

Cherng Shin-Ouyang

**CROSS-STRAIT RELATIONS IN FINANCIAL SERVICES  
– THE HONG KONG CASE IN PERSPECTIVE**

**Abstract**

Bilateral financial linkages between Taiwan and mainland China are developing at a retarded pace. Relative to robust flows in the physical sphere, namely, trade and (unilateral) investment-parallel move in the sphere of circulation lag substantially behind. On the surface, this is due to the onerous lack of any official framework accord which may legitimize and facilitate banking and financial activities both ways. But the real cause is structurally more deep-seated and it defies reasoning from purely economic perspectives. It is understandable, therefore, that activities that are free from, or less intervened by, the *visible hand* – the public authority – or any convention requiring mutual consent would perform better. The case is totally different for Hong Kong, for with the latter there is no “split” or “conflict” of goals between the governing body and the governed. In more detail, this short note intends to characterise the current cross-strait financial linkages by drawing reference from the rapidly-integrating PRC-Hong Kong counterpart. It is argued that to avoid further losses arising from *super*-inefficiency in the businesses there is an urgent need to bridge the fault lines.

**Introduction**

The path of evolution of the monetary-financial linkages between Taiwan and mainland China has two principal dimensions: (a) the cross-strait clearance of inter-bank

transactions; (b) the presence of banking and financial intermediaries in each other's territory of monetary jurisdiction. So far businesses in the two spheres have made perceptible progress. But the achievements have fallen short of the original expectation of the society at large.

Relative to the development of bilateral relations in trade and investment – the latter being unilateral, though, in direction – the retarded flows of financial services are disturbing. It is undesirable also from the viewpoint of a healthy functioning of the market. The banking system and its intermediaries are supposed to develop hand in hand with the business community, therefore an unequal development implies that the banks are losing their customers (to rival competitors on the mainland) and thus it causes doubts about the mutually-supportive nature of the two sectors in question. On the other hand, the comparatively superior performance of the real sector gives no ground for complacency either. After all, irrespective of their tangible contributions to a sustained growth of the Taiwanese economy in general, and trade surplus with mainland China in particular, their performance is *suboptimal* at best. There is, admittedly, an enormous potential for rehabilitation of the inter-sector flows provided that man-made distortions to the cross-Strait rationalisation of industries and manpower are removed. On the other hand, being an integral part of the movements of the outlying system, this pursuit would end in disaster if it took place without accounting for the rapidly emerging trends of the global economy, principally the formation of the FTA, regional trading blocs, intensifying trade wars (PRC and the U.S. in particular) and so on. It is feared that symptoms reflecting this negligence are surfacing.

Without dismissing the significance and thus the impacts of the above on Taiwan this paper will focus on the issues of the cross-Strait financial linkages only. Some thematically related topics are incorporated into the corpus of the analysis insofar as they can facilitate reasoning. Section II attributes the main causes underlying the sluggish advance in bilateral relations to a split of goals in the government policies toward mainland China. In a comparative perspective, Section III distinguishes the real from the banking monetary-financial sector and argues that the unfounded political prejudice has unduly suffocated the profit-squeezed banking sector at home. Section IV outlines the contributions of two super-preferential arrangements, i.e. the CEPA and the inter-bank clearance system, to Hong Kong's prosperity. The concluding section insists that Taiwan may regain its economic strength by simply duplicating the Hong Kong model yet without dispensing with her political autonomy.

### **Selective Liberalisation**

In theory, save for special considerations (most of them are politically motivated)<sup>1</sup>, the market opening policies implemented by any economy or trading bloc are deemed to be applicable to all; they are not supposed to apply discriminatively between partners

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<sup>1</sup> For example, the ILSA (Iran-Libya Sanction Act) enacted by the US Congress affects trade of the European Union with the Third World countries. See: *Trade Policy, General Feature of Trade Policy*, [in:] *Market Access Sectoral and Trade Barriers Database*, Brussels 2004.

as long as they fulfil the WTO General Obligations. In this case, Taiwan figures as an exception with regard to its policies toward China. In accounting for the share of responsibility, regretfully, Taipei is less innocuous compared to Beijing, owing primarily to its reluctance in removing the bottlenecks that range from technical and administrative distortions to the disarray of multiple policy guidelines towards mainland China.

