

## Editorial

### Moving Backwards

Taiwan's long-held goal has been to develop itself into a regional financial center, especially for asset management and fundraising. Considerable progress was made toward that objective in recent years through liberalized regulations that allowed a fuller and freer flow of capital between Taiwan and global markets. International funds responded with greater attention to the Taiwan market, benefiting the country's increasingly sophisticated local consumers with wider investment choices.

Now much of that good work is in danger of being undone. Concerned about a weak New Taiwan dollar and mounting capital outflows (some US\$11 billion in the first quarter of this year), the Central Bank and the Securities and Futures Bureau (SFB) of the Financial Supervisory Commission have been adopting a series of measures since May to slow down growth of the international fund business in Taiwan. Under the guise of voluntary "guidelines" worked out with the domestic trade association for the fund industry, the authorities are capping new mutual funds aimed at offshore investments at NT\$10 billion (US\$302 million) - and at NT\$8 billion for second rounds of fundraising.

Fund companies are also being advised to stretch out their outward remittances, and they have been asked to submit data regarding domestic investors in international funds (ostensibly in preparation for prospective changes broadening personal tax liability to global income). In addition, the Central Bank has suspended approval of most new overseas funds, leaving a backlog of some 240 pending applications. And the SFB has cautioned fund houses not to use words such as "profit" or "high-yield" in their advertising, and instead to alert customers about the risks of offshore investing. In response to expressions of concern from the foreign financial community, the authorities have sought to play down the seriousness of this policy, characterizing it as merely "moral suasion" and not a binding regulation. But "moral suasion" is just a polite way of saying "pressure," and what in this case is rather heavy-handed pressure is having a chilling effect on Taiwan's asset management companies and undermining the country's reputation in global markets. A June 8 editorial in the Asian Wall Street Journal summed up the situation as "a cure that's worse than the disease."

With offshore investment opportunities restricted, more money has been pouring into the Taiwan stock market, pushing up share prices. Hopefully that was not the motivation for the current policy, although the government cannot mind the result in a pre-election year. For the sake of attaining longer-term objectives, however, the authorities need to communicate clearly to the financial community what basic rules of the game it intends to follow. The uncertainties and lack of transparency stemming from the current regulatory inconsistency are bad for business, bad for Taiwan's ambitions to be recognized as a world-class financial center, and ultimately bad for the Taiwanese investor.