

Cooperation of Credit Investigation between Mainland China and Taiwan under the New Situation

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Abstract In the context of constant deepening of cooperation in economy and trade and social communication between mainland China and Taiwan, deepening the cooperation of credit investigation can effectively ensure deepening and stable development of trade exchanges and social communication between mainland China and Taiwan. This paper firstly elaborated significance of credit investigation cooperation, then compared current situation of establishment of credit investigation system, and finally put forward guiding principle and specific recommendations for credit investigation cooperation between mainland China and Taiwan.

Key words New situation, mainland China and Taiwan, Credit investigation cooperation

1 Introduction

Excellent social credit environment and well-established credit rating system are cornerstone for healthy operation of market economy, and they can promote economic development and social progress; by contrast, vacancy of credit will lead to chaos of market order and even increase transaction cost and reduce resource allocation efficiency^[1]. Therefore, in the context of constant deepening of cooperation in economy and trade and social communication between mainland China and Taiwan, both mainland China and Taiwan should fully realize importance of credit investigation and promote close cooperation, to ensure deepening and development of trade exchanges and social communication.

2 Significance of credit investigation cooperation between mainland China and Taiwan

In recent years, trade exchanges, social communication, and cultural exchanges become increasingly close between mainland China and Taiwan. According to statistics, in the first quarter of 2016, the total volume of trade between mainland China and Taiwan reached 37.5 billion USD, accounting for 4.7% of total volume of China's foreign trade. The amount of trade from mainland China to Taiwan reached 9.15 billion USD, and from Taiwan to mainland China, it was 28.3 billion USD, and Taiwan has become the seventh largest trade partner and the sixth largest place of origin of mainland China^[2]. Besides, by the first quarter of 2016, mainland China has approved 96000 projects invested by Taiwan investors, and actually used 63.2 billion USD Taiwan funds. Calculated at actual use of foreign investment, the amount of Taiwan investment accounted for 3.8% of total amount of foreign investment^[2]. In such context, promoting credit investigation cooperation

between mainland China and Taiwan is of great significance.

2.1 Favorable for expanding trade exchanges between mainland China and Taiwan According to trade exchanges between mainland China and Taiwan in recent years, trade expenditure means of Taiwan enterprises are more active than mainland enterprises, and commercial reputation of Taiwan enterprises is better than that of mainland enterprises. Besides, transaction cost of Taiwan enterprises is lower. According to statistical data, since the late of the 1980s, more than half Taiwan enterprises adopt letter of credit in international trade payment. In comparison, due to insufficient coverage of credit information and low transparency, such mode of payment fails to extend to trade between mainland China and Taiwan. Now, enterprises in Taiwan and mainland China still adopt spot exchange mode of payment in many cases. This not only increases transaction cost, but also leads to inconvenience to a certain extent. Therefore, promoting the cooperation in credit investigation between mainland China and Taiwan not only improves application of credit information, but also increases frequency and effort of trade between mainland China and Taiwan.

2.2 Favorable for enterprises in mainland China and Taiwan expanding financing Statistical data indicate that nearly a half Taiwan-owned enterprises preferentially choose financial institutions of Taiwan to obtain credit funds for investment in mainland China. Besides, credit products obtained by Taiwan-owned enterprises from commercial banks in mainland China are subject to certain degree of limitation, mainly secured loan. The credit loan accounts for a little portion. An essential reason for such problem is low transparency of credit information. In addition to system limitation of trade exchange between mainland China and Taiwan, it is difficult for Taiwan-owned enterprises to establish a diversified credit relation with commercial banks in mainland. For example, most subject matters of the security for Taiwan-owned enterprises are not in mainland China. Before legal obstacle is eliminated, such collateral security will not be recognized and implemented by commercial banks in mainland China. Furthermore, since credit

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investigation cooperation between mainland China and Taiwan should be strengthened, commercial banks and other financial institutions will have little information for reference during handling related businesses. This will affect handling of various financial businesses to a certain extent. In this situation, promoting the cooperation in credit investigation between mainland China and Taiwan not only further improves application of credit information, but also further increases frequency and effort of trade between mainland China and Taiwan.

