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**CENTRALITY AND CONTINGENCY:
THE PARADIGMATICISM OF
ECONOMIC GROWTH**

by

Peter Lindfield

**A Thesis submitted to the Faculty of Graduate Studies and
Research for credit in 47.599 in partial fulfillment of the
requirements of the degree of Master of Arts**

**Department of Political Science
Carleton University
Ottawa, Ontario**

February, 1990

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**"CENTRALITY AND CONTINGENCY:
THE PARADIGMATICISM OF ECONOMIC GROWTH"**

submitted by Peter Lindfield, B.A.
in partial fulfilment of the requirements for
the degree of Master of Arts

Thesis Supervisor

Chair, Department of Political Science

Carleton University

ABSTRACT

The vision of the totality is what provides the underpinnings for the adjudication of construed social reality. Formalized and systematized rules for method, principles and protocols establish the domain of economism as normalizing logic, replete with disciplinary vocabularies. The reduction of tensions within this corrective logic requires the efficient and consistent eradication of referent forms pathological to dominant categories as goals, symbols and principles of order. Heterodoxy is marginalized insofar as it reduces the efficacy of the intelligibility of paradigms of complex systems.

Taiwan's current political structure is based on a 1946 constitution that governed China before the ruling Kuomintang (KMT) fled the mainland. The elected bodies of Taiwan's government -- the National Assembly, the Legislative Yuan and the Control Yuan -- are still dominated by members representing different constituencies of the mainland who were last elected in 1947. With new elections for the mainland constitutions not being possible, the number of elected members has fallen over time. A series of elections to the National Assembly within Taiwan to replenish the falling membership has led to larger-than-proportionate representation of Taiwan province in the National Assembly. This has led to growing "Taiwanization" of the government, which is seen by many as a threat to the ruling KMT's claim of sovereignty over the whole of China and thus their legitimacy to rule the island. However, with the fading of more elderly members, a comprehensive reform of the current political structure seems inevitable¹. Much of this will depend on evolution within the KMT and the opposition parties. The last two and a half years have been probably one of the most dynamic periods in Taiwan's political history during the past four decades. We have seen:

- * The formation of the first formal opposition party, the Democratic Progressive Party (DPP), in September 1986;
- * The replacement of martial law, which had governed the island for 38 years, by a less stringent National Security Law in mid-1987;
- * More contacts with the mainland;
- * A rise of labor and environmentalist movements;
- * The death of late-president and party head Chiang Ching-Kuo in early 1988; and
- * The emergence of new political figures both within and outside the ruling party².

All these point to a new era of political and social development -- the post-Chiang Ching-Kuo period. Changes are underway in three major spheres:

1. Within the ruling party -- the KMT;
2. Outside the KMT, mainly the opposition DPP; and
3. Foreign policies, especially those related to the mainland.

Most of these changes, however, had been initiated by late-president Chiang Ching-Kuo, or induced by natural political development. The passing away of Chiang in early 1988 complicated the process and, for a short while, made it more

The orthodoxy of economic causality strives for significance, meaning beyond the outlying, predictability. National accounts have been rendered moribund by the cosmopolitanization of global information and human resources which are inadequately measured by existing economic paradigms or social indicators. What is perceived as rapid economic structural change exists in the context of the dematerialization and informatization of production. National boundaries are increasingly irrelevant in the face of the

unpredictable. Two major changes are underway within the KMT. First, Chiang's death signified the end of more than half century of strongman politics. As early as the late 1920s, the KMT was under the leadership of late-president Chiang Kai-shek, Chiang Ching-Kuo's father. In the late 1940s, when the Nationalist fled mainland China to escape communist rule after China's civil war, the senior Chiang led an estimated 1.5 million people to join approximately six million Taiwanese and established the current regime on the island. Since then, the KMT, the government and the military were under the control of the Chiangs.

Although three of Chiang Ching-Kuo's sons were elected to the new KMT central committee, it may be that any dominating figure -- either from the Chiang family or elsewhere -- will have the power to preside over the party, the military and the government like the two Chiangs before, although individual personalities may play a decreasing role in the KMT leadership as there is a transition from rule by personality to rule by consensus³.

Changes within the KMT were most apparent in the 13th Party Congress held in July 1988, which saw the largest personnel changes in the past four decades: eighty new members were elected to the central committee, out of a total of 180; and 12 new faces appeared in the 31-member central committee standing committee. The emergence of new power factions reflected the second major development within the KMT.

Currently, no single unit of the different power centers -- the president, the party, the government (or Executive Yuan) and the military -- dominates the political scene and the grouping of these centers is still in a state of flux. However, no matter who gets the upper hand, there may have to be increasing reliance on younger and more open-minded technocrats. Such changes have been already seen in the recent Party Congress and cabinet reshuffle, though the scale was less extensive than expected and most of the key positions are still held by old party guards.

Thus far, changes are primarily indicating a more pluralistic and non-personalized political environment within the KMT, although this may increase political uncertainty. The challenge to the ruling party remains largely internal -- that is whether the KMT is able to inject new blood to its currently aged leadership and unite around a more institutionalized structure. Ultimately, its stability and credibility will depend on its success in maintaining economic growth, which is critical for maximizing electoral success⁴.

integration and globalization of the world economy; and with the declining legitimacy of national governments especially as growing decentralization and democratizations leads to increasing demands for broader participation. Is Taiwan paradigmatic in light of such pronouncements? Searching the protocols of standardized accounts of comparativism reveals putatively antecedent conditions for the validity of economic meaning.

Taiwan's current political structure is based on a 1946 constitution that governed China before

Outside the KMT, the major opposition party DPP is also in transition, moving from a semi-underground and informal organization to an open, formal opposition party, as well as from a cadre of loosely - gathered dissidents to a group of more organised political activists. This process has not been facilitated smoothly, as seen in the infighting between major factions during the recent 3rd Party Congress: the KMT's liberal policies of the last 18 months had substantially eroded the common ground of the opposition. Different opinions and approaches toward independence and reunification will continue to split the opposition.

The recent election of Huand Hsien-jie to the DPP chairmanship may imply a more moderate approach to power sharing in the coming months, and more dialogue between the ruling and opposition parties may ease tension, both in the streets and in the parliament. However both parties will be focusing on the next legislature and local executive election in late 1989, which will be a review of their strength and policies, as well as a testing ground of the much needed constitutional and electoral reforms.

The rise of pragmatism is significant in the field of foreign policy, which is also undergoing a transition following changes in domestic politics. Indirect trade with China is estimated to have reached US\$2.4 billion in 1988 and over 400,000 Taiwanese visited the mainland in the past 12 months⁵. A more flexible approach toward Taiwan's representation in the international community is also being taken but more ideological and technical breakthroughs have to be made before a comprehensive and practical new China strategy is evolved⁶. As long as Taiwan does not espouse independence, Beijing is likely to take a soft approach to the Taiwan question. A new China strategy may be more instrumental in facilitating Taiwan's smooth economic relations with the world, including China, and in restoring the KMT's legitimacy and credibility. A more consistent and well-thought-out China strategy is also needed by the opposition, if it wants to enhance unity and secure voter support⁷.

Taiwan's economic success -- via rapid export growth -- appears all the more remarkable considering the island's virtual diplomatic isolation. For a long time, the US had been the chief source of all international political, economic and military support for Taiwan. However, this ended in 1979, when the US formally recognized the People's Republic. The defense pact between the US and Taiwan ended at the same time, although the US continued to supply arms to the island and unofficial "diplomatic" offices are maintained in Taipei and

the ruling Kuomintang (KMT) fled the mainland.

The elected bodies of Taiwan's government --

the National Assembly, the Legislative Yuan and

the Control Yuan -- are

still dominated by

members representing

different constituencies of

the mainland who were

last elected in 1947.

With new elections for the mainland constitutions

not being possible, the

number of elected

members has fallen over

time. A series of

elections to the National

Assembly within Taiwan

to replenish the falling

membership has led to

larger-than-proportionate

representation of Taiwan

Washington by the respective governments. Such arms sales, however, remain an irritant in Sino-US relations, and are meant gradually to be reduced⁸.

Like the US, most other countries have chosen to recognize Beijing in preference to Taipei. Currently, Taiwan has diplomatic relations with less than two dozen countries; its external trading partners, however, number over 150. Over the years, Taiwan had to resign from membership of several international organizations including the United Nations and the International Monetary Fund.

This diplomatic isolation has in recent years been further enhanced by the agreements negotiated by the PRC for the return of Hong Kong and Macau to its fold. Taipei has consistently remarked that the PRC will not be able to maintain the "one country, two systems" policy toward Hong Kong and Macau. Recent signs of Beijing's gradual tightening of policies toward Hong Kong would appear to suggest some truth in Taipei's remarks. But as the sovereignty reversion of Hong Kong and Macau draw closer, Taiwan will face growing unease in its trade and political prospects. Some initiatives to rebuild its relations with selected international organizations are being taken, but a more comprehensive and consistent foreign policy is required for a significant breakthrough⁹.

Ever since the lifting of martial law, labour and environmental movements have gained strength in Taiwan. A more relaxed political climate, an expanding and more educated middle class and urban workforce, and growing affluence of the society have led to increasing awareness about environmental issues and labor rights. Compared with South Korea, Taiwan's labor movement remains relatively peaceful and small, and the presence of a large number of small companies has limited the scale of industrial action. But there is growing preference for confrontation and increasing emphasis on short-term compensation rather than long-term improvement of labor and environment conditions. The latter would require improvement in labour and environment protection legislation and better communication at the grass-roots to avoid significant deterioration of social stability.

The 1953-88 period witnessed Taiwan's real GDP expanding at an average 8.7% with growth slipping below 5% in only four out of the 35 years; despite some severe external trade pressures and two oil price shocks there has never been negative growth in any year since 1953. Per-capita GDP has risen from approximately US\$145 in 1953 to over US\$6,300 in 1988, while various quality-of-life indicators reveal significant

province in the National Assembly. This has led to growing "Taiwanization" of the government, which is seen by many as a threat to the ruling KMT's claim of sovereignty over the whole of China and thus their legitimacy to rule the island. However, with the fading of more elderly members, a comprehensive reform of the current political structure seems inevitable. Much of this will depend on evolution within the KMT and the opposition parties. The last two and a half years have been probably one of the most dynamic periods in Taiwan's

improvement in living standards of the Taiwanese people over the last three decades and more¹⁰.

