

opposition to ASEAN and the "Zone of Peace" concept. Thai Foreign Minister Upadit Pachariyangkun also reported that good relations are developing between his country and Laos and Vietnam.

But these statements apparently did not wash well with Singapore Foreign Minister Rajaratnum, an old Cold Warrior who has been Foreign Minister of this

former British colony for the last decade and a half. Speaking "extemporaneously" in an unscheduled presentation, this old student of London's Kings College implored the U.S. to step up its presence in the region so that Asia does not go "over to the other side," i.e., to the Soviet Union.

— Dean Andromidas

## Taiwan: A Model For Third World Development

*An exclusive interview with a top Taiwan trade official*

Largely ignored in the recent attention directed at whether the U.S. will close its embassy in Taiwan and establish full diplomatic relations with the People's Republic of China has been the story of the extraordinary rate of growth of the economy of Taiwan (Republic of China). Growing from a totally underdeveloped backwater of China in 1949, to a major trading power with \$20 billion in bilateral trade in 1977, Taiwan is an example of a Third World country that applied consistent governmental policies to foster very rapid rates of industrial growth. With most of its trade in manufactured goods, Taiwan now boasts a per capita income of \$1,079, an increase of 900 percent in 15 years.

The fact that Taiwan, an island nation of 17 million, is well on its way to becoming an industrially developed nation adds weight to the concern for what will happen to it at the point that the U.S. switches its diplomatic recognition. Only naive observers — and those who favor "normalization" at any cost for more sinister reasons — believe that "guarantees" from Peking offer any hope that Taiwan can escape absorption by the PRC in the long run.

Given the disparity of economic development, income levels, degree of individual and political freedom and economic system, there is no "formula" for unification that could possibly maintain any semblance of Taiwan's present standard of living or life style. The dilemma would seem to confront the Taiwan government with no choice but to declare itself an independent country and abandon its claim to the mainland of China, but this course has domestic perils for the mainlander-dominated ruling KMT Party, and offers no guarantee that such a course would gain international recognition.

Faced with this dilemma, the KMT's leadership, headed by Chiang Ching-kuo, son of Generalissimo Chiang Kai-shek, has turned to economic development as the best guarantee of government security. And the record is impressive. The nation's Gross National

Product has jumped from \$1.33 billion in 1952 to \$3.5 billion in 1965 to \$19.49 billion in 1977. From 1953-63, the economic growth rate (in constant prices) was 7.1 percent, jumping to 9.5 percent from 1964-74, and after a one year lull, hit 11.5 percent and 8.1 percent in 1976 and 1977 respectively. Industrial growth has been even more dramatic, rising 28 times since 1952, at an annual rate of 15.4 percent. Housing construction since 1953 has risen at a 27.6 percent annual rate of growth.

Figures for Taiwan's foreign economic relations belie the widely held belief that Taiwan owes its economic strength solely to its close relation to the U.S. and to resulting heavy U.S. investment. While U.S. investment has been very important, the total over the 25-year period from 1952-77 has been only \$516 million, and total foreign investment, including from overseas Chinese, only \$1.19 billion.

The Republic of China's agricultural and industrial policies are responsible for making productive use of the existing foreign investment. In the 1950s, Taiwan instituted a thoroughgoing land reform and emphasized agricultural development, achieving rates of growth of 2-4 percent per annum since 1952, averaging 3.2 percent for crops. From 1960, a heavy emphasis has been put on industrialization, which began with food and related industries, clothing, housing, transport equipment and later branched into electric and mechanical industries. Now slated for major development are industries which describe themselves as "technology-intensive" such as sophisticated electronics, precision machinery, as well as the heavy and petrochemical industries such as heavy machinery, shipbuilding, iron and steel and chemical products.

