

# Liberalization, Internationalization, and Institutionalization

FREDRICK F. CHIEN\*

## I. THE TAIWAN EXPERIENCE

Since the national government withdrew from mainland China in 1949, the Republic of China on Taiwan (ROC), through public commitment and private initiative, has achieved what has been recognized worldwide as an "economic miracle," and has consistently been rated one of the world's top economic performers in terms of both growth and equity.<sup>1</sup> As Taiwan has transformed from a developing to a newly developed nation, the driving force propelling this growth has shifted from the agricultural to the industrial and most recently to the service sector.<sup>2</sup>

Rapid economic growth, industrialization, and recent political democratization have enabled Taiwan to transform poverty into relative affluence, realizing the economic dream envisioned by Dr. Sun Yat-sen in the Principle of the People's Livelihood. Such success has also strengthened the confidence of our people in their ability to cope with future challenges and to complete the transformation of the ROC on Taiwan into a fully developed industrial society before the

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\* Chairman of the Council for Economic Planning and Development, the Executive Yuan, the Republic of China.

1. INT'L TRADE REPORTER (BNA), Jan. 3, 1990, at 31; *The Other China is Starting to Soar*, BUS. WK., Nov. 6, 1989, at 60. Real GNP grew yearly as follows: 1952-72, 9.1%; 1972-85, 8.0%; 1985-6, 11.7%; 1986-7, 11.9%; and 1987-8, 7.3%. Real per capita GNP grew yearly as follows: 1952-72, 6.1%; 1972-85, 6.1%; 1985-6, 10.4%; 1986-7, 10.7%; and 1987-8, 6.2%. COUNCIL FOR ECONOMIC PLANNING AND DEVELOPMENT [hereinafter CEPD], TAIWAN STATISTICAL DATA BOOK 27-8, 31-2 (1989). This rapid economic growth and rising level of income have been accompanied by a dramatic improvement in income distribution. In 1952, the income of the wealthiest 20 percent of Taiwan's households was 15 times that of the poorest 20 percent. Kowie Chang, *An Estimate of Taiwan Personal Income Distribution in 1953 - Pareto's Formula Discussed and Applied*, 7 JOURNAL OF SOCIAL SCIENCE, at 260 (Aug. 1956). By 1980, the ratio had fallen to 4.17 to 1. DIRECTORATE-GENERAL OF BUDGET, ACCOUNTING AND STATISTICS, NATIONAL INCOME IN TAIWAN AREA, REPUBLIC OF CHINA 37 (1986).

2. In 1968, industry accounted for only 32.5 percent of the net domestic product; in 1988, industry accounted for 46.2 percent of the net domestic product. Agriculture's contribution dropped from 22.1 percent to 6.1 percent over the same period, although its production in absolute terms increased considerably. The service sector's share has remained at about the same level over the years and in 1988 accounted for 47.7 percent of the net domestic product. CEPD, TAIWAN STATISTICAL DATA BOOK, *supra* note 1, at 41 (1989).

close of this century.<sup>3</sup> At the same time, we are keenly aware of a number of serious difficulties which, if left unresolved, could hinder our future economic development or perhaps completely derail it.

## II. INTERNAL AND EXTERNAL IMBALANCES

The emphasis on export-oriented growth, which dominated Taiwan's economic policy-making for decades, has led to a heavy concentration of resources in industry, especially export manufacturing, and serious macroeconomic imbalances both in the domestic economy and in foreign trade.<sup>4</sup>

With spending on consumption and fixed capital formation growing less rapidly than the gross national product, domestic demand has been weak compared with demand from external sectors. In terms of macroeconomics, this insufficient domestic demand has been reflected by an excess of savings over investment.<sup>5</sup> At the same time, insufficient attention to the provision of public facilities and services and a deteriorating natural environment has led to growing dissatisfaction with the quality of life. This dissatisfaction has increasingly taken the form of protest demonstrations that threaten the social harmony which, until now, has underpinned our economic success.<sup>6</sup>

## III. DEVELOPMENT POLICY

Taiwan has now reached a critical juncture on the road to full development. For the ROC, it is both the best of times and the worst of times. Taiwan's sovereign debt risk was rated AA in 1989, just one notch below the AAA rating given to such industrial giants as Japan and West Germany,<sup>7</sup> yet our own business community's willingness to invest seems to be flagging. The cities are adorned with new high-rise office and apartment buildings, but the streets are so congested with traffic that passage can be all but impossible. The average person employed in an urban area in Taiwan now enjoys an income which rivals that of his Western counterparts, yet the air he breathes is

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3. See generally CEPD, PERSPECTIVE OF THE TAIWAN ECONOMY UP TO THE YEAR 2000 (1986).