3 Comparison of current situation of credit investigation system establishment between mainland China and Taiwan

Due to factors of history, starting time, and social system, there is certain difference in establishment of credit investigation system between mainland China and Taiwan. On the whole, Taiwan learned development experience of western developed countries in credit industry, its credit investigation system is more advanced in starting time, development path, maturity degree, and social benefits than mainland China. Due to special historical background, mainland China is slow in establishment of credit investigation system. Despite with more than twenty years of development, the credit investigation system of mainland China still remains at starting stage.

3.1 Legislation of credit investigation Legislation of credit investigation exerts an utmost effect on establishment and development of credit investigation system. Since the establishment of credit investigation system starts late in mainland China, the legislation of credit investigation in mainland China is also slow and remains at the exploration stage. For example, although there are special provisions in existing laws of mainland China for inquiry of credit information to prevent illegal collection and inquiry of credit data of financial institutions, there is no direct national law to provide basis for social credit investigation, and some principle regulations are scattered in other laws. Compared with mainland China, Taiwan started earlier in legislation of credit investigation and had relatively complete legal framework to guide the work of credit investigation. However, legal system of credit investigation of Taiwan also has the problem of mainly special laws and regulations and few comprehensive laws.

3.2 Credit investigation organizations Credit investigation organization is the carrier of credit investigation activities and core of credit investigation market, and also an essential part of establishment of credit investigation system. According to form of ownership, existing credit investigation organizations can be divided into public, private, and mixed credit investigation organizations. Public credit investigation organizations generally refer to public credit information registration system established by the central bank^[1]. At current stage, the development of public credit investigation organizations is slow in mainland China. The People's Bank of China formally established personal credit information database in 2006^[1]. By the end of October 2014, the national enter-

prise and personal credit system established by the People's Bank of China collected a total of 19.63 million entities and 850 million natural persons, and it is the only nationwide and standardized credit investigation network^[1]. By contrast, the public credit investigation organizations in Taiwan are better established. They not only have credit information of financial institutions in the whole Taiwan, and they have accumulated experience in information search, organization management, business operation, and market-oriented services.

Private credit investigation organizations are credit investigation organizations with private ownership but market operation, independent from government and large financial institutions^[1]. At present, mainland China still remains the preparatory stage of public credit investigation being the major part and there being few various private credit investigation organizations, and the future development mode and direction are uncertain. By contrast, Taiwan owns numerous private credit investigation organizations which have certain development history and have gradually become mature along the path of economic and financial modernization, and play an important role in credit investigation and economic and social operation in Taiwan. Mixed credit investigation organizations refer to those credit investigation organizations operated by government department or industrial associations and established on the principle of mutual reciprocity and mutual benefit^[1]. At present, the People's Bank of China is leader of establishment of credit investigation system in mainland China. There is certain market demand in mixed credit investigation organizations, but it still takes on "non-mainstream" development trend. By contrast, Taiwan has many mixed credit investigation organizations specially established by financial or industrial and commercial associations for investigating credit information. According to existing development trend, mixed credit investigation organizations in Taiwan play significant role in collection of credit data, consolidation of industrial credit information, and construction of internal credit rating system.

3.3 Market supervision Market supervision is an indispensable part of establishment of the credit investigation system. In mainland China, the credit investigation legislation still remains at exploration stage and there is no law on market supervision. Therefore, supervision department of mainland China has to rely on some rules and regulations or guiding opinions to supervision credit investigation activities, which will unavoidably lead to weak and inadequate supervision. Besides, although the State Council of mainland China has clearly defined the People's Bank of China as subject of credit investigation market supervision, the market supervision is still weak without support of specific laws. Comparatively, credit investigation legislation system has been well established in Taiwan, such as *Rules on Management of Credit Rating*, and *Bank Law*, etc. Furthermore, in the aspect of supervision department, finance department, central bank, Financial Supervisory Commission, and local industrial and commercial administration separately implement supervision and management of credit investigation market.

