

Trade and Direct Investment across the Taiwan Strait

**- An Empirical Analysis of Taiwan and China's
Accession into the WTO**

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INTRODUCTION

In this study, we apply a multi-regional computable general equilibrium model to analyze the impacts of the global liberalization of trade in both services and commodities following the accession of Taiwan and mainland China into the WTO.

We investigate the differences resulting from changes in Taiwan's trade and investment policies towards China. In contrast to previous studies, the distinctive feature of this study is that the effects of accession on FDI into mainland China are incorporated into the empirical model.

Recent Trade and Investment Trends across the Taiwan Strait

The Taiwanese government has taken very cautious steps towards its economic relationship with China, with cross-strait trade being limited to indirect trade only.

The export of Taiwanese goods to mainland China are required to go through third countries. Imports into Taiwan from mainland China are permitted, providing they do not run contrary to any national security interests and that they do not have any adverse effects on related industries.

Table 1 Cross-strait trade statistics

Unit: US\$ million

Year	Taiwan				China			
	Exports to		Imports from		Exports to		Imports from	
	China	Hong Kong	China	Hong Kong	Taiwan	Hong Kong	Taiwan	Hong Kong
1995	335	26,106	3,108	1,843	3,098	35,983	14,784	8,591
1997	628	28,688	3,915	1,996	3,397	43,797	16,434	6,997
2000	4,222	31,336	6,223	2,187	5,040	44,530	25,497	9,431
2001	4,746	26,961	5,902	1,849	5,006	46,503	27,344	9,424

Sources: Data on Taiwanese imports from *Monthly Statistics of Exports and Imports*, Department of Statistics, Ministry of Finance, ROC; Chinese export data from the World Trade Atlas based on China's Customs.

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1997	628	28,688	3,915	1,996	3,397	43,797	16,434	6,997
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Sources: Data on Taiwanese imports from *Monthly Statistics of Exports and Imports*, Department of Statistics, Ministry of Finance, ROC; Chinese export data from the World Trade Atlas based on China's Customs.

Table 2 GTAP export matrix, 1997

Unit: US\$ million

Source	Destination		
	Taiwan	China	Hong Kong
Taiwan	-	25,707	5,155
China	5,152	2	12,131
Hong Kong	961	8,033	-

Source: GTAP. version 5.

Table 3 Taiwan's outward investment into mainland China

Year	Taiwanese-approved Investment into Mainland China				Mainland China's Recorded Inward Investment from Taiwan		
	Original Registration (US\$ million)	Made up Registration (US\$ million)	Total Registration (US\$ million)	Proportion of Outward Investment (%)	Contracted Amount (US\$ million)	Amount Actually Invested (US\$ million)	Proportion of Inward Investment (%)
1991-01	14,623	5,263	19,886	41.29	55,363	28,922	7.71
1991-95	3,616	2,028	5,644	44.02	30,110	11,208	9.75
1996-00	8,223	3,235	11,458	40.69	18,353	14,574	6.83
1996-01	11,007	3,235	14,242	40.31	25,253	17,714	6.80
1991	174	-	174	9.51	3,430	466	10.68
1992	247	-	247	21.78	5,543	1,050	9.33
1993	1,140	2,028	3,168	65.60	9,965	3,139	11.30
1994	962	-	962	37.30	5,395	3,391	9.99
1995	1,093	-	1,093	44.62	5,777	3,162	8.42
1996	1,229	-	1,229	36.20	5,141	3,475	8.32
1997	1,615	2,720	4,335	59.97	2,814	3,289	7.27
1998	1,519	515	2,034	38.15	2,982	2,915	6.41
1999	1,253	-	1,253	27.71	3,374	2,599	6.45
2000	2,607	-	2,607	33.93	4,042	2,296	5.64
2001	2,784	-	2,784	38.80	6,900	3,140	6.70