### Taiwan Official Explains How They Did It

*Printed below is an exclusive interview with Mr. H. K. Shao, the Director General of the Board of Foreign*

*Trade, Ministry of Economic Affairs for the Republic of China. Mr. Shao was in the U.S. in June and July heading a 45-day purchasing mission, trying to "buy American" to even out a currently favorable balance of trade that Taiwan has with the U.S. Here, he explains how his government has helped to bring about Taiwan's economic expansion, and how he views the European Monetary System and its corollaries, and suggests that U.S. businessmen might do well to emulate Taiwan's approach, to deal with the overall stagnation of the U.S. economy.*

*Q: I understand that the Republic of China (ROC), like Japan and South Korea, has followed a conscious policy of trying to steer its industry to try to become more capital-intensive and more "knowledge-intensive," and less labor-intensive. Could you elaborate on how this strategy was developed in your country?*

*A: Economic development in the ROC could be divided into several stages. At the very beginning in the early 1950s, we developed light industries for import substitution. During the second stage, during the 1960s, we expanded industry and improved the quality, also mainly for import substitution. And from the late sixties into the seventies, the quality was much improved, and the cost at that time was very low, and the labor cost was low. And we gradually expanded our exports, that is light industries. Now in our six-year plan starting in 1976, we are not encouraging any labor-intensive industries. On the other hand, we will develop the more sophisticated, highly technical industries. This is our goal for our industrial development.*

*Q: Did you mention a six-Year Plan?*

*A: Yes. We began with four-year plans, beginning in 1952.*

*Q: And what functions fall under the purview of the plan?*

*A: Well, everything. Industrial development, central development, infrastructure, everything. . . .*

*Q: Would it be correct to say that the government specializes in infrastructure, certain basic industries, and in providing a climate where credit that exists in the economy can be channeled very heavily toward industry?*

*A: Yes, that's perfectly correct.*

*Q: How does your credit system work to channel credit?*

*A: We have a central bank, the Central Bank of China, and other banks owned by the government, with the participation of private banks, but only small participation. We also have foreign banks. The U.S. has seven or eight banks there, also the Bank of Japan and others. Generally speaking, the banking policies or operations are under severe public guidance. This*

is different from the U.S. as you mention, it's quite different. There are different approaches, different systems. And in our system sometimes the investors complain that the government tightens credit. It's true, that they cannot easily obtain investment finance and credits. But on the other hand, the policy can be helpful in stabilizing our economy. Speculation is something that you cannot freely do, there are certain steps the government will take.

*Q: Is there any discrimination in favor of industry, against some kinds of consumption?*

*A: Yes, credit policy is more favorable to industry. But not to all industry, but on a selected basis. Because we have an incentive law for investment including domestic and foreign investment, and that law indicates what kind of industry the government will promote, will allow to enjoy the privilege, the incentives provided by law.*

As I mentioned earlier, we do not encourage any labor intensive industries; so any foreign investment that applies for this kind of industry, we don't want them, we don't approve. If they want to make that investment they can, but they cannot enjoy the incentives. This is the guidance to develop more sophisticated heavy, technical, highly technical industries, to lead in this direction.

*Q: Do you think that would be a surprise to American workers who probably think of Taiwan as based on cheap labor?*

*A: It is not cheap now. . . . Yes, our labor costs have increased quite sharply in recent years. Now this is quite natural in the development of an economy. And last year, we had an unemployment rate of 1.3 percent. We may consider this full employment. Early this year, we experienced a shortage of labor. We have a total population of 17 million, and a labor force of 6 million. This year we have a labor shortage especially in textiles and electronics industries.*

*Q: These are the more labor intensive ones?*

*A: No, not that labor intensive. They are improving. At an early stage yes, but now, it is not so labor intensive.*

*Q: What is the annual rate of increase in real terms in the per capita consumption.*

*A: In 1962, per capita income was \$148; in 1977, it was \$1,079. Inflation was under 5 percent per year. Between 1974 and 1977, the retail price index went up 4.66 percent a year, and the wholesale price rose only .62 percent.*

*Q: What is your perception of how American businessmen perceive the ROC's success in applying these kinds of measures (channeling credit to industry, not speculation — ed). Do they understand the kinds of policies that have made your country so successful in its growth rate?*

A: I think that American businessmen are not export-oriented. This is quite natural because the U.S. is a huge domestic market, so they don't rely on exports. And this means they like to import instead of export, simply because they can easily earn profit by importing from other countries, whereas in the export business, you have to take some risk, you have to make investments, and the profit margin is much lower. Because of that, the interest in importing is much greater than that in exporting.

