

STRATEGIES AND POLICIES FOR ECONOMIC DEVELOPMENT IN TAIWAN

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I. INTRODUCTION

During the last two decades, the world economy has undergone a great change. Most of the backward countries have become developing countries, and many developing countries have joined the developed countries. The Republic of China in Taiwan is one of the most rapidly developing countries. Her success in economic development is remarkable and has been regarded as a miracle. This is not only because her achievement is so outstanding but also because she has achieved it under unfavourable conditions, that is, Taiwan is endowed with limited natural resources, has suffered diplomatic shocks and has borne a heavy burden of defense expenditures.

1. Natural Resources

Taiwan is a comparatively small island encompassing a total land area of 35 961 square kilometers, and accounting for about 3 percent of the whole of China. Taiwan is dominated by mountains which cover about three-fifths of the island and only one-fourth of the total land area (or some 900 000 hectares) is arable, and it has already been brought under cultivation. Because of the extent of the mountains, rivers and streams are short and turbulent, and as a consequence, severe floods frequently damage farm crops as well as transportation and communication facilities. Usually, torrential rains are carried by the typhoons which visit Taiwan late in the summer. Moreover, Taiwan is not endowed with highly fertile soil, so the productivity of the land largely depends on fertilization. The population density in Taiwan is very high; there are 467 persons per square kilometer or 1 822 persons per square kilometer of cultivated land. Though the island is rich in rice and fruits, Taiwan is still not

self-sufficient in food and the imports of crops recently amounted to three million tons every year.

2. Diplomatic Shocks

Following the admission of Communist China to the United Nations in October 1971, diplomatic relations with many countries were broken off, including those with Japan in September 1972, and the United States of America in December 1978. Recently, the so-called "normalization" has also become a threat to Chinese people in Taiwan. These shocks have more or less diminished the willingness of many investors to invest in Taiwan.

3. Defense Expenditures

In order to defend the country, the government has shouldered a big burden of national defense. According to estimates, military expenditures averaged from 9 to 11 per cent of Gross Domestic Product (GDP) during the period 1951-75. Large defense expenditures obviously do compete with development projects for scarce resources.

Even under these unfavourable conditions, the rate of economic growth in Taiwan is still high, while prices are relatively stable. If expressed in real GDP, during the period of 1953-77, the average growth rate was 8.2 per cent; if expressed in real per capita income, the average growth rate was 5.1 per cent. In the same period, the average inflation rate in terms of the rate of change in the implicit deflator of GDP was 7.7 per cent. Due to the rapid economic growth and stable prices, the ultimate goal of full economic development has been gradually achieved in the sense of the improvement of income distribution.

Table 1: Annual Growth Rates of Main Economic Indicators, Taiwan unit: %

	Real GDP	Implicit Deflator of GDP	Real Per Capita Income	Popula- tion	Unemploy- ment
1953-61	6.87	9.56	3.11	3.55	
1962-71	9.56	4.11	6.61	3.01	2.51 ^a
1971-77	7.96	10.96	5.72	1.93	1.58
1962-77	8.96	6.68	6.27	2.60	
1953-77	8.21	7.71	5.14	2.94	2.11 ^b

a) 1964-71; b) 1964-77.

It is natural to say that these achievements are due to the effort made by all the people of the country, but the government's strategies and policies have played a key role in accelerating economic growth, on the one hand, and in maintaining price stability, on the other. What I am going to present here includes the strategies for economic development which are in turn divided into policies for economic growth and policies for price stability. In the chapter on policies for economic growth, I shall briefly deal with policies for agricultural growth, policies for industrial growth, policies for foreign trade, and policies for the public sector. Then I shall make some evaluations of the policies undertaken, and of the achievement of the goal of economic development and finally, present some concluding remarks.

II. STRATEGIES FOR ECONOMIC DEVELOPMENT

When dealing with strategies for economic development, we should better know the nature of Taiwan's economy. During the last two decades, Taiwan has become a trade-oriented economy which is characterized by limited natural resources and dense population, as mentioned above. In order to raise the standard of living, domestic production must be increased; to increase domestic production, imports must be enlarged; to enlarge imports, exports must be expanded; and to expand exports, domestic production, particularly industrial production, must be further accelerated. In other words, the purposes of increasing domestic production are two-fold; one is to raise the standard of living and the other is to expand exports. With the increase in the proceeds from exports, the imports can be expanded and due to the increase in imports, domestic production can be further expanded.