Taiwan's economic transformation from a largely agrarian society in the early 1950s to one of the world's leading newly industrialized countries is not surprising given the combination of several factors that helped to fuel its development. These include the following:

- o **Initial emphasis on agriculture.** Unlike some newly industrialized countries, the initial phase of Taiwan's economic growth focussed heavily on the agricultural sector. Crucial to this effort was the important land reform ("land-to-the-tiller") program of the early 1950s whose success contributed to raising agricultural productivity, output, farmers' incomes, agri-exports, and overall rural living standards, besides being the first step toward a more equitable distribution of income and wealth in the economy. Over time, the surpluses generated by the rural sector were used to promote industry.
- o **Extensive education.** The emphasis on education at all levels has raised the overall literacy rate from 66.9% in 1952 to 92% now, resulting in a continuous upgrading of skills and expertise in the economy. Free schooling was extended from six years to nine years in 1968, and is likely to be further extended to twelve years in the future providing an added boost to enrollment for higher education which is currently over 80%. Raising the general educational level of the population has significantly contributed to the high-quality manpower that can be found in Taiwan.
- o **US economic and financial aid.** Taiwan's initial development thrust during the fifties would have probably been more difficult and prolonged without the large inflows -- US\$2.2 billion in aggregate -- of US economic and financial assistance during the 1950s and much of the 1960s. Besides contributing to almost 40% of annual gross capital formation during the 1950s, agricultural commodity aid under US Public Law 480 helped keep inflation under control during the early part of the decade. Notwithstanding what may be the contribution of US aid to its growth process, Taiwan unambiguously can be regarded as a success vis-a-vis US aid.
- o **Pragmatic government policies.** Like other developing countries in the 1950s, Taiwan also embarked on a series of economic development plans, the first four-year plan being launched in 1953. However, two

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More contacts with the mainland;

A rise of labour and environmentalist movements;

aspects of Taiwan's economic plans differentiate them from those in other countries. First, alongside the government's own role, high emphasis has always been placed on the private sector. Such emphasis has been in the form of active assistance to private industry in the initial phases of development and later to ensuring the provision of solid infrastructure for continued growth. Secondly, Taiwan's economic plans have been mainly indicative in nature, flexible, and not based on preconceived ideologies. Thus plan strategies have moved from import-substitution to export-promotion, as also from say the land ceilings of the early 1950s to the present efforts to boost rural industrialization so as to raise the amount of per-capita agricultural land.

o **Export-oriented industrialization.** Taiwan's rapid and sustained economic growth since the 1960's has primarily been a result of its export-oriented industrialization strategies. As import-substitution policies of the 1950s reached a saturation point by the end of the decade, a series of reforms -- devaluation of the currency, unifying multiple exchange rates, encouraging investment, and liberalizing imports -- were implemented to push exports. The 1960s thus saw rapid growth in exports of basic items like textiles, plywood, wood products, and some electrical appliances and machinery. Subsequent decades have witnessed new items added to the export list: chemicals and refined petroleum products, electronics products, cement, basic metals, plastic and rubber products¹¹.

o **High savings-income ratio.** In anticipation of cutbacks in US aid, the government embarked on a series of programs during 1958-60 to encourage greater savings and investment. As a result, gross national savings as a ratio of GNP grew from 9.7% in the 1950s to 19.7% in the 1960s, 32.1% in the 1970s, and was 38.5% in 1987. Aside from government policies, two other factors -- that are probably more important -- have also helped fuel these large savings. First, the Chinese culture stresses frugality and thriftiness relative to Western consumerism. Second, without an extensive institutionalized social security system, people have had to depend on their own savings to support their children and the aged¹².

o **Solid infrastructure.** Following the emergence of infrastructural bottlenecks toward the late 1960s, the government embarked on a massive construction program that came to be collectively known as the "Ten Major Development Projects." Seven of these projects, which were all completed by 1980, helped to

The death of late-president and party head Chiang Ching-Kuo in early 1988; and

The emergence of new political figures both within and outside the ruling party.

All these point to a new era of political and social development -- the post-Chiang Ching-Kuo period. Changes are underway in three major spheres:

Within the ruling party -
- the KMT;

Outside the KMT, mainly the opposition DPP; and

substantially strengthen Taiwan's infrastructure: the North-South freeway, the North-Link railway, railway electrification, the Chiang Kai-shek International Airport, the Taichung and Suao seaports, and three nuclear power plants. The success of these projects led to the drawing up of plans for twelve -- later expanded to fourteen -- more large projects, most of which will further strengthen an already solid infrastructure. (see table 4)¹³

- o **Strong political leadership.** To a large degree, Taiwan's achievements have been the result of an unusually strong and stable political leadership. The strong leadership of the mainlander-dominated ruling Kuomintang has also ensured a high degree of policy stability. For example, the implementation of land reforms which has been a controversial issue in many Asian countries could proceed smoothly in Taiwan partly because local landowners were virtually powerless against the KMT mainlanders in the early 1950s.

While Taiwan's rapid economic development is not without parallel -- South Korea is another example of aspects of the economy's progress over the last three decades tend to differentiate it from the others. Taiwan's road to economic prosperity has been relatively painless, despite the vulnerabilities of an open economy to external pressures. Economic growth has never been negative. While growth did slow during the global recession of the early 1980s and in 1974 immediately after the first oil price shock, the economy managed to recover strongly within a relatively short period. More importantly, Taiwan has not had to face any major sustained structural problems -- like persistent external or budget deficits -- in its economy, unlike South Korea. Economic management has been one of Taiwan's strong point¹⁴.

Price stability has been another hallmark of Taiwan's development, probably originating from the memory that inflation was one of the main reasons for the eventual defeat of the Kuomintang on the mainland in 1949. Aside from the brief periods following the two oil price shocks -- 1974 and 1980-81 -- the government has managed to keep inflation in single digits since the 1960s. Increases in the consumer price index averaged 8.7% between 1953-62; 2.9% during 1963-72; and 9.0% during 1973-85. During 1986-88, inflation was only 0.9%¹⁵. Supply-side strategies in the early years to alleviate food and other shortages combined with demand management in later years have been responsible for keeping inflation generally under control.

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A vastly improved distribution of income along with rapid economic growth is something in which Taiwan prides itself. Certainly, this fact goes against traditional economics and the development experience of most other countries. According to figures from the Council of Economic Planning & Development, the income of the wealthiest 20% of households in Taiwan was about 15 times more than the poorest 20% in 1952. By 1970, the ratio had dropped to 4.6:1, and has remained below this figure since then.¹⁶ Factors said to be responsible for this significant change are the land reforms of the early 1950s, the emphasis on labor-intensive industries, extensive education, and a high degree of social mobility¹⁷.

Taiwan's economic history since 1953 neatly splits into three phases:

- 1953-61: Emphasis on agriculture and first-stage, labour-intensive, import-substituting industries;
- 1962-74: Export promotion of labour-intensive manufactures, but continuing to depend on imported intermediates and capital goods used in such export production;
- 1975-85: Development and subsequent exports of heavy, capital- and technology-intensive products -- second-stage import substitution and backward integration underway¹⁸.

Since the early 1960s, exports have been the most significant factor contributing to Taiwan's economic success, and ironically it is this same factor that is also the cause of many problems presently being faced by Taipei. Taiwan's dependence on exports as the fundamental engine of growth is unlikely to ease significantly in the near term. Yet, to determine whether this can continue to be a feasible strategy of future growth, it is useful to examine more closely the factors that have led to the sustained export boom over the last 25 years¹⁹.

Taiwan's exports of goods and services in real terms as a percentage of its GDP have grown from about 11% in 1962 to 58.6% in 1985, underlying the steady rise in the importance of the export sector. However, two caveats are necessary: first, imports also rose from 18.4% in 1962 to 45.1% in 1985, and it is important to note that the external sector as a whole in fact constituted a drag on overall growth until 1980; net exports at constant 1981 prices remained mostly negative throughout 1962-80; secondly, the real growth of exports during the third (1975-85) phase dropped sharply compared with the initial thrust during 1962-74 -- from an annual

the KMT was under the leadership of late-president Chiang Kai-shek. Chiang Ching-Kuo's father. In the late 1940s, when the Nationalist fled mainland China to escape communist rule after China's civil war, the senior Chiang led an estimated 1.5 million people to join approximately six million Taiwanese and established the current regime on the island. Since then, the KMT, the government and the military were under the control of the Chiangs.

Although three of Chiang Ching-Kuo's sons were

average of 21.1% to 11.7%²⁰.

The groundwork for Taiwan's initial thrust into exports was laid during 1958-61 when a series of policy reforms recognizing the need to move away from an inward-oriented trade strategy were implemented. Key policy changes included the promulgation of the Statute for Encouraging Investment which provided significant fiscal incentives to both domestic and foreign investors, unification of a multiple exchange rates, the devaluation of the New Taiwan dollar from roughly NT\$25:US\$1 in 1958 to NT\$40:US\$1 in 1961, the lifting of quantitative restrictions on a wide range of imports especially on raw materials and intermediate products, and a reduction of import tariffs²¹.

Alongside these changes, the 1962-74 period also saw a series of export incentives and other supporting measures being implemented:

- rebates on import duties and some local taxes like the defense tax;
- exemption from business and related stamp taxes;
- reductions in taxable income and total taxes for specified firms;
- provisions to retain earned foreign exchange to allow for easier imports of raw materials and machinery;
- low-interest credit facilities for export activities; and
- establishment of export-processing zones and key organizations like the China External Trade Development Council²².

Collectively, these policy changes aimed at boosting exports had the desired effect, best illustrated by the 21.1% average annual rise in real exports during 1962-74²³. In fact, real annual export growth rates of 25-35% were more often the norm rather than the exception during much of this period. The emphasis on labor-intensive manufacturing industries also resulted in a change of composition of exports. Crude and processed agricultural products that comprised 49.5% of total exports in 1962 fell to 15.5% by 1974; the share of industrial products correspondingly rose to 84.5% in the terminal year²⁴. Even within the sphere of farm exports, new items like canned foods (especially mushrooms and asparagus spears) and fishery products steadily gained in importance over traditional items like bananas, rice and sugar. Key manufactured exports included textile products, plywood and wood products, and basic electrical appliances including communications equipment like telephones²⁵.

elected to the new KMT central committee, it may be that any dominating figure -- either from the Chiang family or elsewhere -- will have the power to preside over the party, the military and the government like the two Chiangs before, although individual personalities may play a decreasing role in the KMT leadership as there is a transition from rule by personality to rule by consensus.

Changes within the KMT were most apparent in the 13th Party Congress held in July 1988, which saw the largest personnel changes in the past four

The slowdown in export growth during the third phase 1975-85 was in many ways to be expected and inevitable, especially given the significant external drawbacks that Taiwan faced during this period. The major external pressures on the natural-resource scarce economy included:

- o the two oil price hikes as well as the ensuing boom in commodity prices;
- o downgrading of relations with its chief trading partner, the US, in response to the establishment of diplomatic relations between the US and the People's Republic of China;
- o emergence of protectionism against Taiwan's exports in developed markets like the US and Europe; and
- o an appreciation in the nominal exchange rate between 1974-81, though this is likely to have been offset by Taiwan's lower inflation rate vis-a-vis its main trading partners²⁶.

Bottlenecks also began to appear domestically. The most important of these was probably infrastructure: shortages were evident in electric power, harbour facilities and transportation. The Ten Major Development Projects of which seven were designed to alleviate the infrastructural bottleneck, came in response to these shortages and were completed by 1980. A more difficult obstacle to overcome was the shortage of skilled manpower as rapid growth of labour-intensive industries during the first phase 1962-74 meant that labour was no longer abundant. Real monthly wages in the manufacturing sector rose 3.3% annually during 1962-74 and roughly 8% during 1975-85 reflecting a tightening of the labor market²⁷.

The gradual shift from labour-intensive manufacturing to more capital- and technology-intensive during the third phase threw other impediments in Taiwan's economic tracks. The lack of technology and the preponderance of small- and medium-sized firms meant deficiencies in capital and professional managerial talent. The export processing zones for example had fulfilled their primary role in generating foreign exchange and more employment but the level of technology remained low. Similarly, while small firms contributed to a better distribution of income in Taiwan, their size inhibited any major spending on research and development programs²⁸. In response to this need to infuse greater technology into industry, and thus exports, the government established several industrial and science parks, the most notable being the Hsinchu Science-Based Industrial Park set up in 1980.

decades: eighty new members were elected to the central committee, out of a total of 180; and 12 new faces appeared in the 31-member central committee standing committee. The emergence of new power factions reflected the second major development within the KMT.