4. Chi Schive, *Restructuring Taiwan's Economy in the 1980's and Beyond*, 252 INT'L COMMERCIAL BANK OF CHINA, ECON. REV. 8, 13 (1989).

5. Fredrick F. Chien, *The Economic Development of Taiwan, ROC - An Economic Success Story*, 252 INT'L COMMERCIAL BANK OF CHINA, ECON. REV. 1, 3 (1989).

6. See, e.g., New York Times, May 21, 1988, at 32, col. 5; New York Times, Oct. 11, 1989, at 13, col. 1; BUS. WK., *supra* note 1, at 60.

7. STANDARD & POOR'S INTERNATIONAL CREDITWEEK, June 26, 1989, at 29, 38, 52; see also MEIKUO HSINWEN YU SHIHCHIEH PAOTAO, April 4, 1989, at 83.

becoming increasingly polluted. In short, Taiwan seems to be accumulating the "burdens of success" along with an "embarrassment of riches."<sup>8</sup>

To guide the nation through this turbulent transition period and to speed its emergence as a fully developed country, the government has implemented a new economic program based on the principles of "Liberalization, Internationalization and Institutionalization."<sup>9</sup> Liberalization allows the economy to be increasingly regulated by the free market. Thus, administrative intervention in private economic activities is being reduced in order to create an equitable and competitive environment for the efficient allocation and utilization of resources. Internationalization expands economic activities by opening up home markets and allowing foreign competition with a view towards encouraging economic, technological, and cultural exchange with foreign countries. Institutionalization streamlines and systematizes economic activities by means of legislation and regulation and is a prerequisite to successful liberalization and internationalization.

#### IV. DEVELOPMENT HIGHLIGHTS

The Ninth Medium-Term Plan (1986-1989) has focused on two major priorities: expanding domestic demand and reducing the trade surplus.<sup>10</sup> Domestic demand has been pumped up through increased government spending, especially on the Fourteen Major Construction Projects.<sup>11</sup> Meanwhile, the trade surplus has been reduced by successive rounds of tariff reductions and a sharp appreciation of the New Taiwan dollar.<sup>12</sup> Thus, in 1988, Taiwan achieved substantial progress in correcting both of these macroeconomic imbalances. Nevertheless, since early 1989, the surplus has been growing once again.<sup>13</sup>

The Tenth Medium-Term Plan (1990-1993), whose basic outline was unveiled by the Council for Economic Planning and Development this July, addresses not only economic but also social, cultural, and educational concerns within a framework of short-term contin-

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8. STAFF OF JOINT ECONOMIC COMM., 100TH CONG., 1ST SESS., RESTORING INTERNATIONAL BALANCE: THE TAIWAN ECONOMY AND INTERNATIONAL TRADE 12 (S. Print 1987).

9. See generally CEPD, PERSPECTIVE OF THE TAIWAN ECONOMY UP TO THE YEAR 2000, *supra* note 3.

10. CEPD, NINTH MEDIUM-TERM ECONOMIC DEVELOPMENT PLAN FOR TAIWAN, ROC (1986-1989) 57 (1985).

11. *Market Taiwan*, BUS. AM., June 19, 1989, at 4.

