

HOW TAIWAN GETS AHEAD

LEARNING TO MANAGE SUCCESS

by T. H. LEE

In one of the most extraordinary success stories of the past few decades, Taiwan has rocketed to 16th place in the list of world trading powers. But success has its economic penalties.

The Republic of China [Taiwan] pursues a planned free economy. Under such a system, the government plays a leading role in the initial stage, but it gradually retreats to a rear position as domestic businesses develop and can eventually stand on their own. At our present stage of development, the government's main task is to set the general orientation for long-term development and provide a favourable environment for continued growth, so that everyone can compete freely to create his or her economic well-being.

With decades of planning and hard work, the ROC has been able to witness a truly rapid growth in its overall economic development. The average annual economic growth rate was 8.6 per cent during the period from 1953 to 1985, and it rose to 11.64 per cent in 1986 and 11.86 per cent in the first half of 1987.

On the external trade front, we see the same remarkable growth. The average annual trade growth was maintained at 17.2 per cent for exports and 12.5 per cent for imports over the last 10-year period. The total import and export volume amounted to \$US64 billion in 1986, and another \$US54 billion in external trade was recorded in the first eight months of 1987 alone. At that pace of growth, ROC exports and imports for the whole of 1987 were expected to break the US\$80 billion mark. Commodity prices, too, have been maintained at pretty stable levels, the

only exception being during the two oil crises, when domestic prices were indeed adversely affected. Another characteristic of the ROC's economy is its sensible distribution of wealth. In 1986, for instance, the disposable income of upper class households was just 4.6 times that of the lowest earning 20 per cent of households. This makes the ROC one of the leading countries in the world in terms of equality of income distribution.

It is because of these developments that the ROC has now become not only one of the world's 10 newly industrialised countries but also its 16th largest trading power. Factors leading to this level of success are many. The most noteworthy ones are: a good educational environment; political stability and a favourable investment environment; proper guidance by the government; the frugality and industriousness of the people; and harmony between labour and management.

Thanks to long years of labour and sensible planning, the ROC has succeeded in laying a solid foundation for the promotion of liberalisation and internationalisation in its future economic development.

As a first step toward this goal, the

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government announced on July 15 its decision to eliminate foreign exchange controls and relax restrictions on overseas investment. This decision can truly be termed a breakthrough in the progress of the ROC's economic development. On the other hand, the country's huge trade surplus, which has been accumulating rapidly over the years, has not only brought the New Taiwan dollar under heavy pressure to appreciate, but has also created an excess supply of idle capital. Obviously, these changes are bound to have a great and lasting impact on the country's future economic performance.

As a result of the removal of controls, the ROC will become a more open and liberal economic society. In this new environment, the role of market forces will escalate, while artificial controls and interference will decrease to a minimal level. Commodity prices, exchange rates and interest rates will all be directly determined by the market forces of supply and demand.

At the same time, because of the reduction of controls, fluctuations in the economic and financial system will become much more frequent. Moreover, the influence of external factors will become stronger when the government goes about formulating economic and financial policies. In fact, any policy changes abroad, such as adjustment in exchange or interest rates or ups and downs in the stock markets, will all make their impact felt immediately here at home. For this reason, it will be inadequate in future economic planning to look at domestic conditions alone. Rather, we will have to take into account all the external conditions and factors in order to come up with a sensible judgment.

Following the removal of foreign exchange controls, ROC industries in the future will have to face tougher competition and take bigger risks. In

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the past, our industries were able to thrive under the dual protection of high tariffs and foreign exchange controls. Now that these protective measures have successfully performed their function, it is time that they were removed.

In years past, our exchange policy pegged the NT dollar to the American dollar. Because of this protection, ROC exporters were unable to figure out an accurate profit margin for their products. This not only distorted the real comparative advantages of their exports, but also caused local exporters to continue turning out products which were no longer suitable for export. With controls now removed, the situation will definitely improve.

What is also true in this context, however, is that without the protective measures of the past, ROC exporters will not only encounter stiffer foreign competition but will also have to face the bigger risks that will arise with fluctuations in markets, parity rates, and international finance and politics. Under these circumstances, our exporters will have no choice but to rely on their own strength and compete internationally on an accurate calculation of production cost and comparative advantage.

A further impact will be seen in an increase in overseas investment. Specifically, the removal of foreign exchange controls means simplified regulations and procedures for manufacturers wanting to invest abroad. While this change will greatly boost investment willingness, it will also encourage illicit investments to come out into the open. Next, the problem of direct overseas investment. At present, domestic banks are enjoying an over-abundant capital supply while the public is glutted with idle money looking for an outlet.

With the business sector and general public now becoming more mature in their handling of monetary matters, indirect investment abroad by ROC citizens can be expected to increase. Moreover, the relaxation of regulations governing capital requirements, dividend yield and the remittance of profits will also boost the willingness of foreigners and overseas Chinese to invest in the ROC.

