

Factors Leading Toward Taiwan's Rapid Economic Growth

By Group 2



Agenda

Introduction

Key Issues

Policies

Lessons Learned

Conclusion



Taiwan - currently

- 7th largest economy in Asia
- Recognized as an advanced economy by the IMF and as a high-income economy by the world bank
- GDP per capita of \$48,095

Post World War II

- Republic of China (ROC) was driven out of China to Taiwan by the Communist Party of China (CPC) due to conflict
- Experienced a period of hyperinflation
- Financial Aid, New law, Land reform, Economic and Financial Reform



Taiwan's Economic Miracle

: Refers to the rapid industrialization and economic growth of Taiwan in the second half of the 20th century.

- Annual economic growth = 8.7%
- GNP grew by 360% (1965 - 86)
- Controlled 2% of global export
- Global industrial production output grew by 680%
- Inequality hit all time low at Gini coefficient of 0.33 in the early 1960s

Agenda

Introduction

Key Issues

Policies

Lessons Learned

Conclusion



AGENDA

✓
21
31

Key Issues - Human Capital

Human Capital



Mainland China's **legacy** and **intellectual elites flooded into the island.**



Big wave of **Chinese immigrants and refugees supplanted Aborigines**, the indigenous in taiwan, as the dominant population group.



Conflicts occurred as The Kuomintang government in Taiwan **corrupt** during the war and **brutally suppressed** the indigenous Taiwanese, leading to **local discontent** and the **bloody massacre**, the February 28 Incident.



The abolition of widely spoken Japanese and the imposition of Mandarin Chinese led to **communications and political problems.**

Human Capital cont.



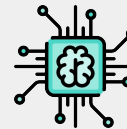
After the World War II, Taiwan contributes to the **American educational system and human capital accumulation.**



15 percent of Taiwan's college graduates went to the **US for postgraduate study, but only 45 percent** of them **returned** each year



1970s the Taiwanese government started an **active campaign** to **encourage these high-talent workers to return to Taiwan,**



By 1986 **more than 90 percent of these highly trained graduates returned.** This has **contributed significantly to the growth of Taiwan's high-tech industry.**

Key Issues - Infrastructure, Agriculture, and Industrialization

Infrastructure



The **physical capital left behind by Japan** could facilitate Taiwan to boost its economy.

Japan did **not** build infrastructures **out of pure benevolence but to** use the power to **exploit** Taiwan.

Taiwan had already been equipped with infrastructures from Japan, but it dawned on **the country** that it **still have more work to improve.**

Agriculture



Taiwan's **agriculture was stagnant**, and **most peasants were engaged in subsistence farming** before it's under Japanese rule.

Japanese invested in Taiwanese agriculture to **enhance productivity and food production to contribute to Japan's industrialization efforts.**

Productivity gains in agriculture released workers for industrial production.

Industrialization



Taiwan's **achievement in Industrialization** has been due to a high accumulation in the **agricultural sector and U. S. aid.**

War froze the implementation of industrialization policy, **destroyed industrial facilities** causing paralysis in industrial production.

The effort to recover from the devastation of the war doesn't seem fruitful due to **civil war and inflation.**

Key Issues - Exports and Finance

Financing Sector

- Taiwan **faced hyperinflation** in 1945-1949 causing by Japan.
- Fueled by **large budget deficits** and exceedingly **high rates of money expansion**
- In order to **restrain the budget deficit**, Taiwan initiated **multiple exchange rate** system, **high tariff walls**, and other **imports control policy** to regulate the imports.



Exports

- It has a **comparative advantage** in its labor intensive products.
- **Low wage** and **Production costs**
- **High Tariffs** causing by **lacks of foreign exchange** and the state's import substitution strategy for industrialization.