This reluctance arises, by and large, from a debatable proposition that Taiwan's sovereignty may be better preserved by using China as the "world factory" while keeping distance from it politically. Rightly or wrongly, from the viewpoint of the policy-making apparatus, any move that downgrades Taiwan's status against China is unacceptable. Moreover, any business venture that would risk eroding Taiwan's overall economic interest, notably its core industry competitiveness, would not be tolerated. Those rule-breaking companies and individuals are subject to penalties accordingly. This being so since the erosion of the Taiwanese economic base amounts recognisably to the deterioration of Taipei's bargaining power versus Beijing. Following this logic, it is generally understood that the ultimate criterion for evaluating the merits of enterprises engaged in the cross-Strait business is political in nature, i.e. on top of their market performance. What is paradoxical, the goal of profit-seeking enterprises does not necessarily coincide with that of the ruling power structure. Hence there is room for conflict! Of those that overtly express discontent many stand out already as global players with world-class leadership in selected product lines. Yet being home-grown and vulnerable to bureaucratic as well as legal sanctions, they tend to bow to power for fear of retaliations!

It is a different story for the Taiwan-based foreign companies, however. Time and again both the European and the U.S. Business Councils in Taiwan have spoken on behalf of the MNEs they represent against the tightly-guarded market channels linking Taiwan and mainland China. Having exhausted their patience, and more seriously, their business opportunities, some MNEs silently shifted their operation units or regional headquarters to Shanghai or Hong Kong instead. The key reason is self-evident. These multinationals set up their offices in Taiwan in the beginning practically because it was their original plan to build a bridgehead on the island, in order to gain access to a potentially lucrative but not fully-opened mainland market. Furthermore, since Taiwan's inhabitants share with China almost identical linguistic and cultural traditions, foreigners would have shortened their learning process in developing the Chinese market from Taiwan.

The government's reluctance must and can also be viewed from a geopolitical perspective. In this context one can draw reference to the dilemma confronting Berlin before the unification altered some qualifications. It has to be admitted, in this connection, that there is a long list of differences in mapping the position of Taiwan to pre-unified East Germany, but one thing is in common. Taiwan remains one of the trump cards of the U.S. in the power game they play with China. Equally, Japanese strategic interest hinges critically upon the way the Taiwan question is handled.

Foreshadowed in the Washington's hegemonic intent the Taiwanese government has not been able to formulate sound policies, especially China policies as it were, much as Berlin was circumvented because of the strong Soviet domina-

tion. In this respect, it is not merely economic imitation that counts, the U.S. penetration into the Taiwanese social fabric goes as deep and extensive as to embrace higher education, the military sphere, technology, not to mention the shaping of the ROC's foreign policies. It is an incontestable fact that Washington is extremely sensitive to, and thereby working against, any lessening of the tensions between Taipei and Beijing! Despite these, the U.S. are losing their grip as time goes by. Such a reversal of the tide is fundamentally due to the sustained and vehement rise of China as a regional, if not trans-continental, power and hence it succeeds in effectively diluting the U.S. influence worldwide.