Recent Trade and Investment Trends across the Taiwan Strait

Following the demise of Taiwan's economy into its worst recession since the 1950s, the Economic Development Advisory Conference (EDAC) was called upon by the Taiwanese President to find a solution. The month-long conference yielded a total of 322 consensus decisions on taxation and finance reforms, including 36 aimed at developing closer economic ties with the mainland. The proposals included replacing the 'no haste, be patient' policy with a policy advocating 'active opening and effective management'; lifting the US\$50 million cap on single investments in the mainland and the limit on total investments there by listed companies; allowing mainland tourists to visit Taiwan and mainlanders to invest in Taiwan's real estate and stock markets; and actively pursuing direct trade, transportation and postal links with the mainland.

MODEL SPECIFICATION

Closure Rules

Within our simulations, we divide our analysis into two different types of capital market closure rules.

The first group of simulations uses a static closure; in this case, we fix the capital stock for each region. Thus, the change of investment has only demand side effects.

In the second group of simulations, assuming a fixed savings rate, we allow the capital stock to vary in response to investment. In this case a steady state is achieved when savings cover depreciation.

MODEL SPECIFICATION

Foreign Direct Investment

We assume that the accession of both Taiwan and China into the WTO frees up FDI across the Taiwan Strait, and will thus have crucial effects on the economies of both sides.

Our model adopts the setup of Weng, *et. al.* (2002) to provide specific treatment to FDI between Taiwan and China. Following Malcolm's (1998) treatment of country risks, Weng, *et. al.* (2002) used an investment-attractiveness coefficient to adjust a country's expected return of capital. Thus, in the model:

MODEL SPECIFICATION

$$RORE(r) = RORG / INVATT(r)$$

Where *RORE* is the expected return of capital in region *r*; *RORG* is the global capital return level; and *INVATT*(*r*) is the investment-attractiveness coefficient in region *r*.

However, Weng, *et. al.* (2002) and Swain (1995) econometric studies suffer problems of inconsistencies in some numerical results and a lack of degrees of freedom. (Liu, *et. al.*, 1997: 314)

MODEL SPECIFICATION

Our study uses panel data analysis, as applied by Liu, *et. al.* (1997) and Dees (1998), with an emphasis on the effects of Taiwan's policy changes on FDI inflows into China.

The panel data covers the period 1990-1999 and 27 home countries/regions. The variables of relative size of domestic market in terms of relative real GDP, relative real wage rates, tariff rates, and real imports from home regions, are chosen as possible determinants of China's FDI inflow.

To account for the effects of Taiwan's 'no haste, be patient' investment policy, we add a dummy variable for Taiwan with a value of '1' after the year 1996. An Asian financial crisis dummy is also added to control for the effects of this major incident.

MODEL SPECIFICATION

In order to choose an appropriate statistical model, we carry out a hypothesis test of intercept homogeneity, with a resultant F-statistic of 8.9454, which is greater than the 5 per cent critical value of F (=6.4578). This suggests that the intercepts are not homogeneous across different countries.

In addition, since we attempt to predict individual behavior from the regression results, the fixed effects model, as opposed to the random effects model, seems to be more appropriate for our purposes.

Table 7 Estimate of elasticities of FDI inflows into China

Explanatory variables	Estimated Coefficient	t-statistic
Relative GDP size	-3.43	-4.30
Relative real wage rate	0.56	1.93
Tariff rate	-0.70	-2.01
Exports to China	0.99	7.83
Taiwan's Investment Policy	-2.27	-2.78
Asian Crisis	-0.43	-1.78
R-squared	0.82	
Adjusted R-squared	0.79	

SIMULATION DESIGN

Table 4 Simulation design

Simulation Specifications	Scenarios			
	Static		Steady-State	
	Scenario A	Scenario B	Scenario C	Scenario D
Post-Accession Trade Liberalization	Yes	Yes	Yes	Yes
Direct Cross Strait Transportation	No	Yes	No	Yes
Cross-Strait Investment Liberalization	No	Yes	No	Yes

