

BOOK REVIEW

TAIWAN'S FINANCIAL MARKETS AND INSTITUTIONS: THE LEGAL AND FINANCIAL ISSUES OF DEREGULATION AND INTERNATIONALIZATION.

By BRIAN WALLACE SEMKOW. QUORUM BOOKS, 1992, (231 pp.)

Taiwan, 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. Its 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 over-regulated 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 1980's and early 1990's, including significant amendments to the Banking Law, the Securities Exchange Law and the statute governing foreign exchange, that was intended to create a more modern financial system in Taiwan.

Mr. Semkow is a New York and California attorney who, in addition to having worked at the international law firm of Jones, Day, Reavis & Pogue and the Royal Bank of Canada, has taught and written widely on subjects in international law and economics. He writes from the perspective of a lawyer and not an economist; his book is not, and is not 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 the island's financial markets and is, as Mr. Semkow notes in the book's Introduction, directed primarily at the foreign legal community interested in Taiwanese finance specifically, and Asian business and finance generally.

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 (the "MOF") and the Central Bank of China (the "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. In addition, 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 the Banking Law, Mr. Semkow focuses on the amendments to the Banking Law which were enacted on July 19, 1989. These amendments, which modified more than one-quarter of the law's provisions, affected the banking industry in four principal ways. First, by permitting the establishment of new private banks and the privatization of certain of the government-controlled banks, these amendments increased the level of competition in the banking industry. Second, the scope of the services permitted to be offered by commercial banks was expanded. Third, the fixing of interest rates by the government on commercial bank deposits was eliminated. Fourth, the restrictions on foreign banks to carry on business in Taiwan were significantly reduced.

Similarly, the book's discussion of reforms in the insurance industry focuses on recent amendments to the Insurance Law. These amendments, which were passed in 1992, have enhanced competition in the insurance industry by permitting new insurance companies to enter the insurance market. In particular, Mr. Semkow discusses the efforts made by United States 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, in all,

affected roughly one-third of its provisions. Among other things, the amendments permitted the registration of new securities companies and widened the scope of the activities in which securities companies are permitted to engage. With respect to the former, Mr. Semkow notes that prior to the enactment of the 1988 amendments, the number of registered brokers was frozen for many years at 28. 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 the banking, insurance and securities industries to a greater degree of competition, both foreign and domestic.

The book also examines the distorting effects that over-regulation has had on the development of Taiwan's financial system. In this regard, Mr. Semkow discusses Taiwan's underground financial system, the size of which was estimated in 1990 to be 57% of Taiwan's GNP. The underground financial sector, which includes loan sharks, underground investment houses, rotating credit clubs, and post-dated check discounters, developed in Taiwan outside of, and in response to, the government's tight financial controls. Throughout the 1970's and 1980's, the underground sector was the primary source of funds for small enterprises and individuals that 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 the island's securities markets, resulted in an official 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 of 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 have been denied credit by the state-run banks.

In the Conclusion to the book, Mr. Semkow notes that despite the Taiwanese government's substantial and on-going efforts to deregulate and internationalize the island'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. The book concludes, therefore, that further reforms are necessary for Taiwan to create a fully-functioning modern financial system, let alone for the island to gain a greater regional financial role.

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. On the other hand, for the reader with only a general interest in the area, the book is comprehensive enough that it might make a difficult read cover-to-cover. I believe that any academic or practitioner with an interest in Asian business and finance would find this book to be a useful and timely reference work.

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