

Taiwan's economic success strategy

An exclusive interview with Economics Minister K. S. Chang

Over the past year, when newspaper headlines were filled with stories on the anticipated "China trade boom" expected to follow normalization of U.S. relations with the People's Republic of China, the *real* China trade boom—that with the Republic of China (Taiwan)—went almost unreported. Yet in a year when U.S. two-way trade with Peking only broke \$1 billion for the first time, trade with Taiwan topped \$7 billion, more than six times trade with the PRC. In 1978, Taiwan's total foreign trade outstripped that of the PRC for the second year in a row, reaching \$23.7 billion compared to Peking's \$21.3. This year, Taiwan's first quarter exports and imports both grew 41 percent, which means that even if the rate of growth slows somewhat, total trade could top \$30 billion, of which one-third, or \$10 billion, would be with the U.S.

These figures amply demonstrate that trade with Taiwan is and will remain for the indefinite future vastly more important for U.S. business than trade with the PRC, a fact underlined by Taiwan's becoming the seventh largest trading partner of the U.S. in early 1979.

Placed against these facts, the shrill media campaign fed by the Carter administration last summer and fall touting the supposed benefits of the "China market" which would consume untold billions in U.S. capital exports is exposed as a hoax having nothing to do with economics. In light of recent events, it appears that the campaign was in fact political propaganda designed to create a climate more receptive to Carter's Dec. 15 severing of diplomatic and military relations with Taiwan and the establishment of relations with Peking. No sooner was normalization announced than China began instituting draconian austerity measures for its domestic economy and drastic cutbacks in its foreign purchases of capital goods because of a severe economic crisis.

Taiwan's foreign trade boom is the outcome of a highly successful economic development policy carried out by the ROC since the 1950s. In early April, while here for a seminar on Doing Business with Taiwan, the ROC's Minister of Economics, K.S. Chang, granted an exclusive interview to the *Executive Intelligence Review* in which he laid out the strategy that created the latest economic miracle in Asia, a story not known even to

many of Taiwan's supporters in the business community.

Minister Chang was very clear on the essentially "dirigist" approach taken by his government in guiding and channeling economic activity to ensure development, starting with an intelligent land reform that avoided alienating the landlord class or causing serious economic losses while it turned all land over to the farmers. Mr. Chang indicated the role the government played in developing infrastructure and education in the early period, while market forces created by the land reform spurred the early development of light industry. In an interview with this publication last summer, Mr. Chang's deputy Mr. H.K. Shao, head of the Board of Foreign Trade, also pointed out how even today, government credit policy is used to foster specified changes in the country's industrial structure. Presently, high-technology industries receive preferential treatment, while labor-intensive projects are discouraged and penalized financially. Also, contrary to the stock prescriptions of the World Bank, the International Monetary Fund and the U.S. Government, Taiwan erected stiff protectionist barriers during the formative period of its development which it is only now tearing down.

The primary drawback of Taiwan's development program is its very limited applicability. It cannot serve as a model for the rest of the Third World, which does not have Taiwan's unique combination of circumstances, including the American security umbrella it enjoyed from 1950 to 1978, and the significant infusions of aid and capital from the U.S. that made a big difference in the early days. In fact, no major underdeveloped nations today can possibly afford to proceed in stages from light to heavy industry—precisely the opposite. Only major development projects centered around agro-industrial-energy nexuses to develop entire regions can competently begin to lift the poorer countries out of backwardness.

Nonetheless, Taiwan's success has meant the ability to give its own people a living standard that already approaches the less developed countries of Europe, and is rising fast.

—Peter Rush

From agriculture ... to heavy industry

K.S. Chang, the Republic of China's minister of economics, gave the following interview to Executive Intelligence Review while he was in New York City in early April.