4 Cooperation of credit investigation between mainland China and Taiwan under the new situation

4.1 Guiding principle for cooperation of credit investigation between mainland China and Taiwan under the new situation

Under the new situation, promoting cooperation of credit investigation between mainland China and Taiwan may adopt subject authorization, safety protection, diffusion limitation, counter exchange^[3]. Specifically, with subject authorization, administrative organs of mainland China and Taiwan can authorize related enterprises or individuals, allow them to inquiry about credit information of enterprises or individuals through specific channel and transmit such information within the scope of laws. On the principle of safety protection, inquiry and transmission of credit information of these enterprises or individuals will be strictly supervised and protected in compliance with laws, to avoid information disclosure and lead to losses. On the principle of diffusion limitation, scope of use of credit information should be strictly limited within the agreed scope, and the credit information should not be diffused and disseminated without authorization. On the principle of equal exchange, the content and method of credit information exchange between Taiwan and mainland China should be followed, for example, equal type of financial institutions participating in information exchange, equal content of information of involved enterprises, or equal rights and duties of inquiry of credit investigation organizations^[3].

4.2 Specific recommendations for cooperation of credit investigation between mainland China and Taiwan under the new situation

4.2.1 Establishing credit information sharing platform for mainland China and Taiwan. In the process of cooperation of credit investigation, credit information sharing is the key for success of cooperation. In recent years, the People's Bank of China actively promotes collection of credit information and has made outstanding achievements in collection of non-credit information through cooperation with local industrial and commercial and taxation departments. However, there is still a gap with Taiwan where the credit information collection is relatively advanced and perfect. Therefore, Taiwan and mainland China should establish a credit information sharing platform to realize information sharing and exchange and cooperation. In the first place, the credit investigation center of Taiwan and mainland China may consider establishing mutual trust mechanism and building special network for data transmission, and undertaking regular credit information exchange, discussing technical standards of credit investigation cooperation and experience in data transmission, to create favorable conditions for future greater cooperation. In the second place, Taiwan and mainland China may exchange credit information under the premise of signing information exchange memorandum of understanding. For example, when financial institutions in mainland China ask for inquiring credit information, they can firstly file the application to the credit investigation administration bureau of Taiwan for registration, and notify the financial management depart-

ment of the application for examination and approval, and after passing the examination and approval, the credit investigation center of Taiwan will submit the credit information to mainland credit investigation center which will transmit the credit information to mainland financial institutions. Finally, when all conditions are satisfied, the credit investigation center of Taiwan and mainland China may jointly establish public credit investigation platform, filter sensitive information, follow the legal and confidential principle, and directly exchange credit investigation content for convenience of various enterprises and individuals.

4.2.2 Promoting credit investigation exchange through financial institutions in mainland China and Taiwan. After mainland China and Taiwan signed the *Economic Cooperation Framework Agreement*, the process of mutually establishing financial institutions is accelerating. On this basis, financial supervision department of mainland China and Taiwan should take this as opportunity to promote exchange of credit information through financial institutions. Firstly, financial supervision department of mainland China may further contact branch organizations set up by commercial banks of Taiwan, to realize exchange of credit information. For example, it may allow and approve such branch organizations to issue credit certificate for Taiwan-owned enterprises in mainland China, through which it is able to increase transparency of credit information. Commercial banks of mainland China may deepen cooperation with such branch organizations within the scope of legal provisions and supervision regulations, regularly sharing credit information or accepting joint loan, which is not only favorable for solving asymmetry of credit information and improving exchange of credit investigation, but also is able to effectively expand scope of business and improve business quality of commercial banks of Taiwan and mainland China. Secondly, Taiwan and mainland China should accelerate mutual establishment of financial institutions, to promote information sharing of Taiwan and mainland China, and help commercial banks to solve the problem of difficulty in collecting credit information of customers when handling businesses across the Taiwan Straits. For example, for various branch organizations set up by financial institutions of Taiwan, financial supervision department of mainland China may include them into basic credit database of mainland enterprises and individuals in accordance with *Methods for Management of Registration and Inquiry of Bank Credit* or *Interim Procedures for Management of Basic Database of Personal Credit Information*, and submit the credit information to the credit database according to related requirements. For branch offices established by financial institutions of mainland China, financial supervision department of Taiwan may include them into credit investigation center of Taiwan, and conduct orderly management in compliance with credit supervision regulations of Taiwan.