Let us proceed to the official line of the PRC on cross-Strait relations. Economically, Beijing, of course, is more than eager to bridge the fault lines that have remained as a result of the catastrophic civil war that ravaged whole China till the 1950's. Right at the outset, when Deng Xiaoping embraced the market economy in late 1970's, China started launching a vigorous campaign for an immediate and full-scale normalization in Three Linkages: essentially, in direct postal, telecommunication and commercial affairs, and direct shipping and air-borne transport. To respond in a positive gesture, the ROC nationalist government gave a green light in late 1987, for the first time since withdrawing from mainland China, to the demand for the repatriation of veteran soldiers back to their native hometowns on the mainland. This step is significant in the history of the cross-Strait relations because it marked the beginning of hostility – as well as tension – reducing the possibility of manoeuvre on both sides. But the reality since then has not always been cheerful. Due to the complexity of internal as well as external factors tensions have been resuming from time to time.

## Two Regimes, Disparate Outcome

Having sketched the socio-political background we are coming to the core of the subject. I shall begin by setting forth some notions that call for attention. As shown in the subtitle of this section, the term “two regimes” invites interpretation from a couple of perspectives. One of them distinguishes the real physical economy from that of the banking-financial services<sup>2</sup> insofar as both of them are, to a different degree, contributing to the evolving division of labour and specialized production between Taiwan and China. At varying speed they themselves are transformed also as a sub-sector of the East Asian trading bloc. At the *second* level, it refers to the way Taiwan handles her economic relations with China as against those that are enhancing their respective mutual co-operations with China. Hong Kong is the main entity we have in mind. With reference to the disparity of approaches in the first perspective the outcome differs accordingly. In what follows I shall dwell upon issues of the first type.

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<sup>2</sup> By virtue of the usual dichotomy, the secondary and tertiary sectors, respectively.

Seeking to comply with, and at the same time benefiting from the shifting trends of regionalization, the ROC government has begun to relax control on the cross-strait financial flows since the early 1990s. But till now the scope conceived for this undertaking has been quite limited and the means resorted to selective. Much to the discontent of a sizeable business community the path of the evolution of the institutional framework linking Taiwan and mainland China is not entirely encouraging. This applies by all means more to the financial sector than to sectors in the real sphere because manufacturing and trade professionals have been able to bypass the official taboos one way or another (i.e. without breaking the laws) in doing business involving China. Banks are unable to follow suit virtually because of the absence of a framework accord concluded between relevant monetary authorities concerned in the first place. Secondly, trading firms have taken advantage of liberalization of the Taiwanese economy since the early 1980s, including notably the continued rise in the official ceiling of the overseas remittance allowed for. To date, any individual in Taiwan has been able to remit overseas up to US\$5 millions annually. This is not the case for the banking sector when it comes to setting up a branch or a representative office in mainland China. They have to obtain special permissions from the relevant Ministries both in China and Taiwan. Hence, the two sectors in question have witnessed disproportionate changes in the lever playing field to such an extent that relatively to the advance of the prior and increasingly integrated market in trade and investment in respect of China, a parallel move in banking and financial services lags substantially behind!

In 2004, bilateral trade amounted to US\$61.6 billion, accounting for around 33% of Taiwan's annual turnover in foreign trade with US\$28.3 billion surplus in favour of the latter. In the meantime, outbound direct investment targeting the mainland market stood at a cumulative total of US\$43.9 billion, according to official sources<sup>3</sup>. These records are impressive, bearing in mind that they started from almost nil when the government lifted bans on indirect trade links with China back in late 1980s. In fact, a handsome amount of Taiwan's manufacturers remain highly competitive internationally because they make effective use of the mainland as the site of production and R&D. Some of the high-tech companies reap greater profits than their Taiwan-based headquarters. Numerous pioneering traditional industries, most of them labour- or resource-intensive, have found a second lease of life and developed world-class brand names. It is now widely accepted that without access to the Chinese market Taiwanese economy would have been in a dire state.