Table 5 Tariffs and/or Non-Tariffs Reductions: 1997-2001

	Developed Countries	Developing Countries
Agriculture	13.3%	5.3%
Industries	24%	9.6%
Services	25%	25%

Table 6 Tariff and/or non-tariff reductions, 2002 and beyond

Unit: %

Sector	Taiwan	China	Developed Countries	Developing Countries
Agriculture	4.18	9.81	-	5.32
Livestock	2.62	0.91	-	5.32
Forestry	0.00	0.00	-	5.32
Fishing	13.75	22.31	-	5.32
Minerals	2.14	0.32	-	9.60
Food	6.08	20.03	-	9.60
Beverages	15.99	66.10	-	9.60
Textiles	6.26	40.76	-	9.60
Clothing	8.03	15.11	-	9.60
Petroleum	12.31	57.20	-	9.60
Chemical	25.90	48.03	-	9.60
Ferrous Products	63.31	2.21	-	9.60
Metal Products	20.09	25.55	-	9.60
Motor Vehicle	47.54	11.63	-	9.60
Other Transport Equipment	15.36	18.60	-	9.60
Electronic Equipment	23.89	11.27	-	9.60
Machinery Equipments	22.37	11.16	-	9.60
Other Manufacturing	41.61	28.64	-	9.60
Electricity	-	-	-	-
Construction	25.00	25.00	25.00	25.00
Trade	25.00	25.00	25.00	25.00
Transport	25.00	25.00	25.00	25.00
Communication	25.00	25.00	25.00	25.00
Financial Services	25.00	25.00	25.00	25.00
Other Services	25.00	25.00	25.00	25.00

SIMULATION RESULTS

The Effects on Regional Economies

Table 8 Changes in selected macroeconomic indicators, static results

Unit: %

Region	Scenario A							Scenario B						
	Real GDP	Real Investment	Real Export	Real Import	Trade Balance	Terms of Trade	Welfare	Real GDP	Real Investment	Real Export	Real Import	Trade Balance	Terms of Trade	Welfare
Taiwan	0.17	0.56	2.41	3.16	-115	0.05	524	0.21	1.18	2.70	4.37	48	0.87	1,942
China	0.15	4.76	-0.36	6.31	-14,597	0.44	4,044	0.17	7.02	-1.89	8.21	-20,857	1.28	7,291
Hong Kong	0.12	0.34	0.96	1.49	-444	0.82	864	0.12	0.23	1.00	1.34	-353	0.71	769
Japan	0.06	-0.61	2.88	1.57	7,318	-0.14	1,626	0.06	-0.70	3.02	1.40	8,367	-0.22	804
Korea	0.25	0.45	2.55	3.09	-987	-0.12	1,207	0.24	0.36	2.59	3.00	-875	-0.19	985
ASEAN	0.32	0.85	2.04	2.39	-1,536	0.01	1,972	0.32	0.77	2.06	2.34	-1,374	-0.01	1,808
South Asia	0.26	1.41	6.74	7.01	-1,234	-1.02	-91	0.26	1.33	6.85	6.96	-1,147	-1.04	-137
Aus/NZ	0.13	-0.36	1.95	1.64	415	0.18	849	0.13	-0.47	2.02	1.57	515	0.16	797
NAFTA	0.05	-0.64	1.80	0.89	10,238	0.04	4,884	0.05	-0.75	1.88	0.80	11,829	0.00	4,040
EU	0.10	-0.66	0.99	0.53	10,032	-0.06	6,053	0.09	-0.79	1.05	0.49	11,850	-0.08	4,970
Rest of World	0.29	1.11	4.61	5.20	-9,092	0.07	12,782	0.28	0.99	4.67	5.14	-8,002	0.06	12,339

