Economic Development in Taiwan (Republic of China)

Brief history of Taiwan

- 1945 – End of Japanese rule
- 1948-49 – The Nationalists (KMT, Guo Min Tang) Flee to Taiwan
- 1949-50 – hyperinflation
- 1953 – agricultural reform/land reform
- 1950s – ISI, US starts pressuring Taiwan to become economically independent (i.e., less reliant on aid)
- 1958-59 – abandonment of ISI
  - Exchange rates unified (NT$) and fixed exchange rate adopted
- 1965 – US economic aid end
- 1960s-73 – Export-oriented industrial policy

Brief history of Taiwan

- 1971 – Withdrawal from the UN
- 1972 – End of normal relations with Japan, Nixon's visit to PRC
- 1975 – Chiang Kai-shek dies (Mao Ze Dong dies in 1976)
- 1979 – U.S. normalize relations with PRC and abandons normal relations with ROC
- 1987 – End of martial law

Brief history of Taiwan

- 1988 – Jiang Jing Guo dies, Li Deng Hui becomes President, liberalization of press
- 1991 – First general election
- 1995 – First presidential election
- 2000 – KMT loses the general election, Democratic Progressive Party (DPP) becomes the ruling party, Chen Shui Bien becomes the first non-KMT president
- 2004 – Pres. Chen relected
- 2005 – Mr. Lian, Pres. of KMT, visited China
- 2008 – Mr. Ma, Pres. of KMT, became the President

Characteristics of Taiwan's miracle

- Start with an improvement of productivity levels in the agricultural sector
- High savings despite no institutional encouragement ← war effect?
- Early abandonment of ISI (1958)
- Export-led growth
  - Started with unification of exchange rates and trade/FDI liberalization policies
  - Tax incentives and preferable tariff policy given to exporters. But no specific target industries or firms
  - Strong demand, importation of capital goods and technology from Japan and the U.S.
  - As Japan's labor became more expensive, Taiwan's competitiveness rose.
  - Supported by stable price levels

Contribution of exports

The contribution of exports to output growth (%)

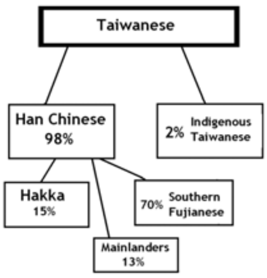
	Output expansion due to domestic expansion	Output expansion due to export expansion	Output expansion due to import substitution
1955-60	61.6	22.5	7.7
1961-65	63.2	35.0	0.5
1966-70	51.4	45.9	5.7
1971-75	34.7	67.7	–2.4

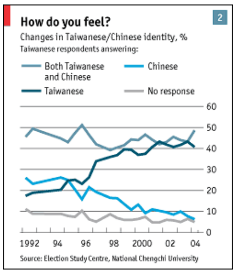
Source: Kuo, Shrley W., *The Taiwan Economy in Transition, p. 149, Table 7.6*

Characteristics of Taiwan's miracle

- Led by government initiatives, but not so much cooperation b/w the private sector and the government as observed in Korea or Japan (← sensitive governance issues)
  - "Dual structure"
    - KMT = Big corps., capital intensive industries, heavy industries, implementers of IP
    - Taiwanese = SMEs, labor intensive industries, light industries, continued to be buoyant

Complex ethnicity





Characteristics of Taiwan's miracle

- IP in heavy industries in the early '70s
  - Steel, petrochemical, shipbuilding
  - 1975 – semiconductor project
- Not so much public financing involved except for above
- SMEs as major players
  - Horizontal relationship b/w corporations unlike vertical relationships in Korea or Japan
  - Fluid labor markets, open to foreign knowledge
- Firms are not so reliant on bank lending as in Korea or Japan
  - Low debt ratio.
  - However, risk analysis isn't not well-established.

Characteristics of Taiwan’s miracle

- Relatively high growth in TFP
- Sovereignty issues
  - High national security spending
  - “Withdrew” from the UN in 1972
  - Left the WB and the IMF in 1980
  - Finally “joined” the WTO in 2002
  - “Quasi-Marx-Lenin” system and martial law
  - Appeasement of people through economic development

Taiwan’s turning point – mid-1980s

- 1985 – Plaza Accord
  - Yen’s appreciation = U$ depreciation = NT$ depreciation, but Japan is the biggest import source country
  - Current account surplus with the U.S. had become a political issue
  - NT$ was revalued and market opening policies were implemented in 1987.
  - Coupled with the rising trend in labor cost (rising income and increasing productivity), the revaluation policy severely hurt SMEs and exports-related industries.
  - Monetary authorities’ reaction led to the bubble economy in the late 1980s, which was also fueled by Japan’s bubble.