Currently, no single unit of the different power centers -- the president, the party, the government (or Executive Yuan) and the military -- dominates the political scene and the grouping of these centers is still in a state of flux. However, no

Since the mid-1970s officials have promptly responded to the obvious bottlenecks by strengthening infrastructure and adopting measures to infuse more technology into industry and some of these steps have had an impact within a relatively short period. Others like the infusion of greater technology, will necessarily take time and their impact will only be felt over time. However, there are still other bottlenecks over which current policy responses may be inadequate to return Taiwan to the high export growth rates of the 1960s -- for example, rising labour costs, and the external trade pressures on Taiwan.

Taiwan's economic recovery during 1986 was to some degree predictable, especially since it came after a relatively slow year; real GDP growth in 1985 had dropped to 4.4%, investment fell by nearly 7% and export volumes expanded a mere 2.8%. Both exports and investment served as the main propellers of the 1986-87 boom, when real GDP grew at 11.5% annually. There were two major achievements in these two years: led by an impressive 28% rise in export volumes and more importantly, a sharp reversal in the growth of fixed capital formation, Taiwan's real GDP expanded by 10.6% during 1986 -- its highest since 1978 and considerably above the 6.1% rate that has been registered during 1981-85²⁹. Growth in 1987 reached an even higher rate of 12.4%, riding on a 20% rise in export volumes and a 40% increase in gross capital formation³⁰.

Robust external demand for Taiwan's exports was a major growth contributor during 1986-87. To a large degree, Taiwan's export growth in 1986-87 was the result of the sharp appreciation of the Japanese yen (by over 62% during 1986-87) against the US dollar, which more than offset the 40% rise in the local unit's own value against the US dollar during the same period³¹. Like other Asian countries, Taiwan's exporters were quick to take advantage of the currency movements to push cheaper substitutes of increasingly expensive Japanese products in the US market. At the same time, Taiwan's exports benefitted in markets where currencies were appreciating; exports to West Germany grew annually by 26% during 1986-87 while those to Japan increased by nearly 15% annually³². Key beneficiaries in this respect were exporters of consumer electric and electronic durables, textiles, petrochemicals, plastics products and some processed foods.

More significant than the upturn in exports was the revival of fixed capital formation, which had fallen marginally over 1981-85. Annual average growth of fixed investment during this period was about -1%, with the largest cutback of nearly

matter who gets the upper hand, there may have to be increasing reliance on younger and more open-minded technocrats. Such

changes have been already seen in the recent Party Congress and cabinet reshuffle, though the scale was less extensive than expected and most of the key positions are still held by old party guards.

Thus far, changes are primarily indicating a more pluralistic and non-personalized political environment within the KMT, although this may increase political uncertainty. The

7% in 1985³³. Investment had been declining since the government completed its Ten Major Development programs in the late 1970s. As a percentage of GDP, fixed capital formation peaked at about 29% in 1980 and then steadily dropped to a little over 20% in 1985³⁴. The uncertainty surrounding exports following the world recession of the early 1980s and some serious problems in the domestic financial sector in early 1985 were the main factors inhibiting private investment growth³⁵.

The renewed spurt in export demand, more infrastructural investment by the government, and strong foreign investor interest, especially Japanese, in Taiwan helped to reverse sharply the sluggish investment growth of the last five years in 1986. Gross fixed capital formation expanded by 10.6% with both the private and public sector components growing more or less evenly. Robust economic growth encouraged further investment growth of 18.2% in 1987³⁶. Investment in transport equipment jumped by 29%, reversing its 7% drop in 1986. Private sector investment increased by 25%, double the 12.5% rise in public investment, attracted by a booming domestic market³⁷.

Perhaps the most important consequence of the turnaround in investment during 1986-87 is the fact that it helped to partially restrain Taiwan's large current account surplus. However, the increase in investment was clearly not adequate to prevent the current-account surplus from rising to a record US\$17.9 billion or 18.4% of GDP in 1987, on top of a US\$16.2 billion surplus in 1986³⁸. Taiwan's large merchandise trade surpluses, US\$16.8 billion in 1986 and US\$20.2 billion in 1987, were chief contributors to the large, positive current-account balance. Contrary to the thinking that growing income from Taiwan's massive foreign exchange reserves might add to the an already large current-account surplus, the invisible trade deficit enlarged rather than contracted in 1987³⁹. This was largely due to increased travel and dividend payments, obviously prompted by relaxed control on remittances and overseas travel, especially to the mainland.

Despite an average 44% rise in narrowly defined money supply during 1986-87, consumer prices increased by only 0.7% and 0.5% respectively in 1986 and 1987⁴⁰. This is not so surprising when considered in light of two factors: although narrow money supply expanded by 44% annually during 1986-87, it was tempered significantly by slower growth in quasi-money. In essence, monetary authorities continually absorbed the excess liquidity via government bonds, Certificates of Deposit and Treasury bills while simultaneously

challenge to the ruling party remains largely internal -- that is whether the KMT is able to inject new blood to its currently aged leadership and unite around a more institutionalized structure. Ultimately, its stability and credibility will depend on its success in maintaining economic growth, which is critical for maximizing electoral success.

Outside the KMT, the major opposition party DPP is also in transition, moving from a semi-underground and informal organization to an open, formal opposition party, as well as from a cadre

raising deposit levels of financial institutions with the central bank⁴¹. Thus, sterilization of the 70% increase in net foreign assets -- the main cause of rapid money supply growth -- was very effective. More important, Taiwan's inflation is to a large degree determined less by money supply growth and more by the influence of import prices. The sharp drop in petroleum and most raw material and commodity prices was largely responsible for a 19% fall in Taiwan's import price index during 1986-87 that in turn dampened local inflation. This was also helped by sharp cuts in import tariffs during 1987 on a wide range of goods⁴².

Attending the 1986-87 boom was a growing concern -- the massive current-account surpluses that exposed Taiwan to heavy external trade pressure. Concern about rising external trade pressure has been the focus of economic thinking since roughly 1983. Partly as a consequence of slower economic growth over the last decade caused by the sluggish growth in major export markets and other factors like protectionism Taiwan's economy has been in a state of transition since 1983. Rapid export growth during 1986-87 and the subsequent trade pressure served as an accelerator of the economy's transformation⁴³.

Taiwan's trade surplus with the US, which is the island's single largest export market, is the prime cause of this difficulty. In 1986, the trade surplus with the US amounted to US\$13.6 billion (customs basis), out of a total of US\$15.6 billion⁴⁴. In 1987, the gap further enlarged to US\$16 billion, out of a total merchandise trade surplus of US\$19 billion. This placed Taiwan as the second largest trade surplus partner of the US, or the highest in per capita terms, and invited serious trade and exchange rate pressure from Washington leading to rapid adjustments during 1986-87:

- o Appreciation of the NT dollar by 39.6% against the US dollar;
- o Reduction of effective tariff rates from 7.89% to below 4% and elimination of many non-tariff barriers;
- o Relaxation of controls on capital outflows (but inflows remain under strict regulation). In mid-1987, the annual outward remittance ceiling was raised to US\$5 million per person; and
- o More imports from the US by preferentially awarding government contracts to American firms despite cheaper alternatives⁴⁵.

These measures have resulted in much frustration and criticism from both the Taiwan government and its people. In essence, they argue that:

of loosely - gathered dissidents to a group of more organised political activists. This process has not been facilitated smoothly, as seen in the infighting between major factions during the recent 3rd Party Congress; the KMT's liberal policies of the last 18 months had substantially eroded the common ground of the opposition. Different opinions and approaches toward independence and reunification will continue to split the opposition.

The recent election of Huand Hsien-jie to the DPP chairmanship may imply a more moderate

- o The US is unfairly penalising Taiwan for manufacturing and selling goods more cheaply and efficiently than their US counterparts, and for having followed the US economic prescription of capitalism.
- o Structural problems are the cause of the US trade deficit, and a major part of the solution lies in reducing the US budget deficit.
- o Reducing Taiwan's trade surplus with the US will improve the US trade deficit only marginally; the US merchandise trade and current-account deficits were US\$160 billion and US\$154 billion respectively in 1987.
- o Despite Taipei's preferential treatment, US exporters are either unwilling to sell products that Taiwan wants or in many cases simply do not make enough effort largely because they feel a market of 20 million people is too small. A common complaint among Taiwanese consumers, for example, is that many US consumer durables are significantly more expensive without being matchingly superior in quality than similar Japanese products⁴⁶.

Taiwan's problems with the US are not new, but these have been compounded by its overall current-account surplus and the accompanying rise in foreign exchange reserves, which at end-1987 stood at US\$76.7 billion, up 240% from two years ago⁴⁷. These figures attracted much attention and forced Taipei to take steps that may otherwise have been further delayed. These steps may slow the rise in Taiwan's external surplus, but there are two important factors that need to be kept in mind. Stagnant investment in turn resulted in imports remaining unchanged and import growth during 1981-86 was 2.5% annually⁴⁸. As recently as 1982, Taiwan's trade surplus had never exceeded US\$2 billion in any year, and only in four years since 1952 has the surplus exceeded the US\$1 billion⁴⁹. Rising investment will may lead to higher import growth, as exemplified by the 20% and 45% rise in imports during 1986-87. Thus, Taiwan's trade surpluses, especially that with the US, may be more in the nature of an aberration rather than indicative of a sustained, long-term trend. A significant portion of Taiwan's exports is from subsidiaries and subcontractors of US firms. Some major US companies, including some of Taiwan's biggest exporters, have substantial exports to the US and it is these US firms that were attracted by Taiwan's cheap labour costs and stable infrastructure and chose to locate major manufacturing facilities in Taiwan⁵⁰. Protectionist measures by the US administration and Congress may invite negative reaction from large and well-known American firms who could effectively work to dilute the impact of such steps on their own operations.

approach to power sharing in the coming months, and more dialogue between the ruling and opposition parties may ease tension, both in the streets and in the parliament. However both parties will be focusing on the next legislature and local executive election in late 1989, which will be a review of their strength and policies, as well as a testing ground of the much needed constitutional and electoral reforms.

The rise of pragmatism is significant in the field of foreign policy, which is also undergoing a

"Economic liberalization and internationalization" is the catch phrase in Taiwan as the response of policy-makers to Taiwan's present difficulties. However economic liberalization in Taiwan dates back to 1983³¹. Partly in anticipation of the very pressures that face Taiwan today, and also in response to slower export and industrial growth over the last decade and sluggish investment since the early 1980s the government-appointed Economic Reforms Committee recommended a series of steps designed to enhance Taiwan's competitiveness in world markets, especially vis-a-vis other Asian NICs.

These recommendations broadly aimed to:

- o reduce barriers to foreign investment and imports;
- o improve industry's efficiency and productivity, particularly via infusions of technology and managerial expertise that would raise value-added and upgrade the overall industrial structure;
- o emphasize research and development, especially in high-technology industries like information processing;
- o reform the financial system by not only adopting better accounting procedures but also loosening controls on key economic variables like interest and exchange rates and allowing market forces to determine their level³²;
- o reform the tax system to rationalize its structure as well as improve collection, which partly because of poor accounting methods, is far below potential.

Until the latest pressures were put on Taiwan, progress toward achieving these goals had been extremely slow. Differences among policy-makers, with the progressive technocrats on the one hand and the conservative old guard on the other, were chiefly responsible for delays in implementing the above measures that have been widely recognized as essential if Taiwan is to continue growing rapidly. It has only been since about the beginning of 1987, when officials realized that external pressures on Taiwan would continue if old and outdated policies were not quickly discarded, that many conservatives among Taiwan's ruling elite have started to yield to change.