Agenda

Introduction

Key Issues

Policies

Lessons Learned

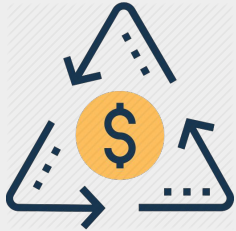
Conclusion



The government played a large role in the period leading up to Taiwanese Miracle (1965-1986)

Policy 1

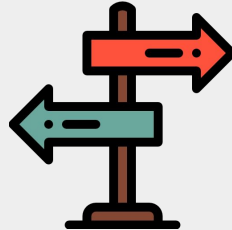
Enhancing Investment Climate



- Exchange Rate Reform
- Trade Openness
- Import Quota and Tariff Reform

Policy 2

Direct Control of Investment Decisions

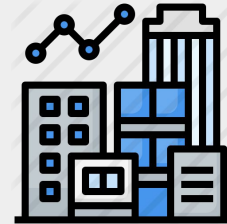


Establish 3 Industries:

- Plastic
- Fibre
- Electronics

Policy 3

Support for Public Enterprise



Increase Public Spending in support for Public Enterprise

Policy 1: Enhancing Investment Climate

Before 1960

- **Multiple Exchange Rate System** → Have both fixed and floating foreign exchange rates)
- **Overly Complicated System**
- **Overvalued Currency**

- **32.5% Maximum Business Tax**
- **3- year Tax Holiday for new Investments**
- **High Stamp Tax**

- **Several import taxes**
- **Several Import Items under control list (Limited Quota)**

After 1960



- **Single Exchange Rate**
- **Devaluation Policy** and Depreciation of the New Taiwan Dollar



- **18% Maximum Business Tax**
- **5-year Tax Holiday**
- **Establishment of Export Processing Zones:** low priced land, infrastructure etc.



- **Reduced Import Taxes**
- **Import Items Taken off the Control list**

Policy 2: Direct Control of Investment Decisions

The Taiwanese government helped established 3 leading industries



- 1** **Plastic:** Taiwan's first plastics plant for PVC was built directly under government administration and delivered it to a private entrepreneur in 1957



- 2** **Fibre:** With the help of the US, the government formed the country's first synthetic Fibre company in 1961.
- In 1962, they formed a nylon company



- 3** **Electronics:** - the government started the publicly owned Electronic Research and Service Organization (ERSO)
- **Built the first model shop for water fabrication**
- **Trained engineers** who later moved to private firms



Policy 3: Support for Public Enterprise (Favourable credit and budget allocation)

The Importance of Public Enterprise in GDP



Year	Public Enterprise Share of GDP (%)
1954-1957	11.7
1958-1961	13.5
1962-1965	14.1
1966-1969	13.6
1970-1973	13.3

These percentages were larger in Taiwan than in socialist economies at the time, for example, India (6.5% in 1966-1969) and Tanzania (12.7% in 1970-1973)

Agenda

Introduction

Key Issues

Policies

Lessons Learned

Conclusion



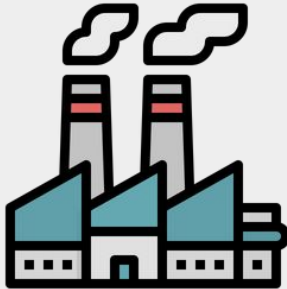
AGENDA

✓
21
31

Lessons Learned

Taiwan's Rapid Economic Growth largely depends on the close collaboration between the private and public sectors.

For Private sector



- Innovation as the key to competitiveness
- Strengthen branding and marketing
- Developing after sale and high-end services

For Government sector



- Diversity industries and Support enterprises
- Create a favorable regulatory and institutional environment
- Cultivate and diversify the talent people

Agenda

Introduction

Key Issues

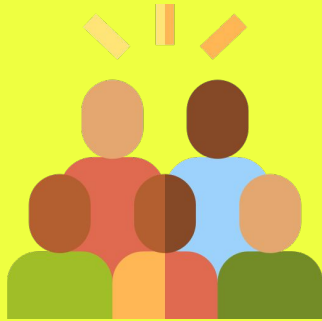
Policies

Lessons Learned

Conclusion



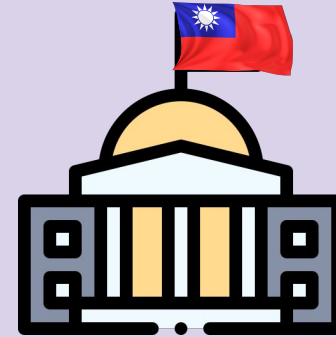
AGENDA



Human Resources

- High quality of education
- Return to homeland
- Productive generation

GDP growth 8.6%
(1965-1982)



The government

- Sound Policies (Every Aspect)
- Understand when to be an initiator or supporter

