Chinese Taipei Report
---- PF02004 -----

Ching-Cheng Chang
Research Fellow
Institute of Economics, Academia Sinica

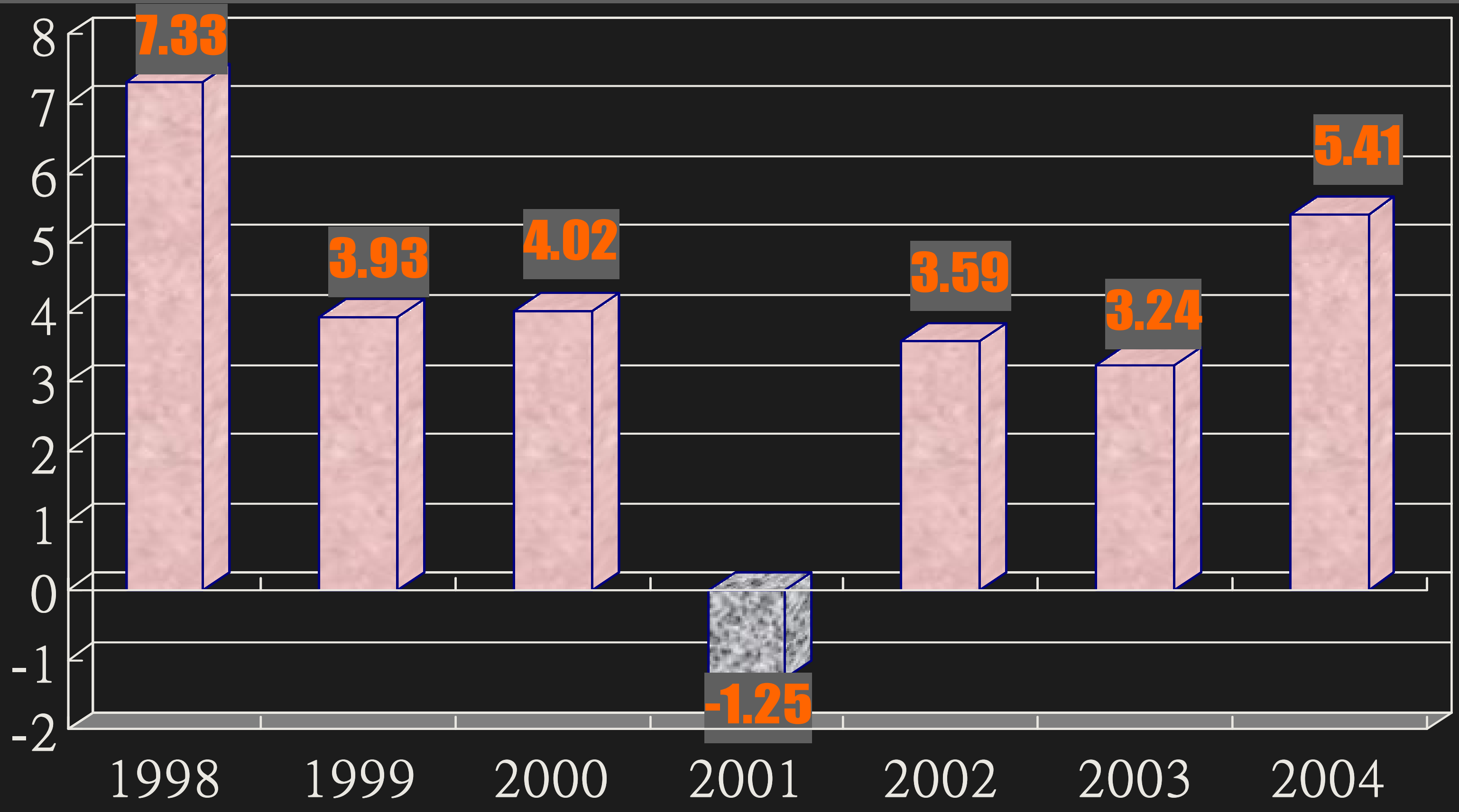
Macroeconomic Situation

- **2003 – 3.24% growth (lower than 2002)**
  - SARS in the 1st half of year
    - Previous estimates: Before +3.4% v.s. After 2.9%~1.9%
    - Consumption: –1.81% in 2nd quarter.
    - Emergent relief ➔ Government fiscal budget deficit
    - I : 3.53% growth; II: -0.08% growth
  - Stronger in 2nd half
    - III: 4.18% growth; IV: 5.17% growth
    - Led by strong export expansion