Table 9 Changes in selected macroeconomic indicators, steady state results

Unit: %

Region	Scenario C							Scenario D						
	Real GDP	Real Investment	Real Export	Real Import	Trade Balance	Terms of Trade	Welfare	Real GDP	Real Investment	Real Export	Real Import	Trade Balance	Terms of Trade	Welfare
Taiwan	0.42	0.64	2.76	2.76	85	-0.02	1,038	0.81	1.55	3.47	4.81	431	0.71	3,179
China	2.18	5.45	1.65	3.53	-8,183	-0.43	12,627	3.02	7.72	3.86	8.86	-10,937	0.00	19,090
Hong Kong	0.33	0.40	1.26	1.44	-377	0.76	1,047	0.18	0.12	1.38	1.47	-252	0.71	844
Japan	-0.17	-0.60	0.00	2.00	2,947	0.11	-2,212	-0.21	-0.70	2.02	1.75	3,353	0.07	-3,740
Korea	0.46	0.52	0.14	2.99	-640	-0.19	1,786	0.37	0.33	2.96	3.11	-537	-0.24	1,349
ASEAN	1.07	1.35	0.56	3.04	-840	-0.16	4,953	0.93	1.12	2.91	2.84	-672	-0.17	4,248
South Asia	1.13	1.84	-0.15	9.05	-298	-1.45	2,731	1.05	1.66	9.00	7.17	-240	-1.46	2,363
Aus/NZ	-0.12	-0.57	0.27	1.58	257	0.30	175	-0.19	-0.73	1.54	1.50	305	0.31	-53
NAFTA	-0.25	-0.78	0.03	1.18	4,707	0.18	-12,148	-0.30	-0.92	1.16	0.79	5,445	0.17	-15,924
EU	-0.19	-0.67	-0.03	0.47	2,935	0.03	-7,404	-0.25	-0.81	0.42	0.32	3,349	0.02	-11,325
Rest of World	0.54	0.62	0.09	5.40	-592	-0.10	18,287	0.48	0.50	5.35	4.93	-247	-0.10	16,341