In contradistinction to the former, as of October 2004, there are merely 7 Taiwanese banks which have managed to establish a foothold in China through a prolonged bureaucratic procedure. The number is much lower than of those from Japan (45) and Hong Kong (25). By marking their presence as representative offices only their businesses are highly restrictive. Not to mention the fact that there are already 204 foreign banks that are licensed to operate commercially there, 84 of them entitled to conduct RMB business. At the *second* tier, a cross-strait flow of funds is increasing

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<sup>3</sup> US\$ 40.8 billion based on statistics released by the Chinese Ministry of Commerce. Unofficial figures are quoted to have exceeded US\$100 billion.

at an alarming rate but with low efficiency whatsoever, regardless of the costs involved. The immobile huge banking sector in Taiwan is handicapped on two fronts: unable (1) to reap the scale economy through its tangible presence in China's ballooning wholesale business; and (2) to fund cash-hungry but out-migrated clients, some of whom are of superior credit-standing and worth keeping. Worst still, Taiwan's home market is small enough to accommodate the fiercely expanding banking intermediaries, overbanking as it has often been alluded to. Without consolidation their profits are squeezed<sup>4</sup>. In view of these disparate features the current status of Taiwan's banking sector is quite shaky!

In spite of the differences between sectors in terms of achievements numerous problems remain. However, they are different for the two regimes we have in mind. One of them lies in the recognition that bilateral economic relations are asymmetrical: in the case of trade, China has persistently incurred huge deficits against Taiwan for decades and that mainlanders so far have not been allowed to invest in Taiwan. Trade imbalance is admittedly a cause for concern from the viewpoint of Beijing. In principle, it stems from, and reflects, the differences in industry and the market structures dispersed alongside the shore of Taiwan Strait. But as long as both partners play by the book (e.g. without invoking anti-dumping charges) there is no ground for complaint! On the other hand, visible hurdles stand in the way for investment which, objectively speaking, the Taiwanese government must bear most of the brunt<sup>5</sup>. This is curious notoriously because both Taipei and Beijing are currently WTO members; they are bound as a rule to meet the General Obligations arrived at in the various Rounds of GATT/WTO. By comparison, in dealing with cross-border financial services a categorically different scheme applies. At the multilateral level, the power of jurisdiction for performance monitoring and regulation are imposed on WTO members by the "Specific Commitments" embodied in the GATS of the Uruguay Round. To this category belong such provisions as "market access", "national treatment", "transparency", etc.

Unlike the General Obligations which all WTO members must comply with, for any new member there is no need to meet the "commitments" which have not been agreed upon during the WTO entry negotiation processes. Clearly, Taipei and Beijing have never entered a dialogue as regards how to deal with the issues of cross-Strait financial services. As a result, a mutual exposure of intermediaries of financial services is out of the question. What merits special attention is that Taipei's power structure refuses to bypass the "one China principle" – which Beijing leadership considered superfluous in discussing economic issues – and takes necessary steps to reach consensus regarding the means for facilitating trade in financial services. Looking ahead, a technical thaw is called for, starting with the agreed MOU for bridging the fault lines. A peculiar part of this episode is that the two governments in

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<sup>4</sup> The banking reform, principally through the consolidation phase-one, has failed up to this very moment. It is uncertain as to how it will be carried out in the future.

<sup>5</sup> For example, in terms of the foreign-funded investment the share of the capital originating from China must not exceed 20%, according to the "ACT Governing Relations between Peoples of the Taiwan Area and mainland China" (promulgated and implemented on Sept 18, 1992, abb. ARP). This restriction was removed in the eighth revision of the ARP on Sept 14, 2004. Instead, a less stiff system based on approval was introduced.

question invariably opted for “open door policies” vis-à-vis the rest of the world in due succession! But with regard to bilateral relations, the doors range from semi-open to “full-closure”. Again, the Taiwanese market is more open to foreigners than to their mainland compatriots. *Asymmetry* arises once again, though it involves a different order of magnitude compared to trade.