Much of the liberalization and internationalization policy thrusts were incorporated in Taiwan's Ninth Medium-Term Economic Development plan (1986-89); and while many of the plan's growth targets may be surpassed³³, the key is to what extent its scheduled economic restructuring will be fulfilled.

transition following changes in domestic politics. Indirect trade with China is estimated to have reached US\$2.4 billion in 1988 and over 400,000 Taiwanese visited the mainland in the past 12 months. A more flexible approach toward Taiwan's representation in the international community is also being taken but more ideological and technical breakthroughs have to be made before a comprehensive and practical new China strategy is evolved. As long as Taiwan does not espouse independence, Beijing is likely to take a soft approach to the

It took more than two years to see the impact of the NT dollar's rapid appreciation against the US dollar filter through the economy. The long-awaited adjustment, after much painful negotiation, finally emerged in 1988. Despite the confusion created by the central bank's gold imports on its trade and balance-of-payments statistics, Taiwan's adjustment to its massive external payments surpluses is still one of the most significant among all major surplus-running economies. Signs of adjustment include the current-account surplus -- though substantial at US\$6.8 billion - dropped by 54% within the first nine months of 1988. This compared with Japan's 14% drop and the 8% and 31% rise of West Germany and South Korea respectively, in the same period⁵⁴.

During the 10 months to end-October 1988, the Central Bank of China's gold reserves jumped from 7.67 million ounces to 13.49 billion ounces (worth US\$2.7 billion and US\$5.3 billion respectively based on national valuation). This was largely due to gold imports from the US, and was criticized as an effort to artificially narrow the trade surplus with the US by classifying the monetary gold imports under commodity trade items. While no accurate figure was given on how much this factor had distorted the trade and capital flow accounts, the January-September 1988 balance-of-payments statistics indicated that the central bank bought a total of US\$2.63 billion worth of monetary gold⁵⁵. Caution is required, therefore interpreting these trade and external payments data which are based on government statistics⁵⁶.

Exports slackened quickly as Taiwan's merchandise exports grew by 13% in US dollar terms but 1% in NT dollar terms in 1988. Meanwhile, imports jumped rapidly by 42% in US dollar terms and 28% in NT dollar terms. As a result, the overall merchandise trade surplus dropped by 41% to US\$10.9 billion⁵⁷.

The merchandise trade surplus with the US dropped by 35% from US\$16 billion in 1987 to US\$10.4 billion in 1988. This was the result of a 70% rise in US-sourced imports and a 1% drop in exports to the US⁵⁸.

Direct overseas investment increased rapidly in response to pressing needs to relocate labor-intensive operations abroad. While no precise statistics are available, the balance-of-payments data indicates a net US\$2 billion outflow under direct investment during the first three quarters of 1988, compared with a net inflow of US\$0.24 billion in the same period of 1987⁵⁹. Taiwan now ranks among the top direct investors in Thailand, Malaysia and the Philippines.

Taiwan question. A new China strategy may be more instrumental in facilitating Taiwan's smooth economic relations with the world, including China, and in restoring the KMT's legitimacy and credibility. A more consistent and well-thought-out China strategy is also needed by the opposition, if it wants to enhance unity and secure voter support.

Taiwan's economic success -- via rapid export growth -- appears all the more remarkable considering the island's virtual diplomatic isolation. For a long time, the US had been

Outflows of other long- and short-term capital grew significantly, reversing the trend of the massive capital influx of 1986-87. Net outflow of other long-term capital (including portfolio investment) doubled from US\$1.3 billion in the first three quarters of 1987 to US\$2.6 billion in same-period 1988. Short-term capital flows reversed from a US\$5.1 billion inflow in January-September 1987 to a net outflow of about US\$7.6 billion in same-period 1988⁶⁰.

The improvement in external payments partly contributed to the steadier exchange rates of the NT dollar in 1988. The NT dollar appreciated by only 1.3% versus the US dollar in 1988, compared with the 39.6% rise during 1986-87, though the local unit rose 0.6% in the first 15 days of 1989. More significant, however, is that the transition is that the transition may be highly unstable⁶¹.

The financial sector remains incapable of dealing with the flood of liquidity trapped inside the economy. The most illustrative example is the stock market boom and bust. In less than nine months of 1988, the Taipei Stock Exchange Weighted price Index surged 276%, and slid 36% in 19 consecutive trading days⁶². More than one million investors pursued approximately 150 stocks with a daily turnover of about NT\$60 billion, the second largest in Asia. Meanwhile, an estimated NT\$100 billion was floating among some 600 underground investment houses, speculating on foreign commodities futures, properties, stocks and other financial instruments. This large amount of money, if not channelled properly, may be highly destructive to the economy. A series of bankruptcies might have occurred if the stock market slid further last September⁶³.

The industrial sector is still struggling in its transition to higher value-added operations. Despite increased machinery investment and sustained export growth of electronics and a few other items, any significant improvement in industrial technology and product quality is still to be seen. Most of the small-producer dominated industries, such as garments, toys, footwear and metal products, are shrinking⁶⁴. Most of these industries saw their export and production indices drop in 1988, there is no apparent evidence that they succeeded in turning from exports to domestic sales. Taiwan's booming domestic markets are being increasingly captured by foreign products. It appears that most of the small manufacturers who dominate Taiwan's industrial sector -- are either moving their operations overseas or taking a more short-term perspective by investing their money in trading, properties, stocks or other quick-return businesses⁶⁵.

the chief source of all international political, economic and military support for Taiwan.

However, this ended in 1979, when the US formally recognized the People's Republic. The defense pact between the US and Taiwan ended at the same time, although the US continued to supply arms to the island and unofficial "diplomatic" offices are maintained in Taipei and Washington by the respective governments.

Such arms sales, however, remain an irritant in Sino-US relations, and are meant gradually to be reduced.

Although public sector expenditures are being accelerated and more spending is planned to support infrastructure in the coming years, but many projects are still obstructed by red-tape and an indecisive bureaucracy. Slow reaction to the shortages of construction workers and planning personnel may hinder future infrastructure construction. Existence of vested interest groups and political changes also complicate the decision process. An example of this is the privatization of three commercial banks which had been delayed repeatedly during 1988⁶⁶. Moreover, the government has promulgated efforts to ease restrictions on foreign bank operations and to encourage establishment of private banks, but it must pass the legislative process. The administration's poor handling of labour and environmental issues is inviting new difficulties. Settlement of pollution claims by quick cash compensation has done little to improve the environment and may only encourage more demands in the future.

There are presently policy contradictions in Taiwan's economic relations with mainland China. Despite rapid rectification in the past 12 months, government economic policies toward the mainland fell far behind adjustment needs. The lifting of indirect trade and travel bans opened trade and investment channel between the two sides of the Taiwan Straits, but it also exposed the inadequacy of Taiwan's many regulations and policies. More practical rules governing transport, communications, legal and other areas may be needed to enhance Taiwan's adjustment to new economic relations with the mainland.

In summary, despite slackening external demand, an estimated 6.5% real GDP growth was achieved in 1988. Inflation was kept at 1.4% and the unemployment rate stood at a low 1.7% (for the first 10 months). Fixed capital formation rose by a real 14% in the first three quarters, with a 12.7% rise in investment in machinery and equipment. Industrial labor productivity increased by 6.2% while nominal wages increased by 10.7%. This, after discounting for a low inflation and small currency appreciation, implies only a small erosion in Taiwan's export competitiveness in 1988⁶⁷.

In coming years, Taiwan's transition to a more competitive economy will depend on resolving key issues. In the last two years, Taiwan's GDP growth came mainly from domestic demand expansion. Net external demand, while positive in absolute terms, registered negative growth. However, it may be imprudent to assume that Taiwan can depend wholly on domestic demand for its future growth. The domestic market of 20 million people, though significant, is inadequate to

Like the US, most other countries have chosen to recognize Beijing in preference to Taipei. Currently, Taiwan has diplomatic relations with less than two dozen countries; its external trading partners, however, number over 150. Over the years, Taiwan had to resign from membership of several international organizations including the United Nations and the International Monetary Fund.

This diplomatic isolation has in recent years been further enhanced by the agreements negotiated by the PRC for the return of Hong Kong and Macau

sustain long-term annual economic growth of 8-9%. In the foreseeable future, exports will therefore remain a prime growth source⁶⁸.

However, to mitigate U.S. protectionism and pressure to revalue its currency, Taiwan has to further eliminate import barriers. The challenge may shift to agriculture and service imports in coming months after substantial tariff cuts and import decontrol in the past three years. Moreover, further diversification of export markets is needed. Among the four Asian NICs, Taiwan's dependence on the US market remains one of the highest, though US-destined sales have been cut from nearly 50% of total exports to about 39% over the last four years⁶⁹.

Since Taiwan still has accrued the largest trade surplus with the US among the Asian NICs, pressure from Washington is unlikely to subside soon, and this may be complicated by the emerging trade blocs in Europe and North America. The failure to address this persistent trade pressure will undermine Taiwan's export competitiveness and growth potential in the coming years⁷⁰.

Compared with Japan and Korea, Taiwan's economy is relatively decentralized, but market forces remain far from adequate in many critical areas. Further liberalization of interest rates, exchange rates and capital flows is needed if the economy is to respond more efficiently to its transition needs. Failure of the financial system to channel excess liquidity to productive sectors has already led to serious fluctuations in the stock and property markets. Further delays in financial reforms could seriously undermine the stability and growth prospects of the economy⁷¹.

Deregulation, and in many cases privatization, in transport, communications and other state-monopoly sectors is needed to promote competition and improve efficiency. Further opening of the economy's service sector could help raise the standard and sophistication of services, which is also critical for supporting development of industry. While Taipei has made substantially facilitated this change, further advancement may require more decisive action especially in areas that contradict vested interests.

The small corporate size is a major hindrance to industrial upgrading, and the small capital base and family-owned management structure of the majority of Taiwanese firms also define the dimensions of corporate expansion. Taiwan spent about 1% of its GNP on R&D less than Korea's, and 60%

to its fold. Taipei has consistently remarked that

the PRC will not be able to maintain the "one country, two systems" policy toward Hong Kong and Macau.

Recent signs of Beijing's gradual tightening of policies toward Hong Kong would appear to suggest some truth in Taipei's remarks. But as the sovereignty reversion of Hong Kong and Macau draw closer, Taiwan will face growing

unease in its trade and political prospects. Some initiatives to rebuild its relations with selected international organizations are being taken, but a more comprehensive and

came from the public sector⁷².

While the government is consciously raising its R&D spending, more structural reform is needed in the financial market to facilitate recycling of the current-account surplus and expansion of private capital. Furthermore, more comprehensive support services and improved protection of intellectual property rights. A more long-term investment perspective and strong government support are needed to enhance industrial and R & D development.

During 1987-88, capital goods imports grew by an annual 28.4% and investment in machinery and equipment rose 17% each year. Despite this seemingly strong investment growth, industrial investments may be decreasing⁷³. Although only partial statistics are available presently, there may be potential difficulties:

- a) Growth in industrial labour productivity decreased from 10.2% in 1987 to 6.2% in the first nine months of 1988.
- b) Output of most of Taiwan's traditional industries is falling. Textiles, garments, leather, wood products, food, paper and printing all registered negative output growth during the past 12 months. The light industrial output index dropped by about 3% in the first 10 months of 1988, while the general industrial output index grew by a mere 4% during the same period.
- c) Foreign investment interest is cooling which will hinder absorption of foreign technology and management skills. During 1988, approved foreign direct investment dropped 16.7% to US\$1.18 billion, the first decline since 1981. This contrasts with the sharp 84% growth in 1987. Approved investment from Europe dropped by 8% while those from the US fell by 67%. Japanese investment which nearly tripled and accounted for 30% of total approval in 1987, stagnated in 1988. Hong Kong investors were the only exception with a 55% rise in approvals, but this appears to be mostly investment in the booming property market rather than in manufacturing⁷⁴.
- d) Slowing growth of investment by small local manufacturers. According to a government survey, growth of industrial investment by companies with less than NT\$50 million paid-up capital dropped from 32% in 1987 to about 15% in 1988. Investment in textiles, apparel, wood and rubber

consistent foreign policy

is required for a significant breakthrough.