EIR: *Taiwan has become the sixteenth largest trading nation in the world, and the seventh largest trading partner with the U.S. Is this phenomenal growth the result of following a national plan, and if so, what was the planning strategy that has brought Taiwan from a tiny agricultural country in 1950 to a significant industrial country now?*

EXCLUSIVE INTERVIEW

Chang: Our strategy of development was formulated in the late 1940s and early 1950s. We started off our economic development plan in 1953.

We believed that to develop our economy we had to first develop our agriculture. So in the early 1950s we implemented our land reform program. Under this program, we turned the land over from the landowners to the tillers. We did that not by any political pressure, but by economic means. We bought the land from the landowners and resold it to the tillers with a 10-year repayment schedule. The government compensated the owners with either rice bonds, cash, and/or stocks in industry. In so doing, the tillers had their own land. They had incentives to work hard and could improve their land so the productivity of the land improved rapidly and the income of the farmers also increased year by year.

On the other hand, the landowners had their compensation invested in industries. At that time, of course, the industries were very small. The industries at the beginning of our economic development were only producing goods for local markets. And since the farmers had money, they constituted a vast local market, and the industries grew steadily to supply the demands from the local markets. As our people grew richer, they needed more consumer goods, and the size of the factories became larger. As the factories became larger and larger, they had the ability to export. At that point, our strategy was to develop light industries. In many other countries, when they began their industrial

development, they jumped to the area of heavy industries, but we refrained from going into heavy industries at the beginning.

We believed that there were many favorable factors to developing light industries first, because with light industries you have a ready local market. You do not need so much capital. The technology is simple. Moreover, when you expand, you will easily have a foreign market. This was the strategy in the 1950s. When we entered the 1960s, we still made great efforts to develop agriculture into cash crops such as mushrooms, asparagus and others. We also made great efforts to expand our foreign markets and this was the strategy in the 1960s. In the 1970s, we went into heavy industries, the petrochemical industry, iron and steel, electronics. This is the strategy of our industrial development and we believe this is the right way for a developing country to carry out economic development.

EIR: *From what you have said, I see a major difference between your strategy and that of the World Bank, which advocates light industries for export instead of heavy industries for developing countries, in that your approach was not geared to exports as such, but began on the basis of domestic demand and a viable agricultural base for a rural market....*

Chang: Yes, in the initial stage.

EIR: *When did you begin to phase in heavy industry?*

Chang: There is no clear demarcation between periods, but in a general way you can classify it. For example, our steel industry. We started thinking about having a steel industry back in 1950, but each time we had a second thought about it and decided it was not time to have a steel industry, until 1972, when we decided to build a plant. In the petrochemical industry, we started to think about that in 1964. Before we start a new industry, there is a lot of thought and planning.

EIR: *One of the most serious bottlenecks developing countries face is a shortage of skilled labor, both the highly skilled engineers, technicians and scientists, and a well-enough educated work force to function in a factory situation. How did your policies and planning deal with this problem.*

Chang: As you know we have six-year compulsory education, which was introduced in the early 1950s, and

an additional three years of free education, which has been available since 1966. Almost all boys and girls take advantage of the full nine-year program. After nine years, 70 percent of the students go on to high school or vocational school for another three years. After that, 50 percent of high school graduates go on to colleges and technical schools for another four years. So our first nine years prepares the basis for skilled labor, and then a third of our high school students go into college and major in science and technology. We have about 300,000 students altogether in college.

EIR: *What is the level of personal consumption in Taiwan?*

Chang: Last year, personal per capita income as distinct from per capita GNP was \$1,300 and we had a savings rate of about 29-30 percent—the rest was spent—and 25 percent goes to taxes. Descriptively, I can tell you this. With respect to nutrition, there is a per capita consumption of 2,900 calories, which is very high—higher than Japan—and 80 grams of protein, which compares very favorably with Japan. The lifespan is now 71.3 years—in 1952 our life span was 58. We have nine-year education, and 99.8 percent of school age children are in school; 99.9 percent of homes have electricity, and the average family home has a television.

