

## Can KMT Revitalize Taiwan Again?



Amid worries over the amount of "black holes" due to subprime crisis around the world, Taiwan market stole the limelight after the landslide victory of Kuomintang (KMT) party in Taiwan's parliamentary elections. The broad index rose 1.8% to close at 8,173.41 on Monday in Taipei, heading for its biggest gain since last December. Futures due in January added 3.5%. The victory would certainly herald lower tensions with China and eased restrictions on Taiwanese investments in the mainland. The KMT won 72% of the vote on Saturday, taking 81 seats in the newly streamlined 113-member chamber. This event also strengthens its bid to regain the presidency after eight years of Chen Shui-bian (Chen), the pro-independence leader who must step down this year. Nothing can be sure over the coming presidential election. Nevertheless, the Democratic Progressive Party's (DPP) defeat suggests Taiwanese

voters probably would reject a bid to join the United Nations in a referendum that Chen wants on the March 22 ballot. China, which considers Taiwan part of its territory, has said it won't tolerate a referendum. There was no immediate official comment from China after Saturday's elections. Beijing insists Taiwan is a breakaway province which must return to mainland rule, and has threatened to use force to prevent a formal move towards independence. Ma Ying-jeou, the KMT's candidate for the March 22 presidential election, has pledged to allow direct links, to reach a peace agreement, and to ease a ban on Taiwanese companies investing more than 40% of their assets in China. His lead over Hsieh widened to 42% points in an opinion poll after Saturday's vote, the Taipei-based, United Daily News reported.

On Monday, the African country of Malawi announced it was switching relations from Taipei to Beijing, reducing the number of the island's diplomatic allies to 23. Since the beginning of Chen's second term, he has pushed the idea that Taiwan should make its de facto independence permanent. He also has moved to limit the size and type of Taiwanese investments on the mainland, and resisted calls to open direct air and maritime links across the Taiwan Strait. Government officials say the restrictions are necessary to reduce economic over-dependence on the mainland, and give Taiwan wiggle room in any political confrontation with Beijing. But all these have not been realized yet. Now, voters don't wait for any hope from DPP.

## Microscope

Taiwan's political separation from the Chinese mainland dates back to the end of the Chinese Civil War in 1949 when Mao Zedong's Communist armies swept to victory and the defeated Kuomintang set up their rival government on the island.

About 1 million of Taiwan's 23 million citizens live in China, and companies like Taiwan Semiconductor Manufacturing Co. and Cathay Financial Holding Co. have invested a total of \$150 billion in the mainland, the island's biggest export market. Taiwan has restricted direct shipping, air and postal links with the mainland since the KMT retreated to Taiwan in 1949 after losing China's civil war to the Communist Party. Taiwanese going to the mainland are forced to travel via other ports such as Hong Kong or Macau. A slowdown after Chen took office in 2000 helped South Korea overtake Taiwan on an economic-output-per-person basis in 2006. Now, most Taiwan businesses are eager to invest in the mainland not only to seek cost advantages, but also to gain access to a potentially large market. The fact that their dream will come true may be just a matter of time.

### MARKET BRIEFING

#### YTD % (local curr)

<b>US DJ</b>	12,606 (-5%)
<b>Nasdaq</b>	2,439 (-8%)
<b>Euro Stoxx 50</b>	4,225 (-4%)
<b>HSI</b>	26,867 (-3.4%)
<b>Japan NK225</b>	14,110 (-7.8%)
<b>China Shanghai Composite</b>	5,484 (+4.2%)
<b>Singapore</b>	3,287 (-5.1%)
<b>India BSE30</b>	20,827 (+2.7%)
<b>Brazil BOVESPA</b>	61,942 (-3%)
<b>Aus All Ord</b>	6,054 (-5.7%)
<b>US-10yr Bond</b>	Yield 3.78%

As at 11/01/08

## Insight: "Financial Freedom"

To many, financial freedom means being free of debt, or just not having to work for a living. They dream of stepping off the treadmill of going to work everyday to pay the bills. Some may want to escape the stresses of the job itself, unpleasant working conditions, boredom, and so on. Others may just value more time to be with their families and pursue their own interests. For most people, it's some combination of those. That is to say, financial freedom may be defined broadly as reaching the point where you no longer have to trade your time for money in order to provide for what you want in life. Some people want to continue to

work, even after they've reached a state of financial freedom. They may already have a job they find personally rewarding, or they may be able to switch to another job which they love. If they're financially free, the income they receive from a job doesn't matter as much. Financial freedom, for them, means they don't have to trade their time for money, but they may choose to do so. To reach financial freedom, you will have to decide on your own means of getting there. You may find you can reach that point on an income, most likely from your own business, from investment income, or from a combination. If you take the investment income route, be sure to build something that will continue to provide income, even if you don't trade your time for it. Otherwise, you won't have reached that level as we have defined it here.

## A-Z Financial Tools

**JUNK BOND** is a non-investment-grade bond with a low credit rating, usually BB or lower; as a consequence, it usually has a high yield. In the past, most junk bonds resulted from a decline in credit quality of former investment grade issuers. This was a result of a major change in business conditions, or the assumption of too much financial risk by the issuer.



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