12. Since September 1985, the New Taiwan dollar has risen 57 percent against the United States dollar, from NTS40:U.S. \$1 to the present NTS25.5:U.S. \$1. *Id.*

13. Taiwan's trade surplus for 1989 climbed to U.S. \$13.95 billion. San Francisco Chronicle, Jan. 12, 1990, at A23.

agency provisions, medium-term targets, and long-term goals.<sup>14</sup>

*A. Restore Economic Balance and Ensure Financial and Price Stability*

1. Reducing the Trade Surplus

Supporting measures have been introduced to increase the growth of imports. In August 1989, tariffs on 4,738 import commodities were cut by 23 percent on average.<sup>15</sup> This action followed an average 50 percent reduction on over 3,500 items in 1988.<sup>16</sup> According to a timetable set by the government, the nominal tariff rate (the ratio of total tariff revenue to the total value of commodity imports) will be cut from 9.65 percent to 7 percent by the year 1992,<sup>17</sup> approximating the level of the member countries of the Organization for Economic Cooperation and Development (OECD).<sup>18</sup> Additionally, the expansion of imports will be accelerated by the adoption of a negative-listing procedure.<sup>19</sup>

2. Making More Effective Use of Foreign Reserves

Measures have been formulated to encourage two-way capital flows. Foreign exchange controls have been largely removed as part of the financial deregulation policy.<sup>20</sup> With respect to portfolio investment, an increasing number of local mutual funds are being set up with government approval to facilitate investment in domestic and foreign securities. At the same time, well-known international invest-

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14. See generally CEPD, TENTH MEDIUM-TERM ECONOMIC DEVELOPMENT PLAN FOR TAIWAN, ROC (1990-1993) (1989).

15. *Tariff Reductions to Continue*, Foreign Broadcast Information Service—Daily Report, China, Sept. 25, 1989, at 65.

16. BOARD OF FOREIGN TRADE, MINISTRY OF ECONOMIC AFFAIRS, 1988 TARIFF CUTS: THE ROC'S EFFORTS TO OPEN ITS MARKET 4 (May 1988).

17. Los Angeles Times, Jan. 10, 1990, at 3, col. 5.

18. *Luncheon Address of Duck Woo Man, Former Prime Minister of South Korea and President of the Korean Trade Association Before the U.S. Chamber of Commerce*, FEDERAL NEWS SERVICE, Apr. 10, 1989.

19. A "negative list" for imports will be adopted by the government to liberalize imports. Instead of listing all the permitted items, the government lists only those which are prohibited or controlled.

20. Most important was the Regulation for Non-Governmental Outward Remittances which permitted outward remittances of up to U.S. \$5 million per person per year. Minchien Huich'u K'uanhsiang Chiehhuai Panfa (Regulation for Non-Governmental Outward Remittances) (Central Bank of China, promulgated July 13, 1987, effective July 15, 1987) 76-T'ai-yan Wai-tzu 5-04430. The latest measures taken to liberalize foreign exchange control include raising the amount of inward remittance per year without prior approval, and raising the ceiling of short-position for foreign exchange in local banks. Central Bank of China, CHINJUNG YEHWU TS'ANK'AO TSULIAO (June, July, Sept., Nov., 1989); see also *Taiwan Investments Foreseen for U.S.*, AM. BANKER, July 31, 1989, at 5.

ment firms have been invited to establish branches and conduct international operations in Taiwan.<sup>21</sup>

### 3. Privatizing State-run Enterprises

A number of state-managed enterprises are being considered for privatization. Shares held by the government in corporations such as China Steel, China Petrochemical Development, and the three provincial commercial banks will be sold to private investors in the fiscal year 1990.<sup>22</sup> These divestitures should help soak up excess liquidity in the economy and generate the revenue needed for purchasing land designated for the construction of new public facilities.

### 4. Increasing Public Expenditure

To bolster economic growth and improve the trade imbalance by stimulating domestic demand, public investment spending will be increased markedly. The budgets of government agencies will be expanded, enabling them to spend more on public investment projects not only for economic development but, more importantly, for improving the quality of life. Starting in the fiscal year 1990, government budgets will place special emphasis on health care, pollution control, environmental protection, and recreational facilities.<sup>23</sup> In addition, advance planning has already been initiated on twenty-one important construction projects so that the projects can be started and completed on short notice. These projects include the construction of high-speed railroads, deep-water harbors, and mass rapid transit systems. Moreover, of the thirty sub-projects, which comprise the Fourteen Major Construction Projects launched in July 1985, six have already been completed.<sup>24</sup>

## B. *Streamline Laws and Regulations and Safeguard Economic and Social Discipline*

### 1. Amending Legislation

A broad range of modern social and economic legislation is

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21. BUS. WK., *supra* note 1, at 60.