Macroeconomic Situation

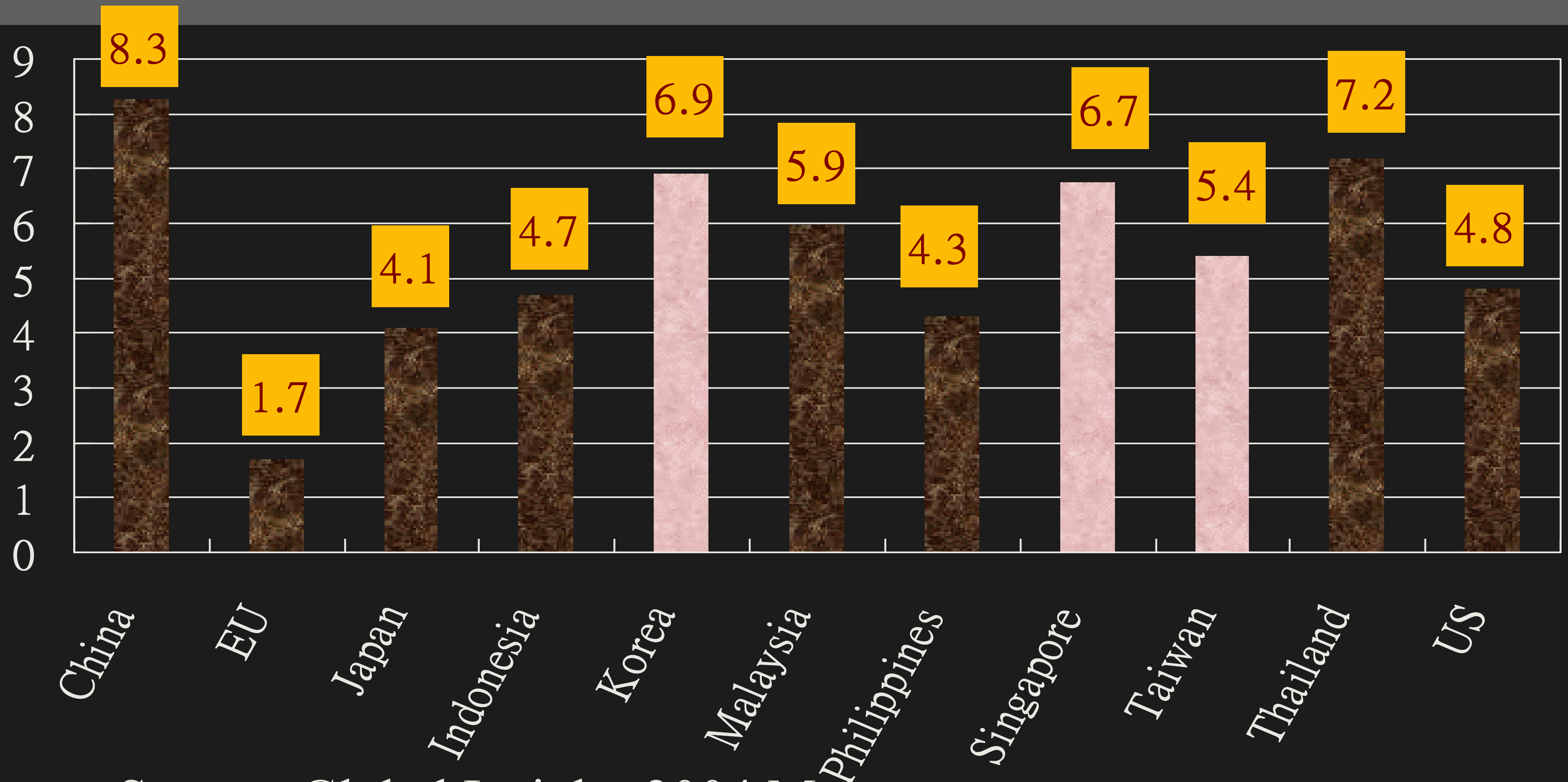
- 2004 – 5.42% growth
  - Recovery of world economy
  - Export expansion & domestic demand
  - Private investment – 23% increase
    - High-speed railway
    - Sixth naphtha cracking plant
    - Photonics & telecom industry
  - Export –17% increase
  - Import – 23% increase (rising oil & material prices)