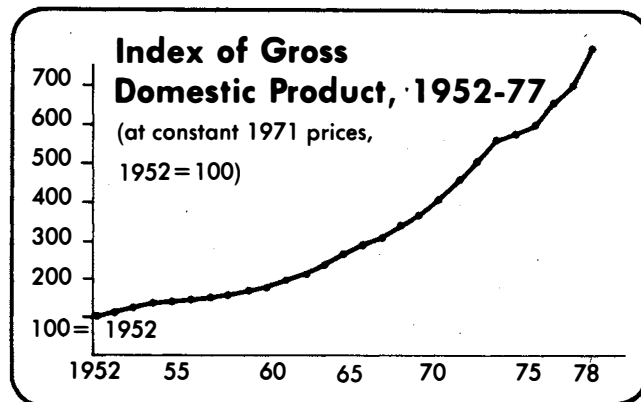
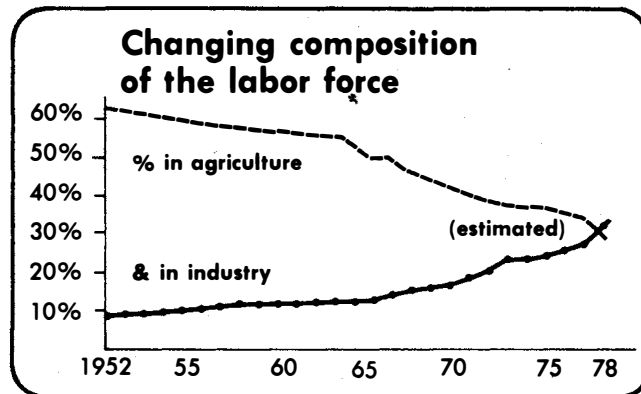
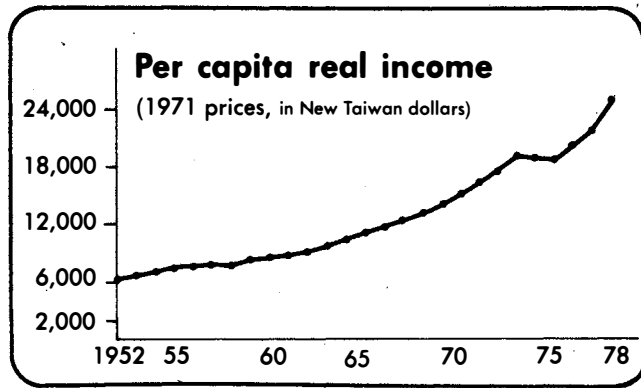
EIR: *What you have told me strikingly reminds me of what Japan did after the Meiji Revolution of 1869, which included a decision to change the entire land structure as the first step, and then go into light industries as the path to heavier industry and development. Of course, Japan is the only example, until the most recent period, of a previously underdeveloped country making a rapid leap to industrialization.*

Chang: There is a big difference, really a big difference. Many countries, including Japan, during the period of their early development, had to exploit, had to sacrifice, one section of their population, but in our development none of our people have suffered. We have the most equitable distribution of the results of our development. The top 20 percent in income of our families have only four times the average income as the lowest 20 percent.

EIR: *I want to ask you a question about the economy of mainland China. On the surface, they have made a move that looks similar to your policy in the 1950s—they want to shift to light industries, especially for export. Do you think the PRC can successfully copy your experience?*