22. *Banking Update: Taiwan Rethinking Some Reforms*, E. ASIAN EXEC. REP., Oct. 15, 1989, at 4; *International Briefs*, OIL & GAS J., May 15, 1989, at 27; *Taiwan Privatizers Tap a Western Adviser*, INSTITUTIONAL INVESTOR, Feb. 1989, at 26.

23. CEPD, COMPREHENSIVE DEVELOPMENT PLAN FOR THE TAIWAN AREA: A MULTI-MEDIA PRESENTATION 4 (1989).

24. By the end of 1989 the following sub-projects were completed: the third phase expansion of China Steel Corporation, flood control construction project in the Taipei Area, grass-roots development projects, improvement of the Veterans General Hospital, medical school for National Cheng Kung University, underground railroad project in downtown Taipei.

needed to smooth Taiwan's transition to a developed economy. In this regard, laws governing trade, investment, and industry are already on the books or are in the process of being revised and updated. Examples include the Patent Law, the Trademark Law, the Trade Act, the Copyright Law, the Fair Trade Law, the Insurance Law, the Labor Standards Law, the Small and Medium-Size Enterprise Development Act, the Environment Protection Law, and the Statute Governing Privatization of the State-Run Enterprises.<sup>25</sup>

## 2. Comprehensive Development Planning

Comprehensive or physical development planning means preparing for changes in demographics, infrastructure, and society in general, and coordinating economic, social, and cultural institutions in order to successfully face tomorrow's challenges. The Comprehensive Development Plan for the Taiwan Area announced in 1979 gave a great boost to the physical development of Taiwan.<sup>26</sup> The revised version of that plan which is now being prepared emphasizes cleaning up the environment and improving the overall quality of life. Towards these ends, the revised plan will call for a significant increase in spending on environmental protection as well as for more balanced and effectively coordinated urban and rural development.<sup>27</sup>

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25. Chuanli Fa (Patent Law)(promulgated May 29, 1944, amended Dec. 24, 1986) 21 CHUNGHUA MINKUO HSIENHSING FAKUI HUIPIAN (Compilation of Recent Laws and Regulations of the Republic of China) 12963 (1989); Shangpiao Fa (Trademark Law)(promulgated May 6, 1930, amended Nov. 29, 1985) *id.* at 12933; Maoyi Fa (the Trade Law) draft approved by the Executive Yuan on Nov. 23, 1989 and is under review in the Legislative Yuan; Chutso Ch'üan Fa (Copyright Law)(promulgated May 14, 1928, amended July 10, 1985) LIUFA CH'ÜANSHU (The Complete Six Laws) at 771 (T'ao Pai-ch'uan 1989); Kungp'ing Chiaoyi Fa (Fair Trade Law) draft approved by the Executive Yuan on May 15, 1986 and is under review in the Legislative Yuan; Paohsien Fa (Insurance Law)(promulgated Dec. 30, 1929, amended Nov. 30, 1974) TSUIHSIN LIUFA CH'ÜANSHU (Compilation of the Complete Six Laws) 501 (T'ao Pai-ch'uan 1982); Laotung Tsuchun Fa (Labor Standards Law)(promulgated July 30, 1984) LIUFA CH'ÜANSHU 719; Chunghsiao Ch'iyeh Fachan T'iaoli (Small and Medium Size Enterprise Development Act) draft approved by the Executive Yuan on Sept. 26, 1989 and is under review in the Legislative Yuan; Hsienchiehtuan Huanching Paohu Chengts'e Fa (An Outline of Current Environmental Protection Policies of the Republic of China)(Executive Yuan, approved Oct. 2, 1987) the Environmental Protection Law is being drafted; Kungying Shiyeh Yichuan Minying T'iaoli (Statute on Privatization of Public Enterprises)(promulgated Jan. 26, 1953) LIUFA CH'ÜANSHU at 2233, a revised draft was approved by the Executive Yuan on Nov. 16, 1989 and is under review in the Legislative Yuan.