To raise the standard of living there are two main strategies: one is to accelerate economic growth through industrialization and the other is to maintain price stability by some pricing plans and policies. Both strategies are of paramount importance for achieving the goal of economic development in Taiwan: making all people prosperous. Since Taiwan is endowed with limited natural resources and a dense population, the basic requirements for production are only partially met by domestic supplies. Therefore, exports are regarded as a propeller and imports as fuel to generate the power for accelerating economic growth.

So far as the period of investigation is concerned, the process of Taiwan's economic development can be roughly classified into two phases: the first phase, extending from 1953 to 1961, when agricultural growth dominated the economy, and the second phase, extending from 1962 to the present,

when industrial growth started to take over the position of agriculture and to dominate the economy.

1. The First Phase (1953-1961)

In 1953, the government embarked on the first four-year plan for economic development, in which agriculture and industry were simultaneously emphasized. So far there have been six four-year plans. However, the sixth four-year plan was not completed and a six-year plan was begun instead. The strategy of the first plan was: "Fostering industry with the aid of agriculture and developing agriculture with the aid of industry!" During this phase, the population increased very rapidly and the labor force was abundant. The marginal propensity to save was so low that capital formation was extremely limited. This is why labor-intensive industries were first developed.

2. The Second Phase (1962-present)

During the second phase, the strategy was: "Developing agriculture with the aid of industry and expanding industry with the aid of foreign trade!" Due to Taiwan's limited natural resources, rapidly growing population and relatively small domestic market, economic growth had to depend heavily upon the expansion of foreign trade. Therefore, export-oriented industries were increasingly encouraged while the import-substitution industries were still protected by import controls; however, with the rapid growth of trade, import restrictions were more and more liberalized. During this phase, Taiwan experienced a hyperinflation in 1973-74 and a recession in 1974-75 because of the oil crisis and world depression.

III. POLICIES FOR ECONOMIC GROWTH

The government has always emphasized the importance of balanced growth of agriculture and industry. As a matter of fact, however, it is very difficult to maintain balanced growth. Fundamentally, Taiwan was an agricultural economy during the first phase, while during the second phase industry started to dominate the economy and foreign trade became very important. Recently, the growth of the public sector has also been emphasized. My analysis will proceed in sequence through the policies for agricultural growth, industrial growth, foreign trade, and policies for the public sector.

1. Policies for Agricultural Growth

In order to turn the formerly backward production pattern into a progressive and dynamic one, it was essential to support the development of a highly progressive agricultural sector. At the very beginning of the work for economic development, an effort was made to implement a land reform program so as to create an environment favourable to the increase of agricultural production. At that time, large amounts of capital and manpower were poured into agriculture and this has made sustained growth of agricultural productivity possible. Later, in the second phase, when attempts were made to industrialize, agriculture always proved a big help by providing food and industrial raw materials at low cost, by earning the needed foreign exchange to provide funds for importing productive products, by supplying the market for infant industries, and by providing a safety value for unemployment during recession. For the purpose of agricultural development, the following policies have been undertaken:

a. Land Reform Program

Basically, land reform aims at the equalization of land ownership. The program in Taiwan was started in 1949 and carried out in three steps, that is, the reduction of land rent, the sale of public land to farmers and finally, the implementation of land-to-the-tiller concept. The transfer of land ownership was successfully implemented in 1953, and was then followed by the implementation of the program of selling land to tenant farmers and the redistribution of excess private land to its tenant cultivators. The land reform program probably was the most important policy during the initial stage of development. It promoted social justice, provided incentives, increased agricultural productivity, enhanced the purchasing power of farmers and in this way also paved the way for industrialization.