Simulation Results

The Sectoral Impacts on Taiwan and China

Table 10 Sectoral impacts of WTO accession by Taiwan and China, static results

Sector	Scenario A						Scenario B						Unit: %
	Taiwan			China			Taiwan			China			
	Output	Export	Import	Output	Export	Import	Output	Export	Import	Output	Export	Import	
Agriculture	-0.25	-0.13	0.61	-0.85	0.08	5.51	-0.55	-0.41	1.97	-1.01	-1.26	6.43	
Livestock	-0.24	-0.19	0.07	0.15	-2.05	1.99	-0.56	-2.72	0.25	0.18	-4.66	3.78	
Forestry	0.28	0.94	0.31	0.62	-6.19	4.78	0.78	5.30	1.05	0.85	-9.29	7.82	
Fishing	-0.30	2.51	6.00	-0.21	-1.09	8.03	-0.46	1.52	8.87	-0.24	-2.20	11.36	
Minerals	-0.39	0.55	0.53	-0.39	-1.60	0.16	-0.67	7.55	1.32	-0.56	-2.05	0.98	
Food	-0.28	0.37	1.79	-1.19	-2.28	9.22	-0.53	-1.20	3.17	-1.46	-4.43	10.55	
Beverages	-2.19	-12.84	5.97	-4.24	1.26	82.08	-2.32	-2.52	8.23	-4.32	-1.72	85.75	
Textiles	4.23	5.47	3.47	-2.61	1.84	8.40	9.52	12.49	8.30	-4.11	1.45	10.69	
Clothing	-1.28	-1.42	2.34	-0.03	0.80	8.93	-3.18	-3.30	7.58	-1.12	-0.88	10.63	
Petroleum	0.68	4.42	1.82	-1.53	0.31	6.63	1.28	4.73	2.41	-1.86	-0.77	7.15	
Chemical	1.67	4.38	2.97	-1.58	1.50	4.55	3.27	7.80	5.03	-2.30	0.30	5.73	
Ferrous Products	-1.63	3.16	6.71	0.02	-4.58	3.55	-1.82	5.58	8.37	-0.12	-6.10	5.87	
Metal Products	0.60	1.83	2.47	0.30	-2.56	8.11	-0.30	0.40	4.75	0.33	-4.44	12.11	
Motor Vehicle	-9.26	17.77	24.16	-1.47	-8.21	8.28	-11.57	10.98	26.21	-1.71	-12.08	10.99	
Other Transport Equipment	2.73	5.05	1.81	-0.61	-6.08	9.06	1.88	4.70	3.04	-1.12	-9.76	13.61	
Electronic Equipment	0.02	0.36	0.84	-1.06	-1.26	1.73	-1.78	-1.57	0.05	-1.84	-2.42	2.36	
Machinery Equipments	0.34	1.13	1.11	0.03	-2.36	5.31	0.63	2.40	2.50	-0.10	-3.74	8.10	
Other Manufacturing	-0.10	2.19	2.70	0.40	-2.04	5.60	0.04	3.89	4.14	0.49	-3.82	8.07	
Electricity	0.26	-2.05	0.95	-0.25	-1.12	1.88	0.76	-6.24	3.47	-0.37	-3.49	3.57	
Construction	0.37	2.61	6.40	4.44	-0.29	12.15	0.81	-0.64	8.79	6.55	-2.46	15.70	
Trade	-0.12	1.71	3.02	-0.02	1.30	8.32	-0.07	-2.33	5.31	-0.06	-1.10	9.75	
Transport	0.89	9.62	15.34	-0.42	8.52	17.17	0.10	6.72	16.91	-0.78	6.25	18.33	
Communication	0.40	20.38	3.63	0.37	17.05	27.06	0.31	15.63	3.85	0.66	14.26	29.00	
Financial Services	-0.30	2.74	5.58	-0.17	2.12	7.52	-0.45	-1.37	7.46	-0.17	-0.27	8.76	
Other Services	-0.30	6.08	8.62	0.02	4.78	10.56	-0.27	1.93	10.96	0.19	2.29	12.14	

Table 11 Sectoral impacts of WTO accession by Taiwan and China, steady state results