26. CEPD, COMPREHENSIVE DEVELOPMENT PLAN FOR THE TAIWAN AREA: A MULTI-MEDIA PRESENTATION 2 (1989).

27. *Id.* at 4.

### C. *Balance Social and Economic Development*

#### 1. Upgrading the Cultural Environment

In the 1990 fiscal year, central government spending on education, science, and culture will increase to fifteen percent of its total budget.<sup>28</sup> Meanwhile, authorities concerned with culture and education are striving to enrich formal educational curriculums, and are making increasing use of mass communication to foster higher moral and ethical standards among the public at large. Cultural centers have been opened in many counties and municipalities to encourage wholesome and beneficial recreational and leisure time activities.

#### 2. Constructing Housing for Families of Low and Modest Income

To provide families of low and modest income with an opportunity to buy their own homes, the government will build 50,000 housing units for low income families over the next two years, and another 170,000 to 220,000 units for middle income families over the next four years.<sup>29</sup> In March 1989, the Central Bank of China imposed selective controls on the extension of loans for real estate speculation, a measure which should help curb the surge in real estate prices as well as inflation in general.<sup>30</sup> Additionally, starting in July, subsidies for owner-occupied housing were made available under the Owner-Occupied Housing Subsidy Act.<sup>31</sup>

#### 3. Upgrading and Expanding Social Insurance

In July 1989, a farmers' health insurance program was formally incorporated and the government employees' health insurance program was expanded to provide coverage for the parents of all civil servants.<sup>32</sup> In addition, a decision was made to introduce national health insurance in 1995, five years earlier than originally planned.

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28. *Administrative Statement from Executive Yuan, Feb. 28, 1989*, 78 LIFA YUAN KUNGAO no. 17, at 41 (1989).

29. "No Ceiling," *Taipei's Soaring Real Estate Prices Spark Street Protests*, FAR E. ECON. REV., Oct. 19, 1989, at 65.

30. "Taiwan Calls Time": *Inflation Fears Trigger Credit Squeeze*, FAR E. ECON. REV., Apr. 13, 1989, at 65. Twenty measures specifically concerning real estate were implemented in June 1988. "Squeezing the Speculators": *The Taiwan Government Restricts Bank Lending and Credit*, FAR E. ECON. REV., July 21, 1988, at 52.

31. Fuchu Jenmin Taik'uan Tsukou Chuchuai Panfa (Criteria For Owner-Occupied Housing Subsidy)(promulgated June 28, 1989) in Ministry of Interior, 78- T'ai 78 Nei-ying Tzu-ti 713356 Hao-ling, June 28, 1989.

32. Nongmin Chien'ang Paohsien T'iaoli (Farmer's Health Insurance Act)(promulgated June 20, 1989) LIUFA CH'ÜANSHU, *supra* note 25, at 737.

#### 4. Planning Living Perimeters

The concept of "living perimeters"<sup>33</sup> will be stressed to promote a more balanced distribution of the population. The construction of a "technopolis" will be accelerated, better integration will be provided between industrial and educational facilities, and the access to national universities will be increased. At the same time, the social infrastructure of rural communities will be improved in order to narrow regional disparities in standards of living.<sup>34</sup>

#### V. PROMISES AND RESPONSIBILITIES

The current situation in Mainland China highlights the superiority of the Taiwan development model to the socialist model. A long-term study commissioned by the ROC government in 1986 foresees the emergence of a fully developed modern society in Taiwan following the completion of our economic modernization programs before the turn of this century.<sup>35</sup> We remain steadfast in our commitment to make that prediction a reality and to realize in our lifetime Dr. Sun Yat-sen's dream of a society with real prosperity and genuine equality for all.

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33. A living perimeter is a spatial unit in which residents' daily needs such as shopping, commuting, medical care, recreational, and cultural activities are provided. CEPD, COMPREHENSIVE DEVELOPMENT PLAN FOR THE TAIWAN AREA: A MULTI-MEDIA PRESENTATION, *supra* note 26, at 4.

34. *Id.*

35. See generally CEPD, PERSPECTIVE OF THE TAIWAN ECONOMY UP TO THE YEAR OF 2000, *supra* note 3.