As a developing economy the case of China, on the other hand, was treated with leniency on her application for membership and the terms of meeting WTO obligations are more flexible. By contrast to the self-motivated “reform and opening” in late 1970’s under Deng Xiaoping, the PRC’s entry into WTO two decades later implies an opening by international standard. In the sphere of banking and financial services the PRC, as a custom area, pledged to gradually open its market. Taiwanese banking community is treated on a par with its foreign counterparts in market access to China as long as they satisfy the criteria that are applicable uniformly. Notwithstanding, considering Taiwan as an integral part of China, in early 1990s Beijing enacted special Provisions dealing with business enterprises owned by residents from Taiwan on the same basis as those from Hong Kong, Macao and Chinese nationals overseas.

It was in 2004 that a dramatic turn started to take hold of Hong Kong and Macao. With their position as a component part of Greater China, the new scheme proves to be highly advantageous to the latter. The outcome is borne out by two documents: the Closer Economic Partnership Arrangement (CEPA) and the Clearance Arrangement (CA). Conceived as a WTO-Plus (TDC, 2004), these arrangements outline privileges granted to the two autonomous regions of the PRC which are more favourable than can be comprehended with regard to the GSP provided normally by developed to developing countries. Moreover, since they meant to be unilateral in nature, huge benefits are disproportionately distributed. Hong Kong and Macao businesses gain proportionally more than their Chinese counterparts do. In what follows I shall outline the main contents of the two documents before going to the rationale for its duplicative application in Taiwan.

### **Hong Kong: The Dual Arrangements**

Being one of the three leading financial centres in Asia, Hong Kong is noted for market capacity, superefficiency, and prudent supervision in handling both bank and non-bank financial business throughout the world. Up till the end of 2004, Hong Kong boasted gross banking assets six times its GDP; of the top of 100 banking groups in the world 71 of them maintain operation bases in Hong Kong. In addition, 3,200 MNEs have been attracted to Hong Kong on account of its unparallel geo-economic location and promising business potentials emanating from a booming Chinese and East Asian economy in the region.

In terms of the volume of either consortium loans (excluding Japan) or foreign exchange transaction Hong Kong ranks third in Asia. In respect of the non-bank operations, Hong Kong excels equally in stock exchange, insurance, venture capital

development, fund management, etc. It is also a regional clearance centre for both the American dollar (since 2000) and the Euro (since 2002).

The conclusion of the two pacts with Beijing, namely, the Closer Economic Partnership Arrangement (CEPA) and Clearance Arrangement (CP), which took effect respectively in January and March, 2004, further boosted Hong Kong's supremacy in comparison to Singapore, its major rival in the region. What are the functions and the benefits Hong Kong expects to gain by means of these two pacts?

Signed on June 29, 2003, the CEPA contains one formal agreement and six Appendices. The original idea was put forward by the Hong Kong Chamber of Commerce to Beijing on the grounds that Hong Kong's location advantage as an entrepôt to China would suffer because, having acquired the WTO membership and hence a ticket to the world market, Beijing would depend much less on the latter for the traditional function it plays. Hong Kong's economy would be marginalized. The anxiety of the Hong Kong's business circles was received with sympathy and reciprocated by a chain of bilateral negotiations which eventually led to the conclusion of the so-called WTO-Plus clauses. It was also a timely response from Beijing for, having endured the 1998 financial onslaught, Hong Kong's business confidence plummeted.

On the other hand, this move was based on an obvious political motivation. Namely, propping up economically this newly-recovered "crown jewel" was consistent with Beijing's claim that "one country two systems" works. It has been their view that the same model may be applied to Taiwan and yield good results!

The CEPA is labelled WTO-Plus because, in terms of its content, the admittedly generous package of concessions provided for is unilateral. Through this newly-opened venue Hong Kong has everything tangible to gain while Beijing earns reputation! Materially, this document covers not only privileges granted to Hong Kong in trade, commodities, and services, but also a special market access of a host of financial and service industries. However, the whole liberalization process is divided into three consecutive phases, dating from 1 January, 2004 till the end of 2006. The end of 2006 is also a deadline by which China has committed to fully open her financial market to WTO members. For an illustration only, during phase-1 liberalisation, China agreed (1) to apply a "zero import duty" to 374 commodity groups as long as Hong Kong commodities meet the "rule of origin" requirements; (2) to grant 18 services industry a preferential access to China's internal market; and (3) to lower the capital requirements and other terms imposed on foreign banks or financial corporations in setting up a branch or representative offices in China.