Unit: %

Sector	Scenario C						Scenario D					
	Taiwan			China			Taiwan			China		
	Output	Export	Import	Output	Export	Import	Output	Export	Import	Output	Export	Import
Agriculture	-0.19	0.18	0.77	0.10	-2.11	8.61	-0.45	-0.38	2.42	0.34	-4.35	10.84
Livestock	-0.15	0.40	-0.58	1.32	-5.41	5.32	-0.36	-2.01	-0.24	1.83	-9.13	8.49
Forestry	0.36	1.43	0.61	2.26	-8.38	8.08	1.02	5.73	1.75	3.12	-11.75	12.06
Fishing	-0.19	3.02	5.71	0.57	-6.43	13.26	-0.24	2.13	8.45	0.87	-9.46	18.86
Minerals	-0.19	1.82	0.83	1.33	-4.27	3.89	-0.17	9.20	2.01	1.86	-5.66	6.22
Food	-0.19	0.57	1.81	-0.08	-1.34	10.18	-0.32	-0.84	3.24	0.13	-2.95	11.79
Beverages	-1.87	-12.33	5.64	-2.70	4.69	80.45	-1.68	-1.64	7.88	-2.15	3.39	83.22
Textiles	4.63	6.09	3.67	0.38	4.20	9.98	10.62	13.89	8.90	0.26	4.99	13.09
Clothing	-2.16	-2.88	2.95	3.27	4.86	8.28	-4.04	-4.77	8.77	3.89	5.41	9.51
Petroleum	0.98	4.76	2.14	0.62	1.40	8.64	1.95	5.13	3.06	1.18	0.67	9.89
Chemical	2.22	5.24	3.26	1.13	4.76	5.74	4.36	9.28	5.66	1.54	5.02	7.37
Ferrous Products	-1.27	3.75	6.85	3.00	-0.69	4.03	-1.00	6.81	8.67	4.04	-0.48	6.34
Metal Products	0.76	1.89	2.80	2.87	2.06	7.48	0.16	0.71	5.43	3.91	2.29	10.96
Motor Vehicle	-8.67	18.92	24.10	2.78	2.89	5.51	-10.45	12.95	26.29	4.23	3.64	6.81
Other Transport Equipment	2.86	5.05	1.83	3.28	4.45	6.12	2.28	4.86	3.23	4.35	5.34	9.01
Electronic Equipment	0.40	0.76	1.14	3.12	3.28	3.44	-0.94	-0.72	0.69	4.15	4.17	4.73
Machinery Equipments	0.63	1.40	1.17	3.19	2.85	4.71	1.22	2.91	2.81	4.34	3.79	7.01
Other Manufacturing	0.09	2.32	2.94	2.89	2.32	5.72	0.59	4.34	4.66	3.97	2.55	8.03
Electricity	0.54	-0.99	0.61	2.02	3.48	0.34	1.42	-3.89	2.73	2.82	3.34	1.19
Construction	0.50	2.66	6.42	5.21	3.11	10.98	1.25	-0.38	8.98	7.40	2.52	13.60
Trade	0.11	1.82	3.04	2.12	5.07	8.20	0.50	-1.84	5.43	2.96	4.46	9.36
Transport	1.11	9.85	15.53	2.24	13.28	17.06	0.62	7.20	17.33	3.00	13.14	18.00
Communication	0.66	21.00	3.83	2.52	27.30	24.22	0.94	17.23	4.36	3.65	28.97	24.70
Financial Services	0.04	3.63	5.41	2.02	7.85	6.93	0.38	0.62	7.15	2.91	8.01	7.75
Other Services	-0.16	6.14	8.66	1.82	8.90	10.40	0.06	1.93	11.24	2.72	8.27	11.74

Simulation Results

Changes in Cross-Strait Trade Relations

Table 12 Export market structure of Taiwan, China and Hong Kong under alternative scenarios

Unit: %

	Taiwan	China	Hong Kong	Japan	Korea	ASEAN	South Asia	Aus/NZ	NAFTA	EU	Rest of World	Total
Taiwan												
Base Year	0.00	21.13	3.66	9.47	1.85	12.21	0.56	1.72	27.55	15.79	6.06	100
Scenario A	0.00	22.02	3.63	9.33	1.85	12.19	0.60	1.69	27.04	15.54	6.13	100
Scenario B	0.00	24.82	3.50	9.01	1.78	11.78	0.58	1.63	26.07	14.95	5.90	100
Scenario C	0.00	22.15	3.62	9.30	1.84	12.23	0.60	1.68	26.97	15.51	6.10	100
Scenario D	0.00	24.98	3.49	8.97	1.78	11.80	0.57	1.62	25.98	14.93	5.87	100
China												
Base Year	2.17	0.00	4.97	17.08	4.25	7.50	1.06	1.88	27.32	20.87	12.90	100
Scenario A	2.16	0.00	5.00	16.90	4.29	7.57	1.12	1.87	27.04	20.77	13.27	100
Scenario B	2.51	0.00	5.00	16.86	4.28	7.55	1.12	1.87	26.96	20.66	13.20	100
Scenario C	2.17	0.00	4.94	16.84	4.27	7.60	1.12	1.86	27.11	20.81	13.29	100
Scenario D	2.52	0.00	4.91	16.76	4.24	7.57	1.11	1.86	27.05	20.74	13.24	100
Hong Kong												
Base Year	1.85	18.76	0.00	4.40	0.74	6.96	0.69	1.44	27.69	14.51	22.96	100
Scenario A	1.82	19.38	0.00	4.31	0.73	6.96	0.70	1.42	26.91	14.09	23.69	100
Scenario B	1.81	19.27	0.00	4.32	0.73	6.97	0.70	1.42	26.97	14.1	23.71	100
Scenario C	1.82	19.5	0.00	4.31	0.73	6.98	0.70	1.42	26.85	14.07	23.62	100
Scenario D	1.81	19.41	0.00	4.32	0.73	6.98	0.70	1.42	26.89	14.09	23.64	100