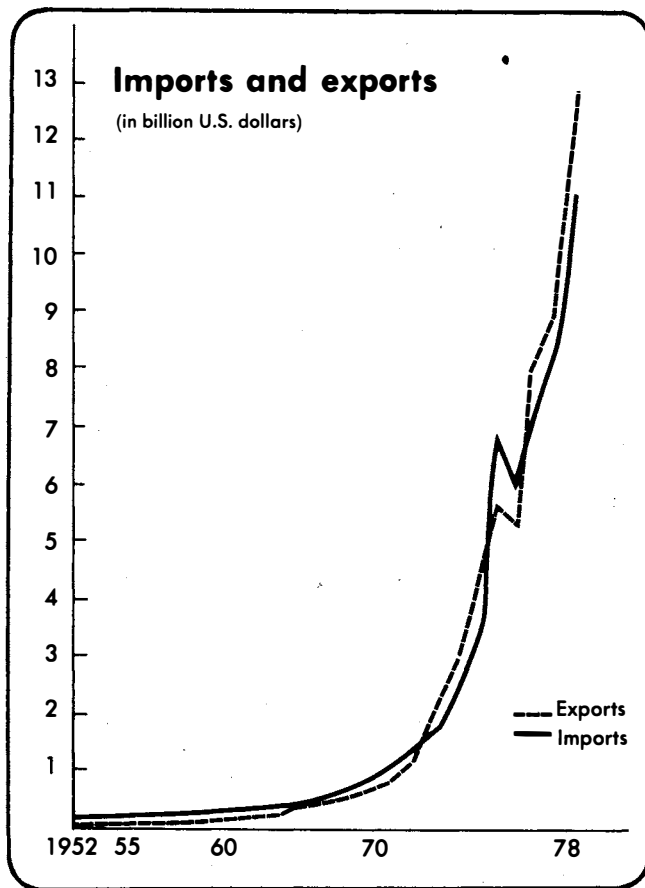
Chang: If they want to copy us successfully, they have to copy us in our political thoughts, our political system. Under the communist system, it cannot work, it just cannot. They ration food to their own population, they have very restrictive and limited education, how can they compete in a capitalist market?

Yes, they could try to sell even below the cost of



production, but this can only be done at the expense of their own people, who make \$30 a month. And besides, the markets are limited, and if they threaten to flood the market, quotas will be put up against them.

And about their heavy industries, it is not possible to launch 120 projects all at one time. If they try, their own people will suffer even more. To launch a heavy industry, it takes four, five, or six years before there is output, and during this period you need exports, so the people will suffer.



EIR: *What do you think of their planning...*

Chang: No planning...

EIR: *I agree, their planning is very bad. It is my sense that they really do not know what they are doing.*

Chang: I want to add something about our strategy of development. First, we also developed out infrastructure at the beginning. Harbors, electric power, etc., even before we had other heavy industry. On mainland China, the infrastructure is very poor.

EIR: *The European countries have moved to establish a new monetary system, one intended to soak up the excess*

Eurodollars in Europe and use them to finance development. What efforts are you making to establish economic ties with the leading countries of the European Monetary System, like France and Germany?

Chang: Frankly speaking, in the past years, most of our efforts were directed toward the United States and Japan, and we are now beginning to put more emphasis on the European markets. We want to diversify our purchases from Japan to the United States and Europe. We are now going to change our industrial structure in such a way that we can buy less from Japan and buy more from the United States and Europe.

For instance, if we develop our steel industry, we can buy less steel from Japan, if we develop petrochemicals we can buy less, and we are now developing our power plant equipment, and we are going to have joint ventures with American companies. Such equipment can not be manufactured 100 percent in my country. The majority of parts and components have to be imported from the United States in order to build the entire equipment in Taiwan. And also we are developing high-technology industries and we can buy technology from the United States.

EIR: *I believe that U.S. policy toward the PRC is to give Peking hegemony over most of Asia,*

Asia, as part of playing the "China card" against the Soviet Union. How do you feel about the U.S. strategic posture toward the PRC?

Chang: I don't really think the U.S. wants to give all Asia to Communist China. The United States favors China only because it wants to keep Russian influence from Asia and Southeast Asia. United States is now, so-called, playing the "China Card" against the Russians, but as soon as the Communist Chinese become strong enough or secure enough in Asia, Communist China will come together with Russia. I don't know whether you agree or not. Because Communist China is much weaker, it has to break with Russia, and play the "America card" against Russia. But I think, maybe within 10 years, they will reconcile with Russia because the gap between them may be less.