As far as the concessions are concerned (3), for example, the minimum capital requirement is reduced from US\$20 billion to US\$6 billion, and the minimum gestation period for setting up banks of mixed ownership (i.e. mixed with Chinese local banks) or financial corporations is reduced from three to two years. Furthermore, to qualify for conducting an RMB (i.e. Chinese Yuan) business banks from Hong Kong shall wait for only two years instead of three years or longer.

Conceivably, enjoying a lead time two to three years ahead of their non-Hong Kong competitors Hong Kong banks are able to consolidate their market posi-



tion and expand with considerable ease. In a similar vein, Hong Kong-based non-bank financial organizations are also taken care of with comparable favourable terms for both cross-border and the host's home market business opportunities.

Inter-Bank Clearance: In view of the accord reached between Beijing and the HK Autonomous Region (AR), the Clearance Arrangement (CA) is formed of three parts: (1) the cross-border settlement of accounts and clearance, (2) the payment and deposit account business, and (3) banking remittance. To understand the nature and the functions of the CA, it is of importance to bear in mind that under the Basic Law (literally the AR's version of a Constitution) Hong Kong is allowed to keep the legal tender of her own Hong Kong Dollar. This arrangement signifies as well as validates the supreme order as dictated by "one country two systems". But in reality both the HK dollars and RMB are jointly circulating in the market. On the other hand, the RMB circulates only in cash form within the AR as a medium of exchange, not as a store of value and means of payment. In addition, neither of the two is a vehicle currency because they are not internationally convertible. The reason for the co-existence of two currencies in one market is trivial: there is a strong demand! The RMB was in high demand actually long before the world expected that it would appreciate significantly against the US dollar. Other than the demand out of the motive of speculation, the transactions demand is the main driving force, i.e. for cross-border business, tourism, transfer payment, and, more recently, for acquiring real estates in China.

But it has to be realized that the ultimate determinant giving rise to the increased transactions is the fact that Hong Kong's economy is already fully assimilated with mainland China, in particular with the Pearl River delta in southern China and the coastal region. At present Hong Kong is depleted of its manufacturing base as a new horizon has emerged in cost-competitive hinterland of China. As a consequence, the backbone of Hong Kong's economy has been radically transformed. It is now overwhelmingly service-oriented in output composition (accounting for roughly 90% of GDP). To highlight the significance, and thus the contributions of the China-linkage to Hong Kong's economy, it is instructive to recall merely that, annually, the incoming mainland tourists have already surpassed the 10 million mark, representing a good 50% of all tourists together. Tourism is quickly emerging as one of the many cash crops of Hong Kong, thanks to the immensely expanding purchasing power of the *nouveau riche*. This is hard to imagine, retrospectively, for at the turn of power transfer in 1997 Hong Kong underwent a protracted confidence crisis!

In 2001, the volume of the RMB constantly in circulation in Hong Kong was estimated to lie between 50 to 70 billion (Cao, 2003). Nevertheless, there was no official body responsible for overseeing and streamlining this financial "outlaw". From the viewpoint of the PRC's monetary authority – the People's Bank of China (PBC) – it is imperative to institute a framework, so as to divert unofficial cross-border flows into a more organized money market. Based on the Charters of the Provisional AC concluded between the PRC and the Hong Kong in 2003, the following rules are set out: (1) to identify a designated Hong Kong bank for consolidating the inter-bank clearance, (2) to define the terms and conditions for the settlement of

accounts between the designated bank and the participating banks in Hong Kong, (3) the designated bank is the sole cross-border clearance window with its counterpart – the Shenzhen PBC, (4) the designated bank maintains a suitable amount of the reserve currency – in this case both the RMB and the HK dollar – and surrenders the rest to its clearance counterpart, (5) to set up a ceiling under which the depositors are allowed to convert and remit daily through local banks, (6) to provide banking services including the Visa, ATM, etc. to the clients; (7) banks qualified to run a RMB business in China may accept, within a limit, transfers through the designated clearance bank.

