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BOOK REVIEW

TAIWAN'S FINANCIAL MARKETS AND INSTITUTIONS: THE LEGAL AND FINANCIAL ISSUES OF DEREGULATION AND INTERNATIONALIZATION by Brian Wallace Semkow. Published by Quorum Books, 1992.

Michael S. Bennett†

The Republic of China ("Taiwan") is one of the foremost economic success stories of the past thirty years. Numerous statistics attest to Taiwan's remarkable economic development. As a newly industrialized country, its Gross National Product ("GNP") is now roughly the twentieth largest in the world. Taiwan's per capita income has grown from only US\$196 in 1952 to over US\$8,000 today. Its foreign exchange reserves, valued at over US\$90 billion and rising, are the largest in the world. In short, Taiwan has emerged as one of the powerhouse economies of the Pacific Rim.

Following a trail first blazed in Asia by Japan, Taiwan's economic growth was based primarily on export-oriented manufacturing. Over the past thirty years, products manufactured in Taiwan, ranging from T-shirts to electronics, have carved out a significant share of global markets. The development of Taiwan's financial system, however, did not keep pace with the island's industrial development. Until quite recently, Taiwan's financial markets were overregulated and virtually closed to foreign participation.

Bruce Wallace Semkow's book, *Taiwan's Financial Markets and Institutions*, focuses on the recent efforts of the Taiwanese government to deregulate, liberalize, and internationalize the island's financial markets. In particular, Mr. Semkow examines legislation passed by Taiwan's Legislative Yuan in the late 1980s and early 1990s that was intended to create a more modern financial system in Taiwan, including significant amendments to the Banking Law, the Securities Exchange Law, the Insurance Law, and the statute governing foreign exchange.

Mr. Semkow is a New York and California attorney who, in addition to having worked at the international law firm of Jones,

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Day, Reavis & Pogue and the Royal Bank of Canada, has taught and written widely on subjects in international law and economics. In addition to being an experienced professional in the area of Asian financial law, Mr. Semkow is a very clear and precise writer. The high quality of the writing is one of the strengths of the book, and should make the book accessible even to readers with little background knowledge of Taiwan's financial markets.

Mr. Semkow writes from the perspective of a lawyer and not of an economist. His book is not, nor is it intended to be, an in-depth economics treatise on the workings of Taiwan's financial system. Rather, the book mainly addresses the regulatory framework of Taiwan's financial markets and is directed, as Mr. Semkow notes in the book's introduction, primarily at the foreign legal community specifically interested in Taiwanese finance, and Asian business and finance in general.

The book first provides a helpful general overview of the financial system and major financial institutions in Taiwan. The overview includes a discussion of the roles played by Taiwan's two primary financial regulators, the Ministry of Finance ("MOF") and the Central Bank of China ("CBC"), which should be of particular interest to legal practitioners. In general, the MOF has advocated the liberalization of Taiwan's financial markets, while the CBC has taken a more conservative approach opposing the reduction of the level of government control. The book then examines recent reforms of the Banking Law, the Insurance Law, the Securities Law, and the foreign exchange system. Special chapters are devoted to the money market, the bond market, Taiwan's status as an offshore banking center, and the regulation of derivative products in Taiwan.

In discussing Taiwan's Banking Law, Mr. Semkow focuses on the July 19, 1989 amendments to the Banking Law. The amendments, which modified more than one-quarter of the Banking Law's provisions, affected the banking industry in four principal ways. First, the amendments increased the level of competition in the banking industry by permitting the establishment of new private banks and the privatization of certain of the government-controlled banks. Second, the amendments expanded the scope of the services permitted to be offered by commercial banks. Third, the amendments eliminated the government's policy of fixing interest rates on commercial bank deposits. Fourth, the amendments significantly reduced restrictions on foreign banks to conduct business in Taiwan.

Similarly, the book's discussion of reforms in the insurance industry focuses on recent amendments to Taiwan's Insurance Law. These amendments, which were passed in 1992, have enhanced competition in the insurance industry by permitting new

companies to enter the insurance market. In particular, Mr. Semkow discusses the efforts made by U.S. insurance companies to increase their access to the Taiwanese insurance market. These efforts influenced the 1992 reforms, which opened up the Taiwanese industry to a limited degree of foreign involvement.