Land reform, if only limited to land redistribution, is not a panacea for all problems. In fact, if the functions of the departing landlord as money lender, decision-maker and manager are not taken up by other appropriate parties, output of the land may well decrease: The government didn't overlook this and other associated problems, and carried out a number of supporting measures in coordination with the implementation of the land reform program, such as the re-organization of farmers' associations, programs for rural credit, agricultural extension services, processing and marketing of agricultural commodities. In addition to such institutional measures, the government also provided resources to improve irrigation, roads and other facilities. A number of technical

measures were also promoted, such as the development of high-yielding seeds, improvements in fertilizer application, rotation irrigation to conserve water, multi-cropping, crop diversification, etc.

b. Low Prices for Farm Products

Initially, a low-price policy has been applied to farm products. The policy aims at promoting industrial development through providing cheap food for industrial workers in the hope of keeping wage levels relatively low and thus lowering the production costs for industrial goods which in turn is good for their competition in world markets. For instance, a low-price policy for rice has been executed through the collection of the land tax in terms of rice and through the rice-fertilizer barter system for the purpose of controlling a sufficient amount of rice to maintain a stable price for rice.

These policies probably were not inappropriate during the early stage of industrial development. However, with the rapid development of the industrial sector in recent years, the proportion of the value of agricultural output in the net domestic product has decreased and the margin of income distribution between the agricultural sector and the industrial sector appears to have grown. Many farmers, young and well-educated, therefore have tended to migrate into the urban areas, and the aged are left in the rural areas, so that there is a shortage of labor, particularly during harvest, and many a cultivated land is left untilled.

To cope with this situation, the government announced the so-called "Fifteen Point Outline of Agricultural Policy" in November 1969 and the "Nine Measures for Accelerating Rural Development" in September 1972, to raise farm productivity and increase farmers' income. The concrete measures include:

- 1) Abolition of the rice-fertilizer barter system and reduction of fertilizer prices: The rice-fertilizer barter system was initiated in 1950 and its purpose was to give the Provincial Bureau of Food a measure for collecting rice for distribution to the government employees (including armed forces), and for price stabilization as well. During that time, fertilizer was imported, largely from Japan, by the government and supplied by the Provincial Bureau of Food through the farmers' associations. Initially, farmers could exchange rice for ammonium sulphate on a 1:1 basis, reflecting the ratio of world-market prices at that time. The farmer paid 40 percent of the rice immediately, the remaining 60 percent was regarded as a loan to be repaid after harvest. During the period of price instability, this policy substantially contributed to the increases in rice production. Later, as the world price of fertilizer dropped relative

by to that of rice, it would have been necessary to adjust the barter ratio correspondingly. However, the ratio was always fixed so that the ratio got unfavourable to the farmers. Particularly, when the fertilizer industry has been well-established as a public enterprise and there is no problem of supply, the unchanged barter system is no longer appropriate.

2) Price Stabilization Program: The biological production process in agriculture usually takes a long time and is subject to weather changes. If the harvest is good, the price of the commodity will fall; if the harvest is bad, the price of the commodity will rise. If the price of one commodity rises relative to other prices, the farmer's income will increase; otherwise, it will decrease. In order to encourage farmers to increase production, it is at least necessary to stabilize the price of agricultural commodities. So the Taiwan government has carried out a stabilization program. This program includes guaranteed pricing, contract pricing and official pricing: (a) Guaranteed Pricing: guaranteed pricing has been employed to sugarcane since 1955 in order to encourage farmers to produce more sugarcane. The guaranteed price is announced before the planting season to facilitate decision making and is a floor price, not a fixed price. Recently, in order to encourage farmers to produce more rice, this system has also been applied to the price of rice. (b) Contract Pricing: contract pricing resembles the guaranteed price system. It depends on a contract between producers and purchasing firms under the supervision of the government. The government or its representative agencies are responsible for purchasing whatever is harvested, at the price set in the contract. Such prices eliminate price risk and uncertainty for the producers. Buyers naturally also benefit by being able to secure a planned amount of raw materials for processing or for other uses. Contract pricing has been widely applied to mushrooms and asparagus. (c) Official Pricing: prices of some agricultural products are set by the government. Prior to the marketing season, for example, the food authority determines and announces the official prices for government-owned rice, mainly based on production cost. This official pricing is applied to the compulsory sale of rice by the owners of paddy land.