GDP growth—1998 - 2004



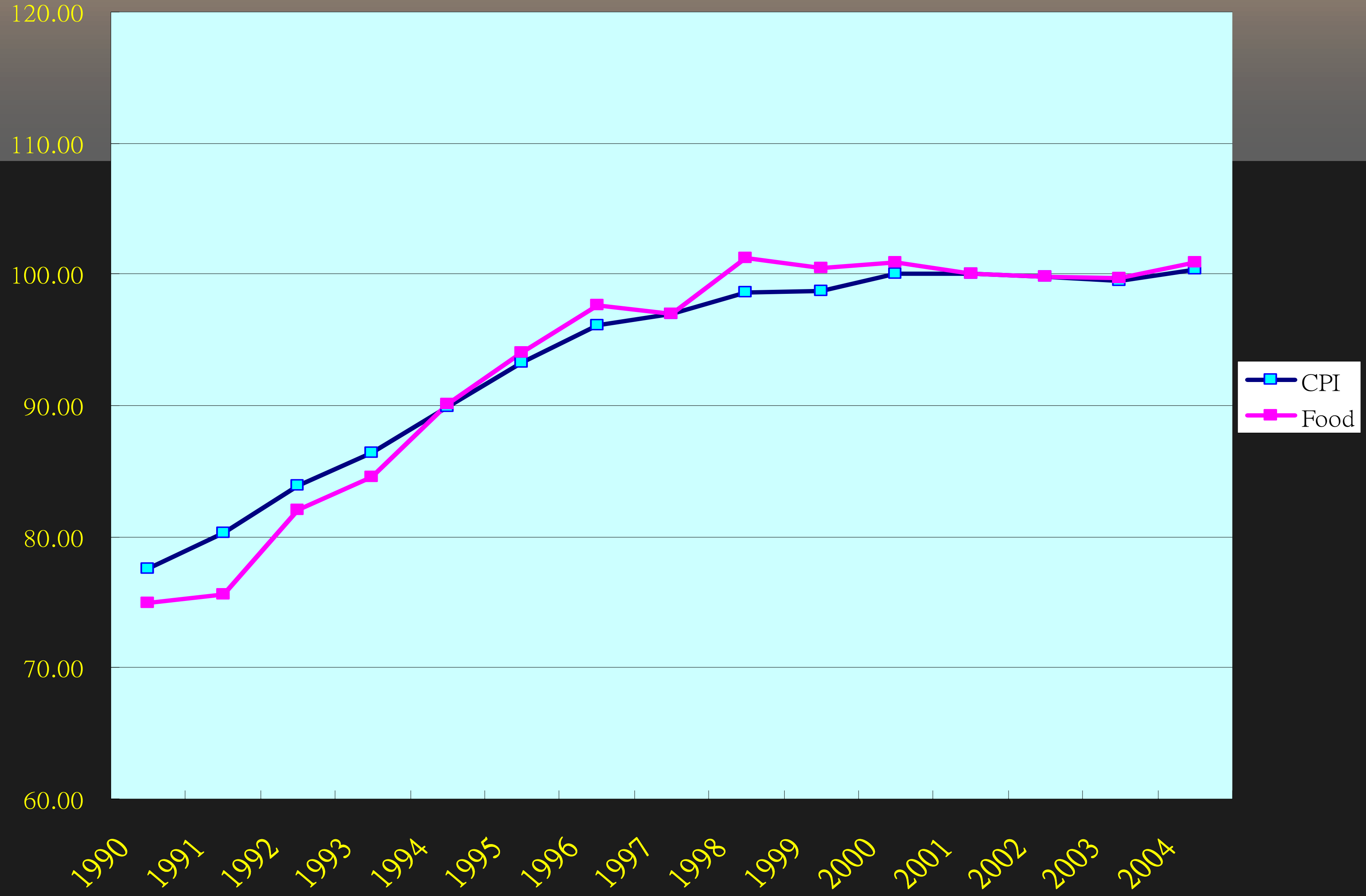
GDP growth in 2004—

International Comparisons



Source: Global Insight, 2004 May.