4.2.3 Promoting cooperation with the aid of small and medium-sized enterprise credit system. In the process of financing of small and medium-sized enterprises, there are often problems of security conditions and weak credit ability, non-standardized documents,

and insufficient disclosure of credit information, thus, financial institutions usually adopt more labors and materials to reinforce examination and review. In addition to regional concentration of small and medium-sized enterprises, many regions have established small and medium-sized enterprise credit system to simplify and promote financing of small and medium-sized enterprises. When credit investigation organizations in both Taiwan and mainland China cooperate with each other, they may incorporate the small and medium-sized enterprise credit system into the scope of cooperation and use the system to promote cooperation of credit investigation exchange. Specifically, financial supervision organizations, credit investigation department and financial institutions of mainland China can examine and approve credit data provided by small and medium-sized enterprise credit system of Taiwan and apply the credit data in various related fields, while financial supervision organizations and credit investigation department of Taiwan may learn mainland mode and adopt data submitted by mainland small and medium-sized enterprise credit system, to promote exchange of credit information between Taiwan and mainland China for handling of businesses of enterprises and individuals.

4.2.4 Jointly establishing punishment mechanism for action of breaking faith. Joint establishment of scientific, strict, prompt and effective punishment mechanism is an integral part of credit

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prove the enthusiasm of farmers for investing in human capital.

3.2 Policy recommendations (i) Increasing investment in human capital in rural areas. The government should change the thought of over-emphasizing physical capital but neglecting human capital. On the basis of optimizing physical capital input structure and improving physical capital use efficiency, there is a need to increase the proportion of investment in rural education and farmers' training, so as to gradually raise the education level of rural labor force. In the process of technical and skill training for farmers, it is necessary to conduct job training concerning primary, secondary and tertiary industries, provide services for the transfer of rural labor and agricultural development, and enhance the skill training and advanced farming and breeding technical training. At the same time, it is necessary to actively guide farmers to invest in education, medical skill training to improve rural human capital stock, and further increase the support for rural areas and agriculture to make high-quality labor force find ways to get rich in rural areas and achieve a virtuous circle of agricultural and rural development. (ii) Establishing two-way flow mechanism of rural human capital. The government can provide employment information, rights protection and other services, to ensure the effective transfer of rural surplus labor and reduce the transfer cost of rural human capital. In addition, it is necessary to allot special funds for the development of all types of adult education in rural areas, and organize cultural quality education and labor skill training for the rural labor, so that farmers' basic quality and professional level are improved, and the new generation of farmers

investigation cooperation. Financial supervision organizations, credit investigation department, and financial institutions of both Taiwan and mainland China should jointly establish punishment mechanism for action of breaking faith in accordance with existing bilateral agreement and public announcement, mutually approve respective punishment provisions through judicial cooperation mechanism, so as to establish the joint punishment mechanism for action of breaking faith. Specifically, related departments of both Taiwan and mainland China may make a record of those entities with bad credit on the basis of the fact of breaking faith, and jointly take policy of no admittance for entities in blacklist, to reach the purpose of punishing those entities with bad credit.

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become both educated technicians and hard-working laborers, thereby increasing the rural per capita human capital stock and promoting the rapid development of rural economy. At the same time, it is necessary to improve the rural employment environment, improve the benefit of talent in rural areas, and attract high-quality talent to flow to rural areas.

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