Taiwan’s turning point – 1990

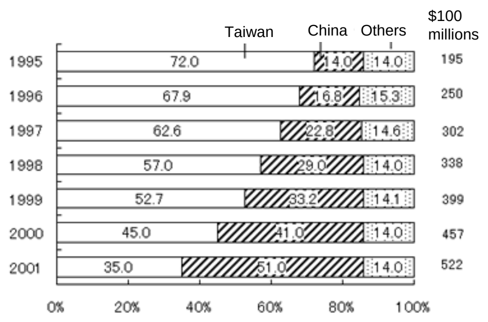
- 1990 – Liberalization of remittance to China
  - U.S. kept pressuring Taiwan to liberalize financial markets
  - Loss of competitiveness to SE Asia was severe
  - Coincided with China’s liberalization policy and struggle with inviting FDI after the Tian’anmen sq.
  - ➔ Rapid increase in FDI to mainland China

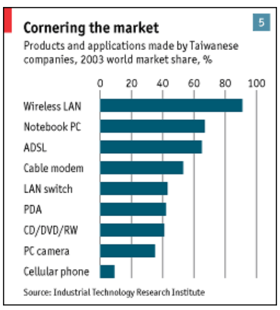
China's FDI

Source country	FDI values ($ millions)	ratio
Hong Kong	17,860	33.9%
Virgin Is.	6,117	11.6%
U.S.	5,423	10.3%
Japan	4,190	7.9%
Taiwan	3,970	7.5%
EU	3,709	7.0%
ASEAN	3,255	6.2%
Korea	2,720	5.2%
Others	5,493	10.4%
Total	52,742	100%

(Source：中国統計年鑑 2003)

Taiwanese IT production locations

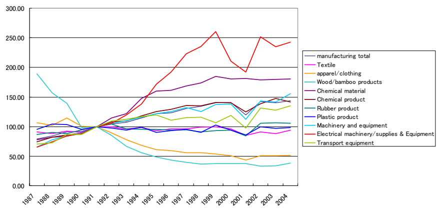




	manufacturing total	Textile	Apparel/clothing	Wood/bamboo products	Chemical material	Chemical product	Rubber product	Plastic product	Machinery and equipment	Electrical machinery/supplies & Equipment	Transport equipment
1987	79.42	91.32	106.80	188.88	77.54	74.09	86.80	95.37	65.39	65.87	70.53
1988	84.56	87.76	102.23	156.88	82.20	82.37	90.13	104.50	77.70	74.42	72.64
1989	90.85	92.54	114.25	139.19	83.77	85.72	88.23	103.31	84.71	84.35	86.39
1990	91.56	90.30	100.21	98.30	89.38	88.81	94.75	95.69	88.89	88.09	86.58
1991	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1992	103.90	99.54	89.46	84.93	114.16	107.60	104.29	97.29	105.56	105.61	109.40
1993	106.75	95.85	77.77	66.04	121.49	109.82	95.77	91.87	109.77	119.23	112.04
1994	114.39	98.27	68.08	55.52	147.14	118.18	95.26	99.19	115.65	137.74	116.39
1995	121.51	93.47	61.06	48.74	160.05	125.12	95.83	89.98	121.81	171.38	119.27
1996	123.16	96.07	59.32	43.29	161.05	129.36	91.96	92.92	125.37	192.19	130.46
1997	130.22	95.96	56.08	39.72	168.77	135.63	94.72	95.70	132.20	222.79	135.40
1998	134.37	99.24	58.01	36.50	173.66	134.98	90.74	90.10	125.75	235.82	136.13
1999	140.37	99.73	53.42	37.48	184.73	140.82	93.45	102.60	137.24	260.35	106.88
2000	140.72	95.88	50.53	37.10	180.58	140.23	94.12	93.88	137.85	230.17	118.51
2001	119.34	85.14	43.16	37.33	181.24	124.92	84.35	85.98	112.81	192.51	97.50
2002	142.45	91.15	50.55	32.66	179.34	138.89	105.97	99.40	142.86	251.84	131.21
2003	139.83	88.09	50.77	33.90	179.47	147.51	108.19	96.78	141.34	255.00	127.75
2004	143.96	94.03	51.32	38.08	180.60	141.55	105.50	98.17	155.68	242.46	134.85

Source: Department of Statistics, Ministry of Economics Affairs

Manufacturing production index (1991=100)

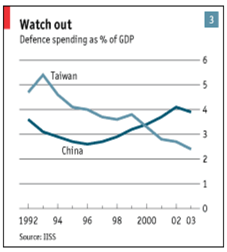


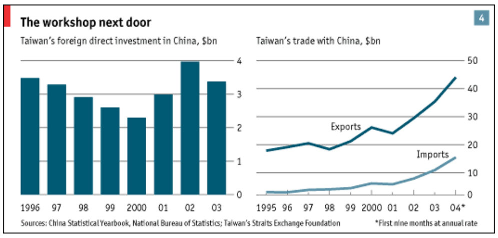
Taiwan now

- Decline of the status of SMEs
  - Share of SMEs in total manufacturing production, 98.7% in 1987 → 98.0% in 1997
  - Share of SMEs in total manufacturing shipping, 46.9% in 1987 → 34.4% in 1997
  - Share of SMEs in total manufacturing exports, 70.8% in 1987 → 52.5% in 1997
- Loss of labor competitiveness
  - After the mid-1980s, low-value-added industries started leaving Taiwan to ASEAN countries
- Some SMEs became big MNCs, ex. Acer, Kinpo, Inventec, ECS, Elite, UMC
- Weak financial institutions – Japan-type of NPL problems are persistent

Taiwan now

- The future of Taiwan is closely related to the country's political presence.
- DPP and President Chen set the independence as a policy goal, but the private sector did not want any radical change in the geopolitical situation.




The workshop next door
4
Taiwan's foreign direct investment in China, $bn
Taiwan's trade with China, $bn
4
3
2
1
0
1996 97 98 99 2000 01 02 03
50
40
30
20
10
0
Exports
Imports
1995 96 97 98 99 2000 01 02 03 04*
Sources: China Statistical Yearbook, National Bureau of Statistics; Taiwan's Straits Exchange Foundation
*First nine months at annual rate