CPI and Food Price



Uncertainties

- Rising oil and raw material prices
  - WPI increase -- 4.1%
  - Import price increase -- 6.0%
- Post-election dispute
- High unemployment rate
- Cross-strait relationship

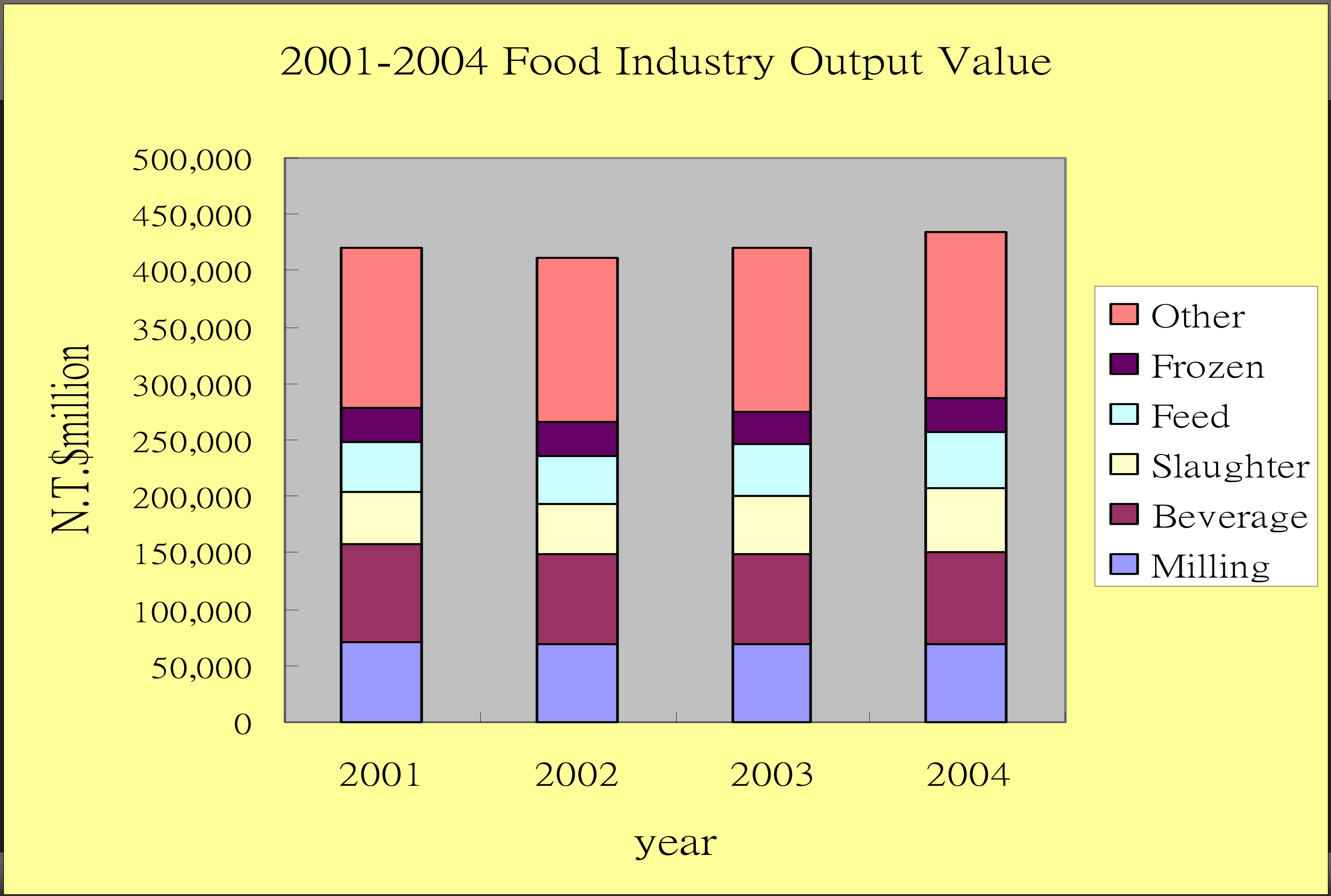
Food System

- Price
- Consumption
- Production
- Trade
- Processing
- Marketing
- Policies

Food Consumption & Prices

- **2003—Weakened by**
  - SARS outbreak
  - Pork & chicken - drug residue
  - Seafood - rejected by EU for antibiotics
- **2004—Weakened by**
  - Poultry - Avian flu (H5N2 strain)
  - Rice, oranges, etc. - Import competition