On account of the functions of the provisional CA listed above Hong Kong has set up, for the first time since 1997, an official network for carrying out routine cross-border banking transactions with China. As a result, the once predominant “grey market” is downgraded. Yet the scope of business of the banking network is rather limited. It caters only for individuals, not for the business community, and more precisely, for facilitating consumers’ shopping and the household’s demand for opening an RMB deposit account. The huge demand for company finance has not entered the agenda. *Secondly*, the allowable amount of transactions is limited on a daily basis: under RMB 20,000 for overseas transfer applicable to deposit account holders; under 6,000 RMB for a foreign exchange transaction applicable to non-deposit account holder. *Thirdly*, except for the Shanghai/Shenzhen B-Stock Exchange opened for foreigners and the H-Stock Exchange for mainlanders, other forms of investments cannot go through the system.

At this stage a cross-border RMB business is still highly selective. It looks like a small window opening on densely-guarded high walls. Many people attribute this conservative attitude to Beijing’s concern for monetary and financial stability. Bearing in mind that the 1997 financial crisis plagued half of the money markets in Asia, this concern is of course not groundless. Furthermore, since the RMB is not a convertible currency and that China has not opened her capital account, it seems premature to expect anything else.

Despite these drawbacks financial linkages between the PRC and Hong Kong are in place already. Hong Kong can claim success not only in comparison with Taiwan but also with other potential regional centres in East Asia. The recent progress in Hong Kong’s off-shore banking business in the RMB could yet again enhance greatly the competitive position of the AR and cast a serious doubt on the development outlook of the Taiwanese banking sector!

### **Concluding Remarks**

With reference to the dual financial linkages with China the records of Taiwan look dismal indeed compared with Hong Kong. In the area of bilateral exchange of banking intermediates with PRC, those who have managed to set up representative offices through the regular procedures have practically no real function to speak of. The application of the Chinese counterparts to access Taiwanese market has so far met

with cool response. It is interesting to note that there are, nevertheless, a handful of branch offices owned and operated commercially by Taiwan bankers. As fully-licensed banking units or affiliates, they are entitled to conduct normal businesses, including the highly profitable RMB business in China. This is so because they did not follow the regular time-consuming and bureaucratic path as seen above. Instead, they approached the mainland market either as investors or by acquiring CEPA-compatible Hong Kong banks. Of course, they are the few exceptional pioneers! A great majority of the Taiwanese banking intermediaries are still expecting eventual redirection of policies towards Beijing.

On the other hand, in order to facilitate bilateral financial flows within a regular and formalized market framework it is indispensable to lay down, in concrete terms, the power of jurisdiction of the respective monetary authorities and the appropriate instruments for cross-Strait mutual supervision of the banking systems. Here-with, the formal appellation of the accord to be negotiated between Taipei and Beijing is of little significance. To reduce the presumably unfounded connotations that the CEPA is not free from political undertones<sup>6</sup> other neutral terms may be evoked and employed instead. Essentially, this suggests that it is the real contents of the formal paper that count, and it is not the “phraseology” or “ideology” that matters. In short, pending the conclusion of a framework accord Taiwan will not be able to reproduce Hong Kong’s economic success.

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<sup>6</sup> Since the Taiwanese power structure considers subscribing to it, it has the implication that Taipei accepts being also an AR of the PRC, namely as an equivalent to Hong Kong and Macau.