The impact of the appreciation of the NT dollar

Forex rates in this country had been quite stable for decades, and that was what our manufacturers had used as a basis to calculate the costs, prices, and quantities of their products. Consequently, our foreign trade was carried on in an orderly manner.

For the past few years, however, things have changed due to our rising trade surplus, especially the enormous surplus with the United States, which has resulted in an oversupply of US dollars here and a rapid appreciation of the Taiwan currency. This rise in the value of our currency has been boosted by mounting American protectionism. From an exchange rate of \$NT39.83 to one US dollar in early 1986 to that of \$NT30.11 at the end of August 1987, the New Taiwan dollar has appreciated 32.3 per cent.

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Of course, this appreciation has hurt our exporters — especially those who are small and medium in size, because approximately 71 per cent of their products are for export. In addition, an unhealthy capital structure, small production scale, lack of diversification, and insufficient qualified manpower have added difficulties to their operations. Some may argue that our exports have not gone down sharply up to this date. True, but profit margins are getting smaller and some companies even have no profit at all. What makes them still grin and bear it is that they hope this adversity is transitory and that all their difficulties can be overcome soon.

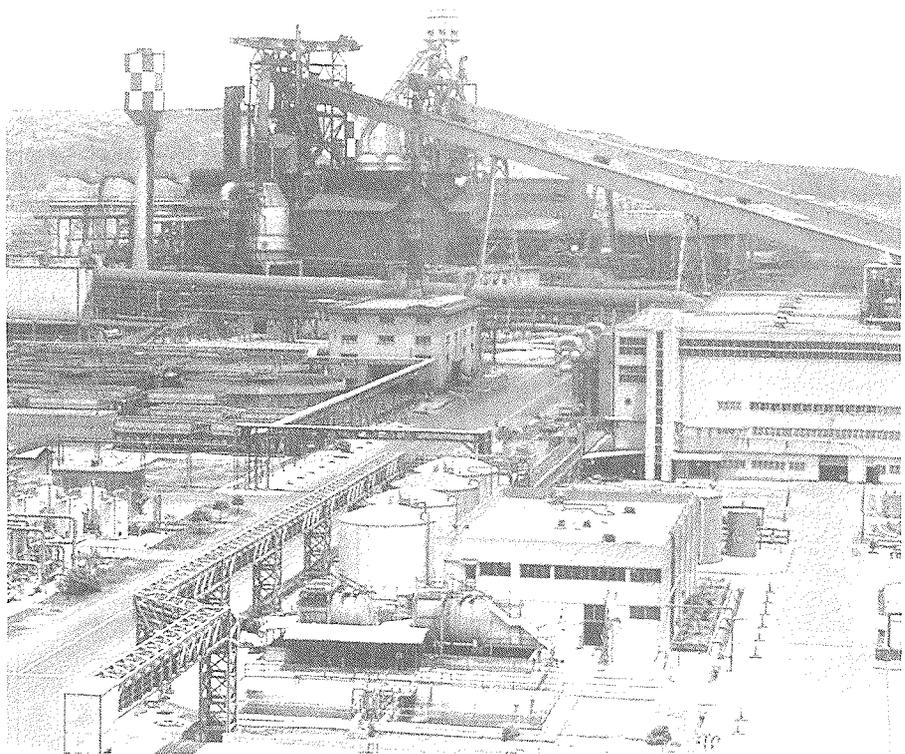
The appreciation of the NT dollar strongly implies the necessity of restructuring our industry. On the one hand, we should cast off inefficient, low value-added, labour-intensive manufacturing, and renew facilities and use automation to increase productivity and quality so as to make our products more competitive internationally. We should also endeavour to develop higher value-added, more sophisticated industries to turn out new products for export.

The appreciation of the NT dollar also demands that we correct our long-advocated trade concept of exports over imports, quantity over quality, and production over sales. From now on, we should try to balance our two-way trade, and put more weight on quality and salesmanship. Only by so doing can we hope to stop the appreciation of our currency and promote the normal development of our economy.

The abundance of excess capital

Savings rates in the Republic of China have been among the highest in the world due to Chinese frugality and the incentives provided by the government. This has contributed a great deal to our capital formation over the past decades. For the past few years, however, investment has slowed because our economy has come to a stage of transition; a large trade surplus has resulted, and the money supply has grown rapidly. Currently, the annual money supply growth rate is as high as 40 per cent, large amounts of capital lie idle in banks, and a lot more money is in private hands.

This is a very unusual phenomenon in both industrialised and newly industrialised countries. In order to ease the pressure of potential inflation, the government is actively engaged in the implementation of key projects, and is encouraging the private sector to invest



China Steel Corporation's blast furnace facilities. The corporation's integrated mill produces 3.25 million tonnes of crude steel a year.

in public facilities. In addition, the Central Bank has issued large volumes of treasury bonds, certificates of deposit, and savings bonds to absorb excess capital. But it seems that what has been done so far hasn't helped much.