Food Processing



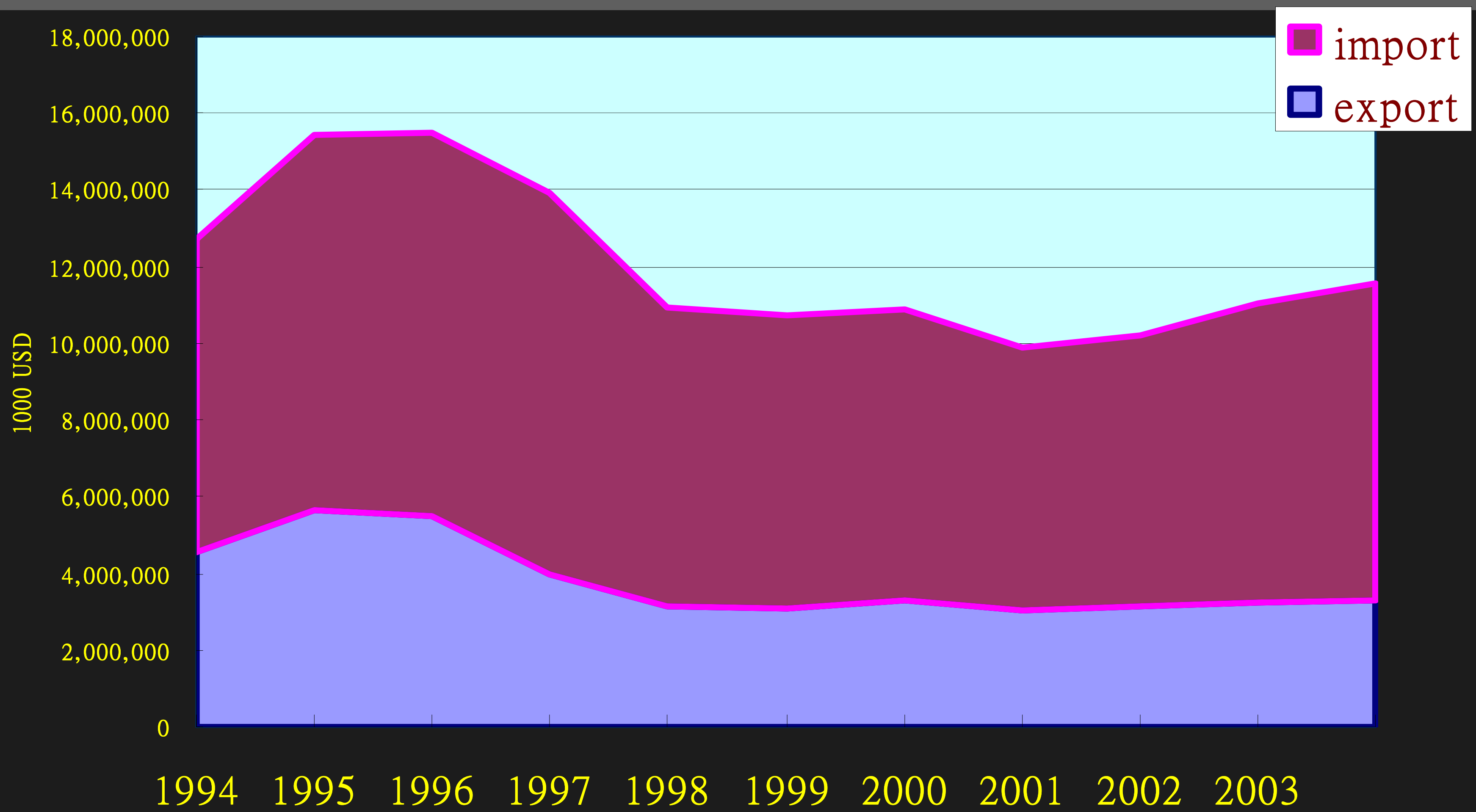
Food processing in 2003 - 2004

- **2003 - 1.9% increase from 2002**
  - Up: Cooking oil (20%), Feed, Meat
  - Down: Frozen, Dehydrated, Rice milling, Tea
- **2004 - 3.5% increase from 2003**
  - Better economy and domestic demand
  - Inward -looking → Outward-looking
  - New joint venture and market expansion in China