Ever since the lifting of martial law, labour and environmental movements have gained strength in Taiwan. A more relaxed political climate, an expanding and more educated middle class and urban workforce, and growing affluence of the society have led to increasing awareness about environmental issues and labor rights. Compared with South Korea, Taiwan's labor movement remains relatively peaceful and small, and the presence of a large number of

products and leather goods all declined. Theoretically, it is a natural and healthy sign for labour intensive manufacturers to cut their presence or move out of the island, sparing limited resources for higher-end industrial development. But to date the shrinking presence of traditional industries has not been matched by the expansion of new and more sophisticated operations⁷⁵.

The abolition of martial law led directly to rising labor disputes, consumer and environmentalist activities. But much of the problem is a reflection of Taiwan's transition into a more affluent society, with increasing number of white collar workers who have higher education as well as expectations. Compared with South Korea, Taiwan's labour and environmental movements are much more peaceful and accommodating. Although the number of labor disputes had more than quadrupled in the last 10 years, they are usually loosely organised and are confined to individual factories. But there are growing trends to politicize issues. More improvement is needed in labour rights and environment protection, both in legislation and enforcement. Failure to respond to rising labour and consumer demands will undermine the social infrastructure and lead to a more volatile social and political environment in the 1990s⁷⁶.

The NT dollar appreciation, rising labour costs, growing labour and environmental disputes and deteriorating social order were the major deterrents of investment growth in 1988. None of these factors seem likely to dissipate completely in the near future. Thus, there is a possibility that Taiwan may stumble badly and could even fail to regain its competitiveness in coming years, both in exports and domestic markets. Given that exports have to play a major role in sustaining long-term growth, the failure to upgrade industry would imply lower growth rates during the 1990s.

Based on domestic demand alone and with negligible contribution from the external sector, it may be difficult to envisage economic expansion being stronger than 5-6% annually. There are, however, doubts even in this respect as growth of domestic demand may become highly import-intensive. Unlike Japan, Taiwan's industries have apparently been much less successful in shifting from exports to domestic sales. Consumption of clothing, footwear, food and other consumer items is being dominated increasingly by foreign products. Partly, this reflects the inability of local industries to compete with foreign producers even in the home market once protective tariffs are lifted. More significantly, it

small companies has limited the scale of industrial action. But there is growing preference for confrontation and increasing emphasis on short-term compensation rather than long-term improvement of labor and environment conditions. The latter would require improvement in labour and environment protection legislation and better communication at the grass-roots to avoid significant deterioration of social stability.

There is reason to believe the world has moved beyond

represents a threat to sustained industrial growth and transition⁷⁷.

In the short term either the current relocation of industry from Taiwan to lower-cost areas will extend the linkage of existing industries and spare more domestic resources for upgrading or the exodus of manufacturers could lead to a shrinkage of the industrial sector. While the services sector may help fill the vacuum partially, but Taiwan has no clear track record of being as competitive in this area as it has been in manufacturing.

The rapid structural transformation of the Taiwan economy during the last three decades is beginning to diminish. Compared with the 1968-78 period, the extent of structural change during the decade ending 1988 has been less dramatic. Given the limits to which the share of agriculture can fall since it is already down to a mere 4.7% of GDP, this is not surprising, and change over the coming decade is likely to be even slower⁷⁸.

Much of the structural transformation over the last twenty years has been confined to the primary and secondary sectors. The fall in the share of agriculture has been matched by a rise in the proportion of the manufacturing sector, while the share of the tertiary sector has remained largely constant. With the share of the primary sector unlikely to fluctuate very dramatically over the next decade, structural changes in the future will be concentrated more on the secondary and tertiary sectors. While some specific service industries, financial services in particular, are likely to gain in importance, it is also possible that the share of the tertiary sector as a whole will rise somewhat as manufacturing's share stabilizes at a slightly lower level.

The decline in agriculture's importance relative to other sectors in Taiwan's economy has largely been due to the runaway growth of industry and because of the natural limits placed on the farm sector by the area of cultivable land. Only about one-quarter of total land area is cultivable; the rest is forest land with limited accessibility. Rapid industrialization with consequent effects on rural-to-urban migration has meant that though the share of agricultural employment has fallen from over 56% of total labor force in 1952 to about 14% in early 1988, the average land holding per farm has remained almost constant at between 1-1.2 hectares during the last three decades⁷⁹.

international and multinational capital flows trade patterns into a new dimension which could be called global competition. The global corporation scans the world for opportunity and threat and, regardless of the geographic scope of its current operations and regardless of its aspirations is aware of what is occurring in its industry and in markets globally. Crucially, the aspirations of this type of corporate entity are global: world markets, world customers, and world-scale competitors. From this global vision follows the necessity for a global language and

The success of the farm sector during the 1950s -- when agriculture provided a major portion of Taiwan's exports -- was due in large measure to the land reform program carried out by the government between 1949-53. In 1952, the ratio of full owners to part owners to tenants stood at 38:26:36; in 1987 the corresponding figures were 83:12:5. Agriculture in Taiwan has never been a leading growth sector. Even during the 1953-61 period, the farm sector's average annual growth of 5% fell behind the overall pace of economic expansion of 7.5%. Subsequent periods have seen this differential further widen. During 1962-74 economic growth was 9.9% but agriculture expanded by only 3.7% per annum, and between 1975-87 the economy grew 8.5% while the growth rate of agriculture declined to 1.4%⁸⁰.

Given the limits placed on agriculture by Taiwan's geography and its present level of industrialization, the amount of resources to be devoted to future development of this sector can be debated. Statistics which give Taiwan's key agricultural production, suggests that output of most items over the past decade has either fallen or at best grown marginally. (Wheat appears to be an exception, but it should be noted that current output of 4,700 tons is still well below the peak of 45,574 tons in 1960.)⁸¹ Although government policies aim to improve agricultural research, marketing, rural infrastructure, access to credit and promote agri-based industries in the countryside, annual growth of agriculture during the Ninth plan (1986-89) is targeted at only 1.3%⁸².

Specific plan measures aimed at reducing the disparity between farm and non-farm incomes as well as adjusting the agricultural production structure to match demand include the following:

- 1) Encourage shifts from rice to other crops, streamline the price support system, improve contractual farming, adjust production and marketing of livestock and poultry, and step up international cooperation in fisheries development.
- 2) Continue the second-stage farmland reform by providing more loans for land purchase to expand farm size, intensify mechanization and promote joint and cooperative-farming operations.
- 3) Intensify research and development in agricultural technology including promotion of technical cooperation with other countries.
- 4) Expand public investment in agriculture and fisheries to improve irrigation and drainage, promote reforestation on public and private forest lands and ensure optimal resource utilization in agriculture and fish farming.

logic, a universal rationality within which the driving forces of consistency, regulation, efficiency and order are necessary to stabilize the otherwise diverse and fragmented economic, socio-cultural, political and technological components which comprise the world economy. Hence, the vision of the totality precedes the actualization of the principles of universality; the legitimacy of the domain of the language of economist demands the de-authorization of all that is non-productive. The features of the state in this forum are not

- 5) Strengthen farmers' organizations, extension services and rural living conditions by improving the system of agricultural education, amending relevant laws and regulations, expanding loans from the agricultural development fund, providing more public facilities in rural areas and introducing farmers' health insurance.
- 6) Develop food processing by promoting international exchanges in food technology, and step up marketing of agricultural produce⁸³.

Agriculture's relative decline has been matched by the rise of industry. As a share of total GDP, the manufacturing sector has grown from a mere 11% in 1952 to about 38% in 1988. Employment in the manufacturing sector has also risen correspondingly -- from 12% of the total labor force in 1952 to about 35% in 1988. Manufacturing has consistently been the leading growth sector of the Taiwan economy with an average annual rate of expansion of 13.3% between 1953-88 compared with a real GDP growth rate of 8.6% during the same period. Growth was fastest during 1962-74, when manufacturing expanded by 16.5% annually, and led by export-oriented industries. In subsequent years, this rapid pace of expansion appears to have slowed with growth of the manufacturing sector registering 10.5% per annum during 1975-88⁸⁴.

Substantial changes have also taken place within the manufacturing sector over the last three decades. During the 1950s, import-substitution strategies were focussed mainly on three types of industries -- food, textiles and building materials like cement, plywood and sheet glass. With the reorientation of policies toward exports in the early 1960s, labor-intensive light industry received a real boost. After an initial period of further expansion of textiles and garments, wood and paper products, the focus turned to electrical and electronic goods like radios, TVs, refrigerators, air-conditioners and washing machines⁸⁵.

Taiwan's petrochemical industry -- which is of major significance today - emerged in the late 1960s with basic end-user products like plastic items, man-made fibers and chemical fertilizers. The 1970s, however, saw backward integration with development of petrochemical intermediates. Other heavy industries also emerged during this period as policies were aimed at "second-stage import-substitution" in capital goods and intermediate products for industrial use. Thus, industries like steel, machine tools, shipbuilding and motor vehicles gained in prominence. By and large, these heavy industries have contributed the most to growth of the

merely regulatory as it was once understood, with discourses and practices actively specified as non-legitimate: the new dimensions are strategic within which the regulatory is the core of an agenda prescribing limits only in direct relation to the problems of establishing wealth and economic stability without incurring unsustainable levels of public borrowing. Thus the strategic state function is to specify legitimate discourses and practices while maintaining that all others are to be measured against the control of

manufacturing sector over the last ten years (see Table 7).

TAIWAN'S INDUSTRIAL STRATEGY UNDER THE NINTH PLAN (1986-89)

I. Development Priorities

Strategic Industries

- A. Machinery: Accelerate transfer of technology, production automation, standardization of parts and components, establish production and marketing order, and promote exports of package plants.
- B. Transportation: Implement the "Automobile Industry Development program" and the "Guidelines for the Financing of China Shipbuilding Corp.", formulate a "Motorcycle Industry Development Program" to enhance export competitiveness, and development of allied industries.
- C. Electrical machinery industry: Strengthen R&D in new technology, promote computerised management, push forward with the manufacture of supplies and development of the heavy electrical machinery industry, encourage rationalization and standardization of production, and lower the degree of import dependency.
- D. Electronics and information: (a) Accelerate development of digital products and technologies for VLSI circuits and computers, cultivate manpower as needed, and set up market, technology, and parts-and-components information centers, and a marketing service network; (b) Develop microcomputers, digital electronic switching systems, and opto-electronic communications facilities; consolidate communications technology and machinery manufacturing to develop integrated products; develop an "Integrated Services Digital Network (ISDN)" to provide combination of telephone, telegram, data, facsimile, TV, video telephone and electronic mail services⁸⁶.