In the chapter on securities market reform, Mr. Semkow examines the substantial 1988 amendments to the Securities Law which affected roughly one-third of its provisions. The amendments permitted the registration of new securities companies and widened the scope of the activities in which securities companies are permitted to engage. Mr. Semkow notes that prior to the enactment of the 1988 amendments, the number of registered brokers was frozen for many years at twenty-eight. By the end of 1990, the increased entry into the securities industry permitted by the 1988 amendments had caused the number of registered brokers to swell to almost 400.

With regard to the reforms of the foreign exchange system, Mr. Semkow discusses Taiwan's principal foreign exchange law, the Statute for Administration of Foreign Exchange ("SAFE"). SAFE, together with other foreign exchange regulations of the CBC, puts significant restrictions on the flow of money into and out of Taiwan. Mr. Semkow highlights the 1987 amendments to SAFE which increased the amount of money that can be remitted into and out of Taiwan by individuals and businesses without government approval.

Certain common themes connect the book's examination of these different areas. The central themes are that the Taiwanese authorities are beginning to release their historically tight regulatory grip on the financial markets and are increasingly opening up their banking, insurance, and securities industries to a greater degree of competition, both foreign and domestic.

The book also examines the distorting effects that overregulation has had on the development of Taiwan's financial system. Here, Mr. Semkow discusses Taiwan's underground financial system, the size of which was estimated in 1990 to be fifty-seven percent of Taiwan's GNP. The underground financial sector, which includes loan sharks, underground investment houses, rotating credit clubs, and postdated check discounters, developed in Taiwan outside of, and in response to, the government's tight financial controls. Throughout the 1970s and 1980s, the underground sector was the primary source of funds for small enterprises and individuals who were denied access to the official financial sector.

For example, Mr. Semkow notes that government-imposed credit rationing caused banks to lend only to the best credit risks,

generally large companies which could provide substantial collateral. Such restrictive bank lending policies, together with the underdeveloped state of Taiwan's securities markets, resulted in an official financial sector that provided very few financing alternatives for individuals and small and medium-sized companies. The underground financial system developed over time to service their credit needs.

Mr. Semkow points out that one of the primary goals of the recent reforms was the elimination of the underground financial system. This goal has been partially accomplished through several different means. For instance, the amendments to the Banking Law included a stricter definition of "deposit" and significantly increased the sanctions on illegal deposit taking. The authorities have since employed this new legal weapon to undertake wide-scale prosecutions in the underground financial industry. In addition, the reforms permitted the establishment of private banks, which are beginning to provide funding to the types of small customers that previously had been denied credit by the state-run banks.

In the book's conclusion, Mr. Semkow notes that despite the Taiwanese government's substantial and ongoing efforts to deregulate and internationalize Taiwan's financial markets, much remains to be done. Foreign banks and other financial institutions, such as securities and insurance companies, continue to be denied national treatment. In general, Taiwan's markets have not been fully integrated into the world financial system. Moreover, the highly volatile Taiwan Stock Exchange still shows signs of operating more as a casino for speculators than as a source of capital for local companies, and Taiwan still lacks a liquid bond market. Therefore, the book concludes that further reforms are necessary before Taiwan can create a fully functioning, modern financial system, let alone assume a larger role as a regional financial center.

This book provides a thoughtful and well-researched overview of Taiwan's recent financial reform program. Although the book is not exhaustive in any area, it goes into sufficient depth that even the reader who already has a general knowledge of Taiwanese financial law should find the book helpful and informative. The book also is well-organized and indexed, making it a handy reference work for practitioners in the field of Taiwan's finance law.

On the other hand, because the book is comprehensive, reading it from cover-to-cover may be difficult for the reader with only a general interest in Taiwan's finance law. In addition, financial economists may find that, despite its broad title, the book does not go into sufficient depth on the economics of the

development and workings of Taiwan's financial markets. The book's emphasis is on financial regulation and not on financial economics or Taiwanese business in general. I believe, however, that any academic or practitioner with an interest in Asian business and finance would find this book to be a useful and timely reference.