c) Tax Adjustments

When agriculture was the dominant sector of Taiwan's economy, it was naturally the main source of tax revenue. As the non-agricultural sector has created alternative revenue sources, the tax on agriculture should be adjusted to cope with this change. The policy is to readjust agricultural taxation as a means of reducing the burden of farmers. This task has been completed through a series of changes in the land tax, income tax and production tax in 1971, and 1972. Some taxes have been abolished, such as the educational surtax on land tax, salt tax, etc.

d) Government Grants and Loans

In addition to the need for long-term credit in livestock and forestry development, the farmers also need money to buy machinery, to develop slope land and to consolidate land. In response to this need, The Agricultural Credit Planning and Coordination Committee was officially established, and is responsible for planning and making policy for agricultural financing, and for screening agricultural credit projects, determining interest rates and the allocation of agricultural credit funds.

e) Specialized Agricultural Production Areas

Based on the current distribution of crops, local conditions and market demands, specialized crop and livestock production areas have been set up in Taiwan. These areas receive farm machines, infrastructural investment in the form of land consolidation, irrigation installations, and better facilities for grading, packing, warehousing and marketing of farm products.

f) Farm Mechanization

The selective use of machinery and other labor-saving agricultural methods can compensate for the labor shortage and reduce the high cost that threatens the multiple-cropping system. Recently, The Joint Commission on Rural Reconstruction and the local governments in Taiwan have encouraged township farmers' associations to organize and establish farm machinery cooperatives to sell services of plowing, rice planting, spraying and harvesting. The farm machinery cooperative has proved to be a good means to extend selective farm mechanization to small farms in Taiwan.

g) Agricultural Marketing

Strong emphasis has been placed upon the marketing of livestock, meat, fruits and vegetables. This includes the establishment of assembly markets for fruits and vegetables in producing areas, the construction of modern wholesale receiving markets in the major consuming centers, the construction of cold storage facilities for highly perishable fruits and vegetables, and the establishment of modern slaughtering and meat packing facilities.

h) Resource Development and Rural Infrastructure

This effort includes the acceleration of slope land development, and improvement of rural infrastructure. In addition, efforts are also being made to improve environmental sanitation in rural areas.

i) Agricultural Research and Extension Services

The government's agricultural policy also calls for strengthening the agricultural research agencies, and extension work by hiring more staff, improving facilities, and strengthening organization, to provide for better division of labor and closer coordination in order to avoid duplication.

2. Policies for Industrial Growth

Since the end of the second world war, the Taiwan economy, after a short period of painful rehabilitation and reconstruction, has progressed exceedingly well. Needless to say that the rapid growth of industry has made the greatest contribution to that development. It should be recalled that in 1952, when the economy became more stable, the government decided to strengthen the development of basic industries, such as the electricity, textile and fertilizer industries, because electricity was urgently needed to support general economic development, textiles were an easily developed industry which could provide for important daily necessities, and fertilizer was one of the most important factors in increasing agricultural productivity. These three products were in short supply at that time, and the prices of textiles and fertilizer fluctuated drastically. During this period enterprises were encouraged to produce import-substitution goods in order to improve the balance of trade. The techniques employed were simple, most of these industries were labor-intensive and processing-oriented; the management was mainly traditional and of the family-type.

Since the 1960's, due to a shortage of raw materials, a rapidly growing population, and a relatively small domestic market, the economic growth of Taiwan had to depend more and more upon the expansion of foreign trade. Therefore, export-oriented industries were increasingly encouraged. Though many industries were still processing-oriented, heavy industries have been gradually encouraged, particularly since the world recession in 1974, and top priority has been given to the development of capital-intensive and technology-intensive industries. The size of firms has become larger and larger and the family-type management has been

gradually phased out as young managers equipped with modern knowledge and techniques started to take over the operations.

