate tariff and trade barriers and further open our respective markets to each other. We have high hopes that, with your assistance, the EU and Taiwan can begin FTA negotiations. Doing so would not only strengthen trust and cooperation between the EU and Taiwan, but also create a win-win situation for both sides.

Again, I would like to convey my deepest appreciation to the ECCT for all of its outstanding work and contributions to promoting the economic and trade partnership between Taiwan and the EU. I and my ministry look forward to our continued cooperation with the chamber in moving EU-Taiwan relations forward. Thank you all for your support. Finally, may each of you enjoy good health and success in your business endeavors. Thank you!