Other Industries

- A. Encourage modernization of equipment and facilities and the merger of manufacturers and promote automation of industrial production and the system of core-satellite plants with a view to higher efficiency and product quality.
- B. Encourage Chinese nationals and foreigners to invest in manufacture of high value-added and high-technology industrial products, research and develop new products,

productivity and efficiency. Moreover, the state intervenes strategically to foster global competitiveness and tempers the forms of intervention to facilitate change, growth and competitiveness within the private sector, leaving price systems generally intact as manipulated by the private sector. This does not mean the state is not actively involved in the erecting and maintaining of barriers of all sorts, but that the active pursuit of an industrial policy intended to promote export growth.

and establish domestic manufacturers' own trademarks and marketing networks to lay the foundation for sustained industrial growth.

- C. Devote greater efforts to controlling industrial pollution to protect public health and the ecological environment⁸⁷.

II. Supporting Measures

Fiscal Measures

- A. Modernize tax and customs administration, rationalize structure of taxes and import tariffs, liberalize and expand list of duty-free, basic raw materials, and rationalize industrial operations.
- B. Implement value-added tax and amend tax legislation to avoid double taxation; offer tax credit to industry as an incentive for investment.

Financial measures

- A. Strengthen roles of Development Fund and all specialized banks in investment and financing with special emphasis on small firms.
- B. Continue promotion of international banking and accelerate the liberalization of interest rates.
- C. Gradually ease controls and restrictions on foreign exchange flows⁸⁸.

Foreign trade

- A. Expand the role of the Exim Bank of China in export financing and the provision of export and exchange-rate fluctuation insurance.
- B. Streamline customs-clearance formalities and promote modernization of the customs reporting system.

Assistance to small and medium enterprises

- A. Promote modernization and automation of production and encourage the merger of small and medium business enterprises.
- B. Assist small and medium enterprises to set up a sound accounting system and provide them with commercial information to improve their operations and management.

Assistance to industry

- A. Promote software technology of the information industry and upgrade the calibre of information software professionals.
- B. Develop industrial products with growth potential and in cooperation with internationally recognized certification institutions, and establish a favorable international image

Taiwan is one of the newest strategic states, with specialized capabilities in public administration and finance, and a private sector effectively channelling investments into export trade prospects. Generous foreign aid, especially from the US, allowed Taiwan to circumvent the problems of insufficient foreign exchange with which to import machinery and intermediate goods; import-substitution and reactive interventionist governments could thereby be avoided.

However, it is not merely the scale of Taiwan's

for domestic brands.

Pollution prevention and control

- A. Provide credit, tax and other incentives to encourage purchase of pollution-control equipment while tightening pollution control measures at existing plants and mining areas.
- B. Encourage pollution-producing plants to move to industrial estates where common pollution control measures may be taken, and promote establishment of effective pollution detection and monitoring systems.

Technology

- A. Step up international cooperation and transfer of key technologies, and encourage technological innovations and product development.
- B. Develop a basic ability to conduct R&D in materials science and technology, and establish an industrial technology information system⁸⁹.

Promotion of Investment

- A. Adopt the "negative list" approach and ease restrictions on investment to encourage the flow of capital into industry.
- B. Continue to improve investment services, simplify administrative procedures and offer incentives to private investment.
- C. Relax restrictions on overseas investment by domestic concerns.
- D. Amend the Labour Standards Law to take into account the interests of both labor and management⁹⁰.

Taiwan's industrial strategy again changed in the early 1980s. Rising labor costs, growing protectionism against traditional export items like textiles, steel and machine tools, and the impact of the 1979 hike in energy costs shifted the focus of industrial policy toward high technology areas. In particular, industries such as electrical and non-electrical machinery, transport equipment and information are targeted to be the future growth areas within manufacturing. These high-technology areas -- officially labelled as strategic industries -- are being provided with considerable incentives under Taiwan's Ninth Plan.

Although efforts to restructure and upgrade industry have been underway for sometime now, the task is made more difficult and prolonged by Taiwan's present industrial structure. The manufacturing sector and for that matter the rest of the economy -- is dominated by small- and medium-sized firms.

success as one of the "four dragons" (the others are Hong Kong, Singapore and South Korea), but the potential effects of the economic rationality, both domestically and on a global scale which are of interest here. Japan has often been touted as more Western than the West and surely no language or logic is more pervasively technological-rational than economics.

Economic reform has long been hidden under the guise of political ideology and there is potential again to challenge the entire

rubric of ideology as infinitely flexible in the

As of 1986 (latest data available), 98.2% of all enterprises in Taiwan were so classified⁹¹.

These small and medium enterprises, which have exhibited considerable flexibility in adapting to changes in the international trading environment in the past, on the other hand lack financial resources. Consequently, the level of technological and managerial expertise in these firms has been low. This was not a major problem so long as Taiwan continued to concentrate on labor-intensive industries. But with the rising labor costs and the consequent shift to more high-technology and skill-intensive industries, the ability of Taiwan's small and medium firms to successfully compete against rivals, like South Korea's chaebol (large corporate conglomerates), is being seriously hindered⁹².

Given official reluctance to allow large corporate conglomerates -- and the consequent political influence -- to develop along the lines of those in South Korea, policies are instead being aimed at creating links between small and large private enterprises. The best example of these so-called "industrial pyramids" is in Taiwan's petrochemicals industry. Strong backward and forward linkages exist in the petrochemical sector, in which the large enterprises producing intermediates support the much smaller-sized downstream manufacturers of products like plastic items and textiles. Similar concepts have been applied to the automotive and machinery industries with some degree of success⁹³.

The future of the Taiwan economy clearly depends on stability. There may be continuous and periodically intense power struggles -- both within and between the ruling Kuomintang (KMT) and the major opposition Democratic Progressive Party (DPP). The period may see significant realignment of domestic political forces, and the relaxation of political controls may lead to growing labour unrest and deteriorating social order, but it is unlikely to erupt into serious unrest and disturbances. No external threat to the island's security is envisaged, since confrontation between Beijing and Taipei should further decrease, given both sides' need to maintain a peaceful environment for economic development. Growing economic and cultural exchanges between both sides of the Taiwan Straits may enhance mutual understanding and improve relations, but the chance for significant moves towards reunification remains slim. Growth in OECD countries may decrease in 1989. Much of Taiwan's export performance over the next 12-18 months will depend on external demand and exchange rate changes. Rapid appreciation of the NT dollar -- some 40% against the US dollar during 1986-87 -- started to

face of economism. If this is so, neither socialism nor liberalism can withstand the pressures of the forces of a developing global economy without yielding its assumptions as suspect and perhaps moribund. New questions will arise: in a highly competitive global economy will industrial strategies, with a coordinating state input be necessary? Will hitherto fundamental and indispensable rights be sacrificed by the state in order to facilitate a suitable climate for economic competitiveness? Does the prospect of the

be felt since first quarter 1987. Real merchandise export growth dropped to 4.6% in fourth-quarter 1987 from 17.9% in the previous quarter. However, it is necessary to avoid overestimating the negative impact of currency appreciation on exports for two reasons:

1. Part of the impact would be offset by cheaper import costs. During 1986-87, a stronger NT dollar led to a 18% drop in Taiwan's unit import prices. This is especially important for an economy whose export sector relies heavily on imported inputs. Part of this import savings would be transferred to cut export prices, as witnessed by a 3.1% drop in unit export prices during 1986-87.
2. Exchange rate changes in currencies of major suppliers and export competitors have to be considered. Appreciation of the NT dollar against the US dollar was accompanied by even larger appreciation of the Japanese yen and Deutschmark against the US dollar in the last three years. This gave Taiwan exporters an edge in penetrating the Japanese and European markets, and eroding Japan's share of the US market, especially in lower-end electronics.

This probably explains why Taiwan's merchandise exports still maintained a 10.6% real growth in first-half 1988, though when calculated in nominal NT dollar terms, it suffered a 1% drop²⁴. Given a more stable NT:US dollar exchange rate throughout 1988, the negative impact of currency appreciation may become less serious in the coming 12-18 months. Provided Taiwan's efforts to trim its trade imbalance with the US continue to pay off -- though at a slower pace than Washington expects -- the US pressure to further appreciate the NT dollar may remain largely manageable. This could not rule out short-term wide fluctuations given a still volatile international exchange market. The NT dollar may rise by 4.5-6% to NT\$26.5-27 per US dollar by end-1989, followed by another 4-6% rise in 1990²⁵. This would limit the adverse impact of appreciation on Taiwan exports during 1989-90, but the risk may remain on the high side.

Other factors that may determine export growth during 1989-90 are:

- o Slowdown of OECD economies toward mid-1989. It may be the major constraint to export growth. Although the cyclical downturn is unlikely to be deep and long, it will adversely affect demand of Taiwan products by the major economies. Given Taiwan's growing dependence

relative declines of the economies of the US and the Soviet Union portend conflict or cooperation on an economic scale rather than a military one?

This thesis argues that the changes in the Taiwan economy can only be understood within the languages and logics of technological-rationality. The implications of these changes and especially if they occur on a global scale signal an acceleration towards a new universality which places in jeopardy differences and inventions of the self located anywhere outside of that

on electronics and machinery exports, the impact may be more severe if there is any major falloff in demand for capital goods in the US, Japan and the EC. During 1988, electronics and machinery were the only major boosters of exports, and grew at about 25-35%. They now account for 35% of total exports, up from 28% in 1985.

- o Trade pressure and protectionism. The US omnibus trade bill is giving Washington more discretionary powers to restrict imports, though not necessarily by adding direct pressure on exchange rates. Slow progress in the Uruguay round of GATT negotiations and the emerging trade blocs in the EC and North America may heighten regional trade barriers⁹⁶.

The improvement in world trade imbalances is likely to be slow during 1989-90. Taiwan, given its undesirable position as the second largest trade surplus partner with the US (or the highest in per capita basis) will continue to face pressure from Washington, especially in areas like labor and copyright protection, agriculture and service imports.

The removal of US GSP benefits in 1989 will have only minimal impact given the small tariff benefits incurred. But Taiwan exporters are likely to face more anti-dumping charges in the US and EC markets. Attempts to rejoin GATT and to have a US-Taiwan Free Trade Agreement are likely to be paid much lip-service and a major breakthrough remains doubtful in the forecast period. But a more well-conceived trade policy may diffuse part of the external pressure and help Taiwan respond less passively to future trade issues.

- o Upgrading local industries. Sustained export growth will depend on Taiwan's ability to upgrade its industry. According to government statistics, high labor-intensive products still accounted for 46% of total exports in first-half 1988, up from 1981's 45%. Technology-intensive products, though increasing in both volume and value terms, account for less than one-third of total exports. During the first seven months of 1988, manufacturing labor productivity grew by an average 5.6%, down from about 10% attained in 1986-87⁹⁷. Obviously, more efforts are needed to upgrade local industries if Taiwan is to maintain its competitiveness under a strong currency and rising labor costs.
- o Labor and environmental issues. Higher wages, a stronger labor movement and increasing pollution control requirements will add to the cost of export industries. Compared with South Korea, Taiwan's labor movement

universality. The principles and assumptions of rationality as efficiency, consistency and order are nowhere as formidable as in the discourses and practices of economism.

Marginalization

Macroeconomic stability is essential for export drives to be successful, and it is the state which manages and controls.

Failure to control and stabilize interest rates, inflation and foreign exchange reserves can lead to catastrophe, as has been the case in various Latin American countries such as Brazil

remains less violent and is largely confined to isolated firms and locations, but it is developing quickly and has become more politicized after the martial law abolition. Environmental issues are not only adding costs to manufacturers, but also holding up infrastructure needed to support growth. Delay in implementation of the fourth nuclear power plant could result in power shortages in the early 1990s. In the short-run, operating costs may rise, though improved labor management and pollution controls should help upgrade productivity and improve social stability in the future⁹⁸.