As is well known, capital formation is a crucial factor in determining the rate of economic growth. A high rate of growth of capital formation depends in turn on the existence of a favourable investment climate. Among the many measures that the government should take, the improvement of investment climate is of prime importance. In order to improve the investment climate and accelerate industrialization, the Taiwan government has taken many policy measures; the important ones can be briefly described as follows:

a) Supporting Private Enterprises

At the early stage of development, in order to support the land-to-the-tiller program and to induce private investment in industry, the government transferred four relatively big public enterprises to private hands to pay for the land relinquished by former landlords in 1954. Among these enterprises, the Taiwan Cement Corporation and the Taiwan Paper Corporation have become the most profitable. In addition, the government also restrained the expansion of the scope of activity of public enterprises.

b) Encouraging Private Investments

In recent years, the government has vigorously encouraged investments. The promulgation of the Statute for the Encouragement of Investment was instrumental in attracting foreign private investments. The Statute covers the investments by local residents as well as those by foreign residents, and provides important tax benefits to specified enterprises and individuals as follows:

ba) Business Income Tax

A five-year tax holiday for business income derived from investment in new productive enterprises, or by existing firms in plant expansion resulting in a 30 percent or larger increase in productive capacity; alternatively, allowances for accelerated depreciation by shortening the economic life of machinery and equipment by one-third.

bb) Commodity Tax

Exemption from taxes on domestic manufactured goods destined for export directly by manufactures, and refunds for taxed goods upon their exports,

bc) Customs Duty

Exemption from import duties and dues on machinery or equipment aren't being domestically manufactured, and which are imported by productive enterprises for their own use.

bd) Other Taxes

Including stamp tax, deeds tax, land value increment tax, and house tax, either exempted or reduced.

Furthermore, the government has not only reduced the legal obstacles to investment but also improved co-ordination between the various responsible agencies, and has simplified the procedural matters relating to investment applications.

c) Financing Private Enterprises

Prior to 1955, the public banks in Taiwan did not invest in private enterprise; even up to the end of 1968, their investment in private enterprises was still insignificant. But since then, the loans they provided to private enterprises have increased rapidly, reflecting the policy of fostering private industry on the part of the government. In 1973 in particular, public banks extended loans to private enterprises at very low interest rates in order to help them increase their imports of capital equipment and raw materials. Recently, the government started to support the development of small and medium size enterprises.

3. Policies for Foreign Trade

So far as foreign trade is concerned, the most important development was the resumption of U. S. aid in June 1950, which has financed about 40 per cent of Taiwan's imports of goods and services. During that early period, no very effective measures were taken to deal with the foreign exchange situation until April 1951. There was a large deficit in the balance of payments which nearly exhausted the government's gold and foreign exchange reserves. In coping with this situation, the government took all possible ways to encourage exports on the one hand and to control imports on the other. What Taiwan could export at that time was limited to agricultural products and processed agricultural products, and what it wanted to import were mainly those goods which could not be domestically produced. So, we have had import control and export promotion measures.

a) Import Control

The strict import controls imposed in 1951 were accompanied by a multiple exchange rate system. The effect of the multiple exchange rates system was to give a much stronger financial inducement to import substitution than to exporting. During that time, there was, in effect a substantial import tax. Apart from this, there were high tariffs on a great number of imports, and importers were required to make advance

payments for imports equivalent to their full value for most items until 1965. Last, but probably most important of all, imports were severely restricted by licence. The premium over import cost (including duties) of many commodities was substantial.

These measures undoubtedly increased the profitability of import substitution business. The measures taken included giving loans on favourable terms and allocating imported materials directly to manufacturers. However, the import substitution measures have had some adverse effects; for instance, the quantitative restriction placed on imports due to the limited amount of foreign exchange available resulted in a big difference between the market price and actual cost of imported commodities which accordingly has induced undue profit-making. These profits made were often at the expense of firms (to whom the imports were re-sold) actually using the imported materials to manufacture import substitutes.

In view of its shortcomings, the multiple exchange rate systems was gradually consolidated into a single rate system. This was a very important measure when the multiple-rate system had, in effect, imposed an import-duty on industrial materials which was not rebateable.