Food Production

- **2003 -- negative growth**
  - Severe drought
  - Rice - 8%, vegetable - 11%
  - Hog and poultry - 2%
  - Fishery - 4.4% growth
- **2004 -- negative**
  - Drought continues
  - Shadow from Avian flu
  - Import competition

Food Imports & Exports



FOOD Policies

- Financial Reform– agriculture credit unions
  - New agriculture finance law
  - New institution - National farmer co-op bank
- Rice Policy Reform
- Marketing and Export Promotion
  - Lack of scale
  - Quarantine issues
- Strengthening SPS Measures for Food Safety

Infrastructure

- Hardware— quantity
- Software—deregulation, privatization

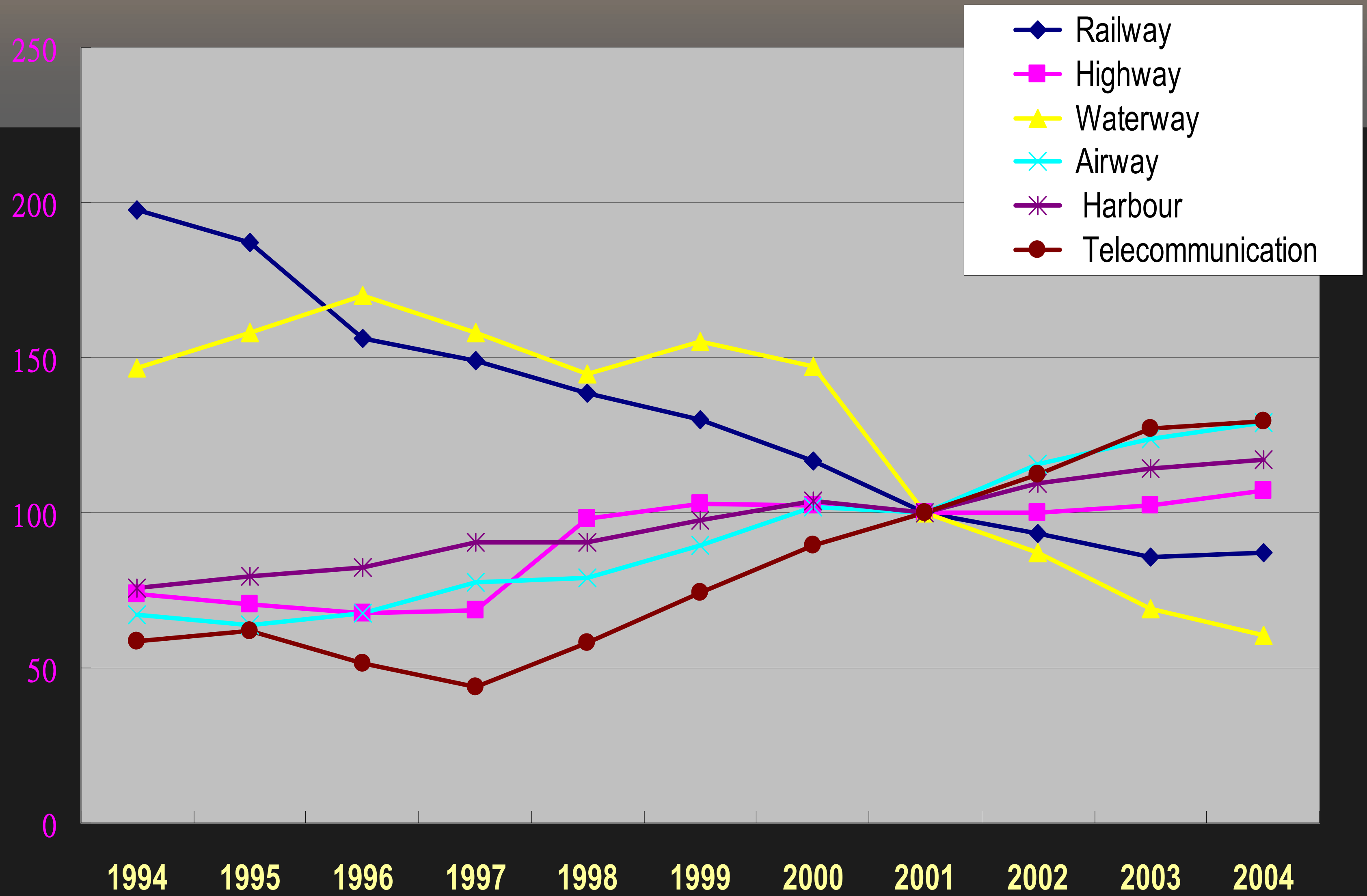
Domestic market

- Consumption (22 million population)
  - 43% in the North
  - 55% in Central & South
- Production——
  - 75% farmland in Central & South
  - 75% farmers in Central & South
- North-South corridor