- o Trade diversification. Both product and market diversification are important for sustained export growth in 1989-90 and beyond. During the last three years, Taiwan has made significant progress in penetrating new markets, mainly Japan, Europe and Southeast Asia. Exports to these markets grew by 29-36% during January-October 1988. As a result, the share of exports to the US dropped from its 1985 peak of 48% to 38.7% in 1988⁹⁹.

Further market diversification, however, will be more difficult. Export growth to Japan and the EC may be curbed by an economic slowdown and possible protectionism in these countries. Sales to Hong Kong, which were boosted by growing indirect trade with China, may be restrained by Beijing's retrenchment. Slowing export processing activities in the Pearl River delta -- which absorb the bulk of Taiwan's indirect exports to China, textile fiber -- will also limit exports to Hong Kong. Growing Taiwanese investment in Southeast Asia may help to sustain export growth to that region, as more industrial linkages are built. Trade with the Eastern bloc, though may rise rapidly with recent approval to trade direct, but will have little impact on market diversification. Currently, only 0.1% of Taiwan's exports are sold to Eastern Europe¹⁰⁰.

Imports of goods and non-factor services, accounting for 64% of GDP, will expand by a real 14% in 1989 and another 12% in 1990. These rates are lower than the average 23% growth during 1986-88 but represent more than three times the 3.1% average prevailing in 1981-85. Unlike in 1986-87 when rapid export growth led to strong import demand of raw materials and semi-manufactures, growth in 1988-90 will be largely due to buoyant domestic demand¹⁰¹. Import growth is also likely to be affected by Taiwan's desire to correct its large trade surplus with the US. This will substantially affect the future product and sourcing composition of imports¹⁰².

and Peru. Taiwan has not only stabilized its economy, but the state has actively intervened to promulgate and coordinate an active industrial policy. However, the Taiwanese state has refrained from attempting to achieve macroeconomic policies beyond those necessary to foster an economic climate necessary for infrastructural efficiency and export growth. As such, it could be seen as contributing to a more open range of social possibilities, within its own social and historical framework.

Key factors that will shape Taiwan's import growth in 1989-90 are:

- o Consumption growth. High income growth in the past years and growing preference for foreign consumer products will boost imports in the next 12-18 months. Although the economic slowdown in 1989 may limit income growth, an easy credit environment and low inflation will support consumer spending in 1990.
- o Investment demand. Boosted by government investment spending and pressure to upgrade industries, demand for foreign capital goods will remain strong. The weakness of the local capital goods industry in producing sophisticated machinery and precision equipment will turn most business to foreign suppliers. Government efforts to cut the trade surplus with the US by encouraging procurement from US suppliers will also fuel machinery imports.
- o Exchange rate changes and tariff cuts. The predicted strengthening of the NT dollar and further tariff cuts should make imports cheaper. However, the impact of tariff cuts on consumer prices may diminish in future as previous cuts have already trimmed the effective tariff rate to below 3.8%.
- o Improved market access. Liberalization of import controls and a booming domestic market have encouraged the penetration by foreign suppliers, especially Japanese department stores. More established import and retail channels will enhance distribution of imported goods in the coming months. US pressure to liberalize Taiwan's service and agricultural sectors may also provide for faster import expansion.

A mild recession may surface in second-half 1989 and limit US real GNP growth to 2.4% in 1989¹⁰³. Decreasing exports and investment demand may curb Japan's GNP growth to 4%. and growth in west Germany and the UK is expected to drop to 2.1-2.9% in 1989. A further slowdown in 1990 cannot be discounted, given substantial adjustment needed in the US trade and budget deficits. The US dollar may depreciate further against the Japanese yen and most EC currencies, despite expected mild improvement in US current-account balance during 1989-90. The US dollar may fall to Y115:US\$1 and Dml.65:US\$1 by end-1989, and depreciate further in 1990. Trade and protectionist pressures will remain strong, both from the US, EC and to a certain extent, Japan. Slow progress in GATT's (General Agreement of Tariffs and Trade) Uruguay round of negotiations and persistent trade imbalances could force major industrial economies, especially the emerging EC

The orthodoxy of economic stability and openness as somehow contributing, even in a laissez-faire sense, to political stability and openness can be challenged, however. Generally it is Marxist states which are seen by their detractors as paragons of control and subordination. However, the language of economy, with dictates of competition, efficiency, and productivity knows no ideological rhetoric. To maintain economic stability in Taiwan it has been necessary, as it is everywhere, to establish standards and criteria for practice and discourse.

and North America trade blocs, to raise trade barriers. Selective trade barriers on imports from the Asian NICs may also be erected by Japan. Oil prices will remain soft, despite OPEC's effort to restrain supply. Slowing world economic growth and excess supply will keep oil prices at an average of about US\$14-16 per barrel during 1989-90. Slackening demand will also preclude any sharp upturn in international commodity prices. Concern of inflation will further boost international interest rates in first-half 1989. The US prime interest rates may rise by another 50 100 basis points to 12% per annum before it eases gradually with a slowing economy. It may reach 7.5% by end-1989 and slip further in 1990¹⁰⁴.

The coming two years are crucial to Taiwan's transition into a more mature and broader based economy. In addition to the challenges that have accumulated over the past three years -- rapid appreciation of the NT dollar, rising labor cost, growing environmental and labor movement, political uncertainty and increasing trade pressure and protectionism -- Taiwan will also have to face an expected slowdown in OECD economies toward late 1989.

GDP growth in 1989 will most likely slow to a real 4.9%, to be followed by a higher 5.9% growth in 1990, especially if external demand revives by mid-1990. Depending on how successfully local business and government are responding to the challenges and turning them into their own strengths in the coming 12-18 months, a broader based and higher value-added economic structure may evolve in the next two years and lead to sustained high growth in the early 1990s. This will require the government taking a greater initiative to further restructure and liberalize the economy.

Both Taiwan and South Korea are undergoing the same transition from a highly export-dependent low-cost economy to a higher value-added and broader based structure. In many aspects, Taiwan's adjustment is more difficult, given the smaller size of its domestic market and more rapid exchange rate changes experienced in the past three years. This partly explains the slower GDP growth in 1988, estimated at 6.5% or about half of Korea's¹⁰⁵.

But a more rapid and large-scale adjustment also puts Taiwan in a better position to face future challenges. Businesses that survive the tough challenges of the rising NT dollar, soaring labor cost, mounting trade pressure and growing foreign competition over the past three years should now be better prepared to face adversities. Given the dynamism of the economy and its track record of handling adversities, there is a

These standards do not know social or historical structures and as such delectitimate contextual understanding. Thus social reality exists not to be invented but to be discovered, and investments of interest into that social reality subordinate beings as well as if they were uniformed.

The changing nature of capital and capital flows bring the interests of other states into the arena of strategic industrial and economic policies in which production will be at once the standard and the goals, the end and the means. Taiwan may

possibility that industrial upgrading will sustain growth in the early 1990s. Much of this, however, will depend on government efforts to check speculation and to facilitate the structural transition¹⁰⁶.

Factors that are critical to a successful transition into 1989-90 are:

- o. **Public spending**, both in consumption and investment. These are crucial for inducing alternative growth sources to replace slackening external demand and for siphoning off surplus savings. Most economic planners seem to recognize this need and there appears little problem in budget allocation, but a weak administration may hinder implementation. Bureaucratic red-tape, labor and environmental issues are blocking public projects. Improvement in land acquisition should expedite some infrastructure investment in the coming months. Higher welfare spending and civil servant wage rises will also help boost domestic demand. Another minor boost may come from the elections of legislators and local executives scheduled for late 1989. The key is whether this increased expenditure is enough to induce private spending and offset slower growth of export demand.
- o. **Exchange rate changes**. The pain of the rapid appreciation of the NT dollar during 1986-87 has not been fully absorbed, though a more stable exchange rate in 1988 gave local manufacturers some room to adjust. So far, much of the adjustment has been relatively easy, such as diversifying sources and markets, cutting operating costs, and concentrating on high-margin products. But further adjustment will depend on more time-consuming structural changes, including new product development, relocation of industries, management streamlining, industrial integration and restructuring to enhance economies of scale and technology improvement. Coordinated economic reforms such as deregulation of foreign controls and development of risk management financial instruments are also needed.

It remains too early to tell how successful these adjustments will be, but another round of rapid currency appreciation in the next 6-12 months could make the process more difficult. Given Taiwan's narrowing current-account surplus and the recent mild improvement in US trade deficits, pressure on the NT dollar to appreciate should remain manageable in the coming months.

be a stunning example of how quickly this transformation can be facilitated, but can other trading powers, and trading blocs be far behind?

While there is much to be said about the desirability of retrieving ravaged economies from the throes of despair, the potential dangers of the outcome of this effort cannot be overstated. The principles of universality of economic discourses and practices legitimate a narrow range of discourses and practices as authorized while delegitimizing all others that do not stand

- o **External demand and trade pressure**, especially that on electronic products. One aspect of the adjustment in Taiwan's export industry is the phasing out of labor-intensive and low-skill industries like garments, footwear, furniture and food products, and the growing dependence on higher value-added electronic exports. In the first 11 months of 1988, electronics exports grew by 25% and accounted for 21% of total exports. Growth of external demand for electronic goods, especially computer related products, will therefore bear an increasing importance in future export performance.

The assumed slowdown in OECD economies during 1989-90 implies slower growth of imports by these countries. There is little reason to think that trade pressures from the US and EC will subside extensively. Also, a prolonged computer boom in 1987-88 may risk an adjustment in the coming months. Although the island has already made some inroads into sales of monitors, printed circuit boards, calculators telephones and image scanners it will need more R&D and market development efforts to sail against expected adversities¹⁰⁷.

- o **Financial reforms.** Further liberalization and deregulation of the financial system is needed to promote efficiency, and a more sophisticated capital market is required to channel short-term speculative money into more productive investment. Like most reforms, a major difficulty in pushing for financial system changes is the balancing of vested interests, which requires a strong and committed administration.
- o **Upgrading small and medium enterprises.** Over 98% of Taiwan's commercial establishments have paid-up capital of less than NT\$20 million and total assets under NT\$100 million. These small and medium enterprises (SMEs) provided 72% of total employment and contributed to 69% of Taiwan's exports and 55% of its GNP.¹⁰⁸

Given their small capital base, family-owned management structures, and high concentration on labor-intensive industries, these SMEs have been the worst hit in the current adjustment. This required a change in the government's traditional assistance focus which emphasized providing fiscal incentives and tariff protection. Measures are needed to help the SMEs compete in a more open business environment by upgrading their management structures, marketing capabilities, financial and technical strengths. Among the worrying signs are these SMEs' failure to shift their sales from exports to domestic markets, and their growing inclination to chase short term

as productive and efficient. Diversity and difference become increasingly marginalized as information, speech and time are

commodified. Truth, knowledge and, ultimately, relations of power are interred within frameworks of causality

and reality which admit only the self-referentiality of technology and scientific rationality. The realm of the private is diminished as the state, in collusion with institutional interest,

determines productive and consumptive standards. The propensity for discourses and practices to be

speculative profits. A more active, long-term and coordinated development program is needed to upgrade these SMEs¹⁰⁹.

A more long-term issue in Taiwan's economic growth is the Taiwan-China relation. Despite recent fanfare of the booming indirect trade and investment between Taiwan and China, the magnitude of this cross-strait economic link-up remains very small and would take some time to bear any significance. Currently the indirect trade accounts for less than 2% of Taiwan's total trade. China's retrenchment and slowing export-processing activities may limit trade growth in the next 12-18 months¹¹⁰.