Table 13 Import market structure of Taiwan, China and Hong Kong under alternative scenarios

Unit: %

	Taiwan	China	Hong Kong	Japan	Korea	ASEAN	South Asia	Aus/NZ	NAFTA	EU	Rest of World	Total
Taiwan												
Base Year	0.00	5.38	0.86	26.35	4.22	12.88	0.69	3.44	21.94	16.71	7.53	100
Scenario A	0.00	5.22	0.84	26.29	4.24	12.79	0.71	3.38	22.30	16.92	7.30	100
Scenario B	0.00	5.76	0.82	26.17	4.22	12.62	0.71	3.35	22.20	16.88	7.26	100
Scenario C	0.00	5.39	0.84	26.11	4.25	12.89	0.72	3.37	22.21	16.87	7.35	100
Scenario D	0.00	6.04	0.82	25.95	4.23	12.71	0.72	3.34	22.09	16.79	7.31	100
China												
Base Year	13.71	0.00	4.16	22.81	9.15	8.11	0.85	2.10	13.47	16.43	9.22	100
Scenario A	13.69	0.00	4.10	22.89	9.07	8.07	0.83	2.05	13.50	16.86	8.94	100
Scenario B	14.85	0.00	4.03	22.55	8.85	7.95	0.80	2.03	13.35	16.72	8.87	100
Scenario C	13.74	0.00	4.12	22.71	9.12	8.16	0.84	2.07	13.46	16.72	9.06	100
Scenario D	14.95	0.00	4.04	22.33	8.90	8.06	0.82	2.06	13.30	16.52	9.01	100
Hong Kong												
Base Year	5.45	13.97	0.00	13.48	7.42	15.06	0.62	2.62	13.67	19.28	8.43	100
Scenario A	5.46	13.87	0.00	13.49	7.39	15.01	0.65	2.60	13.69	19.36	8.48	100
Scenario B	5.32	13.73	0.00	13.54	7.42	15.05	0.65	2.61	13.73	19.44	8.51	100
Scenario C	5.46	14.11	0.00	13.35	7.38	15.11	0.66	2.59	13.6	19.21	8.54	100
Scenario D	5.34	14.1	0.00	13.38	7.39	15.13	0.66	2.60	13.62	19.24	8.55	100

CONCLUSIONS

We find that in the short run, most regions of the world will benefit from the accession of these two economies into the WTO, particularly Taiwan and China themselves.

As a result of Taiwan's freer trade and investment policies, both economies will be in a position to seize even greater gains from the effects of global trade liberalization.

CONCLUSIONS

- **As for sectoral impacts, in the short run Taiwan is likely to see growth in its capital- and technology-intensive sectors, whilst its agricultural, motor vehicle and clothing sectors will decline.**
- **In contrast, China's labor-intensive sectors will expand, whilst the capital- and technology-intensive sectors will contract to some extent.**

CONCLUSIONS

- **However, when considering capital accumulation effect, we find that China's capital-, technology- and labor-intensive sectors will expand, with few exceptions.**
- **This suggests that in the long-run, capital accumulation and capital inflows will bring about tremendous structural changes in China's levels of production and foreign trade.**

CONCLUSIONS

- **This has significant policy implications for both global trade liberalization and economic interaction across Taiwan Strait.**

END