When my government decided to send the first special procurement mission to the U.S. (in Feb.), we gave American businessmen some idea that ROC is now trying to buy more from the U.S. On the second mission (in June-July), we aimed at \$750 million, and I think it will well exceed that amount. We ran three seminars. More than 500 top American executives, mostly vice-presidents, participated in the seminars . . . we also met with people from many trade associations, and we also visited many state governments, where we met, in many states, with departments of economic development. So many industrialists talked with us. I think it is very important for American businessmen to know that the government of the ROC encourages imports from the U.S., and that on Taiwan there's a tremendous potential market. So our mission is helpful in promoting export from the U.S.

*Q: Do you think you are having an impact such that American industrialists may recognize the advantages of exporting in general, do you think that you have affected the climate you described concerning reluctance to look at exports as an important activity.*

A: I cannot say we changed the climate, but still this kind of stimulation to the American businessman helps to increase their interest.

*Q: That is the kind of climate we are trying to create because if they think in those terms they will also think in terms of national policies which would help to encourage them to push for policies such as to channel credits to modernize the American steel industry so that we can compete, which we now cannot do.*

A: You are making a key point. I fully support your idea. Many American industries do not promote investment for replacement of machinery. In many industries, even big sized ones, for example U.S. Steel, their equipment is too old, so the production cost is higher, they cannot compete, not even with European suppliers. So to meet international competition, the American businessman should carry out more investment in renovation or replacement of machinery so that the production capacity can be increased, and also the production costs can be considerably lower.

*Q: What are your country's plans to assist in the economic development of Asia, Africa, or the Middle East?*

A: We want to share our experience with other developing countries, so we have economic cooperation, especially technical cooperation with friendly nations. At present, our experts and technicians are working on cooperation projects in 18 countries, including 4 countries in Africa, Saudi Arabia in the Middle East, Indonesia in Southeast Asia, and 12 countries in Central and South America.

Since 1955, technical training has been provided in Taiwan for over 10,000 foreign technicians in such fields as industry, mining, education and public health. Any country that would like to cooperate with us, we are quite willing to render such assistance.

*Q: Do you render assistance to any countries which have recognized Peking and with which therefore you no longer have official relations?*

A: Under our technical cooperation program, even now we have such cooperation with those countries with which we don't have relations. Remember that though the government of these countries may have recognized the Peking government, they still don't like the communists, and they still like to work with us. We want to offer our experience to all the developing countries.

*Q: Are there plans to expand the scope of your foreign assistance.?*

A: We are ready. The problem is the receiving country. If they are interested, if they want to cooperate with us, we are ready.

*Q: Do you provide much aid to Indonesia?*

A: We have various programs. Recently, we have been discussing cooperation in fishing. Indonesia is one of our important trading countries. In 1977 we imported \$313 million, and we exported to them \$274 million, so the two-way trade was about \$600 million. We also offer loans and aid, but it is small-scale. We extend a small amount of loans, up to \$5 million to some countries in Latin America.

*Q: What do you think of the developments of a new world monetary system by European leaders to stimulate a major expansion of international trade and global economic growth, and to include gold as its monetary unit?*

A: This kind of approach is very, very important for the world economy. We firmly believe that economic cooperation among countries is the only way to solve the economic problems facing worldwide economic stagnation. So although we are not participating in many international institutions because we are not now a member of the United Nations, we are ready to cooperate with all these suggestions.