Since there is no adequate outlet for our excess capital, the prices of domestic real estate are rapidly escalating. Based on statistics released recently, housing in metropolitan Taipei is up an average of 3.5 per cent compared with the same period of last year, and apartment prices rose between 17.1 per cent and 28.9 per cent.

Future developments

Economic liberalisation is an all-out task, and the lifting of forex controls is a big stride toward its realisation. Currently, a working team in the Council for Economic Planning and Development is revising laws and regulations relating to finance and economic affairs, so as to make them conform to the requirements of internationalisation and liberalisation. In addition, an ad hoc team will also be activated in the Executive Yuan to review laws and regulations that were created under special circumstances, and

recommendations on their revision or abolition will be submitted.

We all know that the underground economy has been rampant in this country, and has thrown the market into disorder. This can be attributed to inadequate laws and regulations, to undefined responsibilities of government agencies, and to insufficient manpower. In order to correct this abnormal phenomenon, all unnecessary restrictions on business should be lifted or relaxed. Even when certain regulations must be imposed on some business activities, their conditions should not be too rigid but should allow more freedom in business transactions. Furthermore, some of the administrative work normally done by the government can be turned over to the private sector, so as to ease and simplify formalities and energise our economy.

Finally, all restrictions on investment should be removed. This refers not only to Overseas Chinese and foreigners, who would enjoy greatly simplified procedures and could invest in a wider range of areas, but also to our own entrepreneurs, who could make outward investments and benefit the international economy.

As a result of the new economic environment, the ROC's outward investment activities will tend to become more dynamic. Our government has made significant adjustments of its outward investment policy, which has been transformed from "management and restriction" into "guidance and assistance". We have not only relaxed restrictions and simplified procedures, but have also moved to provide investment information services, such as changes in the exchange and interest rates of different nations, economic situation in target nations for investment, financial policies, taxation laws and potential risks.

The Ministry of Economic Affairs has recently worked out a "Plan for Promoting Outward Investment in the United States" and a "Plan for Promoting Outward Investment in Southeast Asia", and has proposed that the government set up an Overseas Co-operation Development Fund which will assist both public and private enterprises in making investments abroad and also provide financial, technical and manpower assistance if necessary so as to promote international investment and provide for the continuous development of our enterprises.

Deregulation has left plenty of room for industry to use foreign exchange. Consequently, it has become important to help industrialists in their conduct of international financial transactions. In addition to providing information about the international financial market, we also want to provide businessmen with opportunities for education and learning, to assist industries in gaining a grasp of the differences between domestic and foreign interest rates, to analyse variations in exchange rates, to make judgments and to provide techniques of foreign exchange operations.

Because of the stress on the expansion of exports to promote our economic

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growth, the needs of exports have taken top priority in the distribution of resources. This results in an insufficiency of infrastructure and investment planning. For instance, the quantity and quality of transportation, port facilities and public utilities cannot meet the needs of modern life; and there is insufficient investment in facilities for environmental protection, which has led to air, water, and noise pollution.

Pollution is increasingly threatening our living environment. Investments in educational facilities, cultural construction and leisure-time services are not adequate, and the quality of these facilities is low.

To improve these conditions, we will formulate a new plan for investment. We should especially strengthen investments in public facilities, environmental protection and leisure-time services in order to elevate the living standards of our people. At the same time, we want to import machinery related to public facilities with a view to enhancing the quality of national life, and alleviate the current situation under which our resources are used by foreign nations through the export trade. We hope to direct our capital into the proper channels so that it can benefit our economic development.

As the ROC is a link in the international economic society, we have maintained close relations with the rest of the world through international co-operation. The ROC has been reinforcing its economic, technical and cultural co-operation with various nations through different channels for many years. At present, government-level co-operation includes ROC-US technical co-operation, Sino-Japanese technical co-operation, Sino-German technical co-operation, Sino-Korean technical co-operation, Sino-Saudi economic and technical co-operation, Sino-African technical co-operation, Sino-Latin American technical co-operation and Sino-Asian Pacific technical co-operation. Programs related to economic and technical co-operation in the private sector total about 700, and we participate in 1,000 international meetings a year.

In addition, based on the principle of promoting agriculture and expanding technology abroad, we have continuously sent agricultural, fishery, medical, highway engineering and technical missions to assist in developing the infrastructures of other nations. Our efforts and contributions in this respect have won international recognition and praise.

The key points of our future economic development will be, on the one hand, to strengthen economic co-operation and technological interchange with other nations so as to mutually upgrade our levels of technology and bring prosperity to our economies; and on the other hand, to fulfill our social responsibility to the international economy and assist developing countries in exploiting their natural resources, training qualified personnel, upgrading technology and improving management to promote the well-being of the people. □

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