With the rapid economic growth in Taiwan, there was a substantial freeing of imports after 1970, when the number of items included in both the "prohibited" and "controlled" categories were drastically reduced. The restrictions on the import of materials, and slightly less on equipment, for manufacturers who wanted to export their products had been eased from 1958 onwards. A substantial degree of liberalization of imports was finally achieved by 1976. Recently, due to a big surplus in the balance of payments, the duties on many imports have been totally eliminated or substantially reduced.

b) Export Promotion

There were several ways in which exports were promoted in Taiwan, following the 1958-60 reforms. These included the setting up of export processing zones, cheap credit for exporters, rebate of taxes on export products and the adjustment of the foreign exchange rate.

ba) Export Processing Zones

The original idea for setting up export processing zones in Taiwan was put forward by the Economic Stabilization Board in 1956, and the First Export Processing Zone was formally opened in December 1966 in Kaohsiung, a harbor city; later, two more zones were added in other places. Exports from these zones, in 1975, amounted to US \$ 459 millions and imports were US \$ 271 millions, some 8.6 per cent and 4.6 per cent,

respectively, of Taiwan's total exports and imports. Employment in these zones accounted for 6 per cent of total employment in manufacturing industries.

bb) Cheap Credit for Exporters

In July 1957, the Bank of Taiwan initiated an export loan program under which short-term loans were extended to finance the materials and work-in-progress of exporting firms. The interest rate was fixed at 0.99 % per month for loans repayable in New Taiwan Dollars. This was appreciably less than the rate banks then charged on secured loans to private enterprises (about 1.65 % per month), or the 3.0 % per month charged by private money-lenders.

bc) Tax Rebates on Export Products

In July 1955, the Regulations for the Tax Rebates on Exported Products were passed by the government, which provided for the rebate of commodity taxes, import duties and the defense tax.

bd) Adjustment of the Foreign Exchange Rate

During the last few decades, the government in Taiwan has adjusted the foreign exchange rate many times in order to cope with the actual balance of payments condition. The effect of devaluation or revaluation on a trade-oriented economy, like Taiwan, is fairly complicated. When devaluation is undertaken, the prices of exports will fall, while the prices of imports will rise, what, in turn, results in the increase in production costs. Similarly, when revaluation is undertaken, the prices of imports will fall while the prices of exports will rise. However, it is very difficult to estimate the net effect of such a measure.

be) Other Export Promotion Measures

There were many other export promotion measures undertaken by the government and its agencies; for example, the establishment of big trading companies was recently encouraged to facilitate marketing in the world market.

4. Policies for the Public Sector

In Taiwan, the public sector has played a very important role in securing economic growth and price stability. The public sector includes public enterprises and governments capital formation. Companies such as the China Petroleum Company, the Electric Power Company, etc., belong to the public sector; while the construction of the infrastructure, like roads, harbors is part of the government's capital formation.

Public enterprises are designed to have economic functions, fiscal functions or service functions, depending on their special nature. Some public enterprises provide low-cost services for the public, such as the Municipal Bus Company; some public enterprises maintain the prices of their products unchanged in order to help curb inflation; and some public enterprises aim at providing revenue as a source of the salaries of government employees.

Since 1960's, the rapid expansion of foreign trade and manufacturing industry resulted in a shortage of infrastructure, such as harbors, highway, electric power etc. At the same time, the government has also decided to push the development of heavy industries in the hope of bringing the economy on a more sophisticated level. For this, the government in 1973 announced to undertake Ten Major Construction Projects. Of these ten projects, most were for the construction of communication and transportation facilities. When these projects were started, the world recession occurred. Accidently, these projects helped to reduce the impact of world recession on Taiwan and to stimulate economic activities. These projects will be completed in 1979. Recently, the government announced the plan for Twelve Major Construction Projects, which will be carried out as soon as the Ten Major Projects are completed. Obviously, these projects have eased the problem of infrastructural shortage and provided the foundation for further economic growth.

IV. POLICIES FOR PRICE STABILITY

As stated above, in its efforts to accelerate overall economic growth, the government has also paid close attention to price stability. In the early days after the war, when agricultural and industrial production had not yet been restored, there was a serious shortage of goods, and inflation was rampant. In the face of this threatening situation, the government placed top priority on price stability, currency issue and the government budget were placed under strict control. By 1952, agricultural and industrial production were already restored to pre-war levels. Gradually, the government came to grips with the problem of inflation and achieved an increasing measure of price stability. Later, however, there was an inflationary boom in 1973 because of the shortage of raw materials, the rapid expansion of exports, and the rise of labor costs. In Taiwan, the lack of active trade unions and a relatively elastic supply of labor have obviously been important conditions for the non-inflationary development in the period 1960-72, while in the 1970's labor costs (and import prices) seem to become an important inflationary factor.