International Market

- Imports
  - U.S. (33%)
  - Australia, Japan, Thailand, China, Malaysia, New Zealand, Indonesia, Canada (3-5%)
- Exports
  - Japan (34%)
  - Hong Kong (23%)
  - U.S. (10%)
  - Vietnam, Korea, China

Volume Index of Transportation



Waterway

- Ocean country by nature
- National flag vessels declined sharply
  - → **50% decrease** over one decade
- Consequence → National security in war
- Causes (by Evergreen tycoon)
  - Govt negligence in shipping policy
  - Policy toward China

Railroad

- Decrease from 2 billion to 0.8 billion ton-km
- Agro-food accounts for **12%**
  - Decline from 2.9 million tons to 1.4 million tons
- High-speed railway (US$14 billion)
  - Largest BOT project globally
  - Largest infrastructure project in Taiwan
  - Completion on Oct 2005

Roads

- Increase from **13 billion** ton-km to **18 billion** ton-km
- Two main highways – West coast
- Third one on the East coast
  - East-West Highway

Airway

- 2 main cargo carriers (China and EVA)
- Difficulty
  - Cross-strait direct flight
  - 2003/09/25—indirect cargo flight is approved
  - Cut shipping costs by US$50,000~80,000 per trip
  - No benefit for agro-food sector

Ports and Docking

- 5 international ports
  - North—**Keelung**, 2 million TEUs per year (16% of total)
  - South—**Kaohsiung**, 8.8 million TEUs per year (73%)
  - Fast growth in 2004---5000 TEUs in transshipments
- On 2004/03/18, **Free port** approved
  - Attract investment
  - Integrate with neighboring industrial zones
- Competition with China's deep-water port

Kaohsiung port

- $2.7 billion expansion to compete with regional rivals in transshipping
- Add 5 container berths capable of handling 15,000 20-foot TEUs, increasing the port's capacity 28% to 11.3 million TEUs

Keelung Port

- Second largest BOT project
- Alliance w/ Evergreen, Yangming, Wan Hai -- investing US$ 600 million in container terminal
- Seven deepwater container wharf completed by 2014
  - 14.5 meters in depth
  - 2,355 meters in length
  - Cargo ship of 5000 TEU

Utilities

- **Electricity—**
  - 65% thermal-based, 17% nuclear
  - Capacity grew 4.5% over past 5 years
  - Taipower (SOE) provides 80%
  - Liberalization in 1994; finalized in 2006
  - Nuclear power dispute
- **Water & irrigation**
  - Private investment (irrigation association)
  - Lag in investment (weakening ag sector)

IT & Telecom

- WEF's Network Readiness Index
  - Taiwan ranks **9th** among 82 countries
  - Internet population -- **9 million**
  - Penetration -- **40%**
- **Internet Infra** (Digital Taiwan)
  - **Speed:** Broadband network
    - 6 million subscribers in 2007
  - **Quality:** IPv6 Info network
    - Three stage to complete in 2007

Privatization ⟷ Deregulation

- WHY? Global competition
- Started in 1989 -- 27 privatizations so far
- In 2001: 31 SOE
- Lowest priority
  - Utilities: 2
  - Telecom & Transportation: 7
- Alignment with market liberalization
  - Chung-Hwa Telecom
  - China Petroleum Corp

Bottleneck in agro-food sector

- Domestic
  - Chemical residue control
  - Avian flu—Shipping live animals
  - Water issue
- International
  - Quarantine, SPS
  - Competition w/ non-ag commodities
  - Import cleaner grains
  - Cross-strait direct shipping

Challenges

- How to sell shares or enterprise?
- Refocus the role of government
- Increase efficiency
- Global competition
- **Strategies--**
  - Open market
  - Abolish unnecessary regulations
  - Lower entry barriers