In 1973, Taiwan suffered a strong impact of the oil crisis, and a deep recession followed in 1974 and 1975. In these years, the Economic Stabilization Program was carried out by the government. The program entailed tight credit through a large scale across-the-board upward adjustment of bank rates and once-and-for-all substantial price increases on such government controlled goods and services as petroleum products, electricity, transportation services, and alcoholic beverages and tobacco. These measures produced the desired effect of completely stabilizing the overall price level. The upward adjustment of the bank rates not only forced the enterprises to reduce their inventories but also curtailed consumers' demand and encouraged savings. The subsequent decline in the prices of raw materials, food imports, and the growing surplus in the government budget were also helpful to economic stabilization.

V. ACHIEVEMENT OF GOAL

The Constitution of the Republic of China is based on the Three Principles of the People, i. e., the Principle of Nationalism, the Principle of Democracy, and the Principle of People's Livelihood. The purpose of the third principle is to make people prosperous and to equalize the distribution of wealth. In pursuing this purpose, the most relevant policy measures the government has taken are: the land reform program, reduction of hidden rice taxes, instituting a progressive income tax, establishing equal opportunity for education, providing more employment opportunities through new industries and small family well-being programs.

1. The Land Reform Program

The land reform program was enacted to reduce the inequality in the distribution of wealth and to raise farmers' income. Before the implementation of this program in 1949, tenant farmers in Taiwan used to pay a land rent amounting to more than 50 per cent of the total harvest, while afterwards it amounted to 37.5 per cent; obviously the land rent was reduced by more than 15 per cent. Prior to 1949, about 39 per cent of the farmers were tenant farmers and 36 per cent were owner farmers, while by 1975, only 8.7 per cent of farmers were tenant farmers, 9.9 per cent were part-owner farmers, and 81.4 per cent were owner farmers.

2. Reducing the Hidden Rice Taxes

For maintaining the stability of the markets, the government had controlled the supply of rice through the collection of land tax in terms of rice, compulsory sales of rice to the government, the price-fertilizer barter system, and the payment of land prices in kind, etc. These measures have provided a sufficient supply of rice and helped maintain a stable price of farm products. However, due to the changing economic conditions, these measures are no longer effective as before and eventually, have resulted in hidden rice taxes. To reduce the burden for the farmers the government has abolished the rice-fertilizer barter system.

3. Progressive Income Tax

Usually, a progressive tax system is considered as a measure to improve income distribution. Government revenue in Taiwan had long depended on the collection of indirect taxes. Since the late 1960's, however, the government started to emphasize the collection of progressive income taxes. The proportion of income tax in total tax therefore has increased from 7.0 % in 1967 to 16.2 % in 1977.

4. Equal Opportunity for Education

In a less-developed country it is plausible to say that the more education received, the higher the income earned. Illiterates have the least earning power, followed, in ascending order, by primary school graduates, and junior-high school graduates. Before 1968, most people in Taiwan had received a six-year elementary school education, since then, they get nine years of free education.

5. Employment Opportunities Provided by New Industries

During the last decades, small and medium-size industries, and particularly trade-oriented industries have been effectively encouraged by the government. These industries especially provide job opportunities for the people from the rural areas. The respective employment figure in 1977 was 2.4 times that in 1953, and the unemployment rate had been reduced from 2.5 % in 1964-71 to 1.6 % in the period 1972-77.

In addition, many other programs helpful in eliminating poverty and increasing the income of low-income families have been also carried out, such as the Small Family Well-Being Program, and the Social Welfare Program. Due to the direct and indirect effects of these measures, economic growth has brought about an increase of family income for all

income brackets; however, the rate of increase in family income was the greatest for the lowest income brackets and the smallest for the highest income brackets. The inherent equalization of income distribution for farm families was less than that for non-farm families. While the Gini index was 0.328 in 1964, it was 0.312 in 1970, and 0.273 in 1976.

VI. EVALUATION OF THE POLICIES UNDERTAKEN

In reviewing the implementation of the policy measures mentioned above, it can be said, that some were effectively carried out, while others were not so effective as expected, and should therefore be re-examined, modified or completely discarded.

1. The Land-To-The-Tiller Program and Farm Mechanization

Prior to the 1960's, the land-to-the-tiller program was a good policy since it was very significant not only in view of economic development but also in view of social justice. Since the 1960's, however, this policy appears to have formed an obstacle to achieving economics of scale in farming. With the increase of population in the rural areas, the farm population has split off into many small families. Consequently, the land owned by each family has become smaller and smaller. Because of the failure of cooperative farms to develop, it is fairly difficult to organize these families and mechanize their farms. There seems to be no possibility of increasing farm income if the farm can't be mechanized. In addition, the young generation of farmers has tended to migrate into the urban areas, and only the aged are left in the rural areas; this occasionally results in a shortage of labor, particularly during harvest.

2. The Guaranteed Rice Price

In order to encourage the farmers to increase output, the government has taken many measures. Among them, guaranteed pricing is a very important one. According to this policy, the government sets the price of rice at a fixed level. If the market price of rice is lower than this guaranteed price, the government is responsible for purchasing all the rice at the guaranteed price the farmers would like to sell. If the market price is higher than the guaranteed price, the farmers may sell the rice on the market. The problem is with the first situation: if the harvest is so rich

that the market price of rice is very low, the farmers would like to sell all the rice they have to the government and even buy rice from the market at low price and then sell it to the government at the guaranteed price. From time to time this mechanism has become a big burden for the government, especially since, the government lacks sufficient capacity to store the rice. In view of this situation, the government has recently modified its purchase policy, which means that the government will purchase only a planned amount of rice rather than an unlimited amount. How to set the right price, however, is still a problem to be solved.

3. Development of Small and Medium-Size Industries and Securing Economies of Scale

Small and medium-size industries have a very important function to perform in Taiwan, not only in terms of the number of business but also in terms of total output. However, the operators of these industries still lack proper training in management and marketing, and in realizing economies of scale. Furthermore, they still have difficulties in getting credit on favourable terms. Above all, since Taiwan has become a trade-oriented economy, small and medium-size industries can't compete with large-size industries in the world market. While small and medium-size industries are good for providing jobs and improving the distribution of income, large-size industries may be better for competing in the world market.

4. Long-run Protection and Economic Efficiency

It may be necessary for less-developed countries to protect the development of infant industries; any long-run protection policy for an industry however, should be re-examined. Due to over-protection, many enterprises are reluctant to improve the quality of their products and to reduce the cost of production. The automobile industry in Taiwan is a good example for this counterproductive effect.

5. Price Controls

It is a very interesting phenomenon that to economists, prices should be determined by market forces, while to the government, prices should be limited by policies. During the period of hyper-inflation in 1973-74, the government tried to control prices, but the result was disappointing. In

a trade oriented economy like Taiwan it seems to be impossible to keep the wholesale prices or consumer prices stable.

6. Export Processing Zones and the Introduction of New Technology

Although there have been free trade zones elsewhere in the world, the idea of combining in one place the advantages of a free trade zone, an industrial estate and all the relevant government offices, was a new one; it has led to cutting red tape, so that investors can get their projects started quickly and run them with the minimum of bureaucratic fuss. However, what the Taiwan economy gains from the export processing zones is nothing but the effect of employment; as for the introduction and diffusion of technology, the export processing zones have made a little contribution only.

VII. CONCLUDING REMARKS

As a trade-oriented economy, Taiwan has to cope with two forces, one being external and the other internal: the former can't be controlled, while the latter can be controlled to some extent. Some government policies have been very effective, but they have planted the seed of obstacles at the same time; that is, no policies can last very long without drawbacks. In the process of economic development, if one sector's growth is very rapid as compared to others, structural disequilibria will follow. These disequilibria in the long run may retard further economic growth. It is the role of the government to solve these problems as far as possible.

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