But Taiwan's increasing investment in China will be important for reshaping Taiwan's long-term competitiveness. Securing cheap and rich resources from China and penetrating the China market will become increasingly important in the 1990s, when the Chinese economy becomes more developed and its integration with neighboring economies enhances the competitiveness of China and many of Taiwan's competitors. During 1989-90, the China factor may not contribute much to GDP growth, but it will be critical for the formation of a more practical and constructive long-term China strategy. This will also have implications for Taiwan's political future¹¹¹.

High income growth, cheap imports and relatively stable domestic prices will continue to boost private consumption expenditure (PCE) over the next 12 months; PCE may grow by a real 10% in 1989, slightly less than 1988's estimated 12.7%. However, consumption may drop to 8% in 1990 as it adjusts to slower income growth¹¹².

Throughout 1988-90, PCE will grow faster than GDP, reversing the trend that has prevailed in most of the last three decades. This is largely due to Taipei's efforts to trim its current-account surplus and to boost domestic demand, rectifying its over-emphasis on savings in the past few years. Accordingly, private consumption's current low share in GDP may grow from 47.4% in 1987 to over 50%¹¹³.

Since the early 1950s, PCE's share of GDP has declined consistently from 75% to below 50% in 1986-87. This partly reflected natural development of a growing economy that allocated more resources to meet investment rather than consumption. Government discouragement of consumer spending also played an important role. This trend of lagging consumption growth will be reversed in the coming two years, and probably in the longer-term, given the changes of the past two years:

identified as pathological or deviant increases.

These are logics and languages to be corrected, to be made productive, to be made rational. Discipline

becomes even more in the public interest. There is truth in economics and it is stable, productive, efficient and dangerous.

The practice of economics is simultaneously a project as a projection, an infusion of a temporal scalar equilibrium directed into the future tense and a myriad of specialized, focused projects. The narrative

- o Rapid income growth and easy credit, which will encourage people to spend more and promote consumerism. An average 9% rise in real wages during 1986-88 and the prevalent 5-6% short-term lending rates will be a strong propeller of consumption growth in 1989. While wage increases may slacken with the expected economic slowdown toward late-1989, strong liquidity within the economy will continue to depress borrowing costs and fuel consumer spending in 1990.
- o Import liberalization and NT dollar appreciation. Large scale tariff cuts, import decontrol and the appreciation of the NT dollar over the past three years gave consumers wider access to cheap and quality foreign consumer goods. Both the magnitude and scope of foreign product influx is unprecedented. Import of consumer products jumped 35% annually during 1986-88. Foreign automobiles food and beverages, home appliances and other consumer items are quickly establishing themselves in the local markets. Further import growth is expected given a strong NT dollar and scheduled tariff cuts in early 1989. The recent influx of foreign consumer durables will also induce strong demand for parts and accessories in coming years.
- o Government policy puts more emphasis on domestic demand to support future economic growth. Given the pressure on trade and exchange rates experienced in the past three years% the government has had to modify its export-driven growth strategy. The expected slowdown in external demand also required spurring domestic consumption and investment to support future growth. Although encouragement may be focused more on investment than on consumption, relaxing political and social controls in the last two years will limit the government's ability to guide and regulate consumer spending. Thus, consumer service industries may grow faster under this policy shift¹⁴.

Inflation, which may erode real income growth, should not be a major deterrent to consumption during the next 12-18 months. This is because cheap import prices of oil and consumer items will keep consumer price increases low. The threat of high money supply growth on domestic price stability will be largely offset by cheap imports.

Higher taxes that may restrict consumer spending are unlikely. Government micro-economic policies may remain expansionary given the need to boost domestic demand and infrastructure development. Efforts to crack down on rampant tax evasion do not hold much promise of success, given the scale and

of a paradigmatic economics is coextensive with the narrative of economists. The theatre in which theorists operate - dissecting and suturing programmatics of capital flows - putatively provides the platform for the grasping of the essentials of the activity of labour. The possibility of the transformations of the metaphors of economic activity depends, in part, on the nature of theoretical observations that specify the paradigmatic nature of those metaphors. This mutation would construe economics sufficiently unified to be

range of evasion now existing.

The only major threat to consumption growth in the near future is the possible sharp adjustments of the island's over-heated stock market. The impact of the 36% drop in the stock market index in late September 1988 remains to be seen, but given the existing high volatility of the local stock market another substantial adjustment in the near future cannot be ruled out¹¹⁵.

During 1981-87, growth of spending on food and beverages clearly lagged behind transport, communications, housing, clothing, recreation and education. This trend is likely to continue as income grows. An expanding middle class and growing number of nucleus families will boost spending on household equipment, automobiles and leisure services. Much of this additional spending may be captured by foreign products. The aging population also implies greater spending on health and medical services. During the past 10 years, the share of population aged 65 or above grew from below 4% to over 5.5% of the total. This is likely to reach about 6% by end-1990¹¹⁶.

Efforts to promote domestic demand will spur government spending during 1989-90. Government consumption expenditure (GCE), which now accounts for about 15% of GDP, will benefit from expansionary fiscal policies and grow at - real 9.5% in 1989, following an estimated 8.1% growth in 1988¹¹⁷. Further slowing of export demand in second-half 1989 will force the government to maintain a higher-than-GDP growth of government consumption, predicted at 10% in 1990¹¹⁸.

The 1989-90 period will be dictated by expansionary fiscal policies designed to boost slackening domestic demand and to counter the export downturn. This is a rare departure from Taiwan's traditional balanced-budget policy. Sustained high economic growth allowed conservative spending in most of the past three decades. In fiscal 1988/89 (began July 1), the central government budgeted a record NT\$565 billion expenditure, up 17.2% in nominal terms from the 1987/88 actual. Total government current spending, including both central and local governments, is projected to rise by 13.5% in fiscal 1988/89¹¹⁹.

Much of the additional spending will focus on education, social and health services, and technology development. This is to accommodate growing demand for higher living standards and to support industrial upgrading. An 8% nominal pay rise for

paradigmatic; the opening

is that economists' metaphors are interpolated by mathematical logics

(although the interpretation of both sides of any equation does not depend on the success of the incorporation of disparate mechanical logics). Does

this vocabulary of economics, this version of modernity, provide an impediment to the proliferation of public practices, precluding the prospect of infinite varieties of private creation, of unimpeded participation of the invention of the self?

An economic vocabulary

the 900,000-strong government employees in fiscal 1988/89 -- on top of a 10% rise in 1987/88 -- will add another NT\$18 billion in government spending. This, coupled with an increase in the size of the government workforce, will provide further demand in the coming 12-18 months¹²⁰.

Defense spending, which accounts for one-third of central government expenditure, will grow at 16-18% during 1989-90. Despite easing tension between the two sides of the Taiwan Straits, defense remain a high priority in government allocation given the military's strong and long-established influence and the deep-down feeling of insecurity among policy-makers. Spending may focus on raising armament quality rather than personnel expansion. Calls for retrenchment of the 520,000-strong army (6% of the labor force) are unlikely to receive any serious consideration. Increase in public security spending, which is buried under general administration expenses, will come under tighter scrutiny by opposition legislators after the abolition of martial law. In fiscal 1988/89, military spending is budgeted to rise by 16%¹²¹.

Gross fixed capital formation (GFCF) will be the most important contributor to economic growth during 1989-90. Its GDP share will increase from an estimated 20.9% in 1988 to about 30% in 1990. Much of the growth initiative will come from the public sector, which will play an increasingly important role in inducing private investment. The expected economic slowdown in second-half 1989 may curb private investment in 1990, but overall GFCF growth should stay in double-digits during 1989-90. GFCF is predicted to grow at 18.5% in 1989, followed by another 16% in 1990¹²².

Since the turnaround in 1986, investment growth has been strong. Much of the early revival was contributed by private investors in response to booming exports. Public investment, which has seen its share in total capital formation drop from 54% in 1982 to about 40% in 1987, was held back by red-tape, labor shortages, and problems of land acquisition and pollution control¹²³.

Accelerated spending in major infrastructure projects slightly revived public investment's share in total capital formation to 41% in 1988¹²⁴. In the coming two years, the following factors will continue to boost investment:

- o Increased public allocation. Clearly aware of the need to promote economic growth by inducing stronger domestic investment, the government has budgeted to raise its capital expenditure in fiscal 1988/89 by 188%. Much of

of understanding can be too clever by far, gambling with temporal spaces as though there might be a theoretical sublime, as if purely rational actors exist as beyond fiction and narrative. Unseating the proximity of social conditions to events and substance rolls the dice further: how can any temporal axis exist, as such, in opposition to or parallel with the realm of possibility. This realm is at once a parable, a paradox of finitude expressing its limits while knowing the perfidy of boundaries. The dice rest on a taxonomy of the

the allocation will be to expedite the "14 Key Development Projects" initiated in 1984. These projects, estimated to cost over NT\$900 billion, will be the backbone of infrastructure development during the next 3-5 years¹²⁵.

- o Solution of land acquisition problems and other bottlenecks. A major reason of slow public investment growth in the past few years is difficulties in land acquisition, environmental protection and poor coordination among government bodies. These held up about NT\$175 billion of budgeted investment during 1981-87. In the past months, the government raised compensation for landowners and made a few improvements in administrative coordination which should expedite spending. However, shortages of construction workers and project planners would still hold up some projects unless the government adopts a more flexible recruitment policy, including hiring of foreign labor.
- o Pressure to upgrade industries is high for manufacturers supplying both overseas and domestic markets. The rapid increase in labor costs, sharp appreciation of the NT dollar and growing overseas competition are forcing producers to upgrade and automate. During the first three quarters of 1988, imports of capital goods rose 40%. Although it remains too early to qualify the advance in production technology and product quality, some manufacturers are clearly upgrading operations. Cheap imports and good cash flow positions of most manufacturers should benefit plant and machinery investment in the coming months.
- o A booming domestic market offers another attraction to investors, especially consumer-related industries. The past two years have already witnessed the emergence of several Japanese department stores, fast food chain shops and other consumer service companies. So far, local industries appear to be lagging behind in capturing the booming domestic consumer market. This is partly because of Taiwan's relatively underdeveloped service sector and partly due to the lack of recognizable trademarks of most Taiwan products. High income growth and a strong NT dollar will continue to boost investment in consumer industries¹²⁶.

There is clearly no problem in investment funding, given Taiwan's large surplus savings. The treasury had accumulated a NT\$300 billion surplus by mid-1988 and the financial system is flooded with export earnings¹²⁷. But the major constraint to investment growth lies mainly in terms of the institutional and structural weaknesses of channeling excess savings into

ontological conditions of possibility of non-temporal states which exist within this realm, adding infinitely to multiplicity. There is no debate, only the tension between the structures of the legitimate and the amorphous forms of the purportedly non-legitimate and unauthorized, recognizing the futility of pure autonomy, of the subject-object distinction, ignorant of the claims of universal principles, playing for smaller, private stakes, nominally active, heterodox.

There is a sense of contingency in the

productive investments.

Given the substantial amount of foreign investment approved in the past two years and the government's accelerated investment program, GDCF should be able to maintain strong growth in 1989. The slowdown in private sector investment, which now accounts for 60% of total GDCF, will curb overall investment growth to 12% in 1990²⁸. But the problem remains of whether these investments are sophisticated enough, especially in promoting R&D and management quality, to upgrade the economy. Government encouragement will play an important role in this end, given the small corporate size of Taiwan industries. Establishment of a more developed capital market that helps to channel the economy's surplus savings into productive investment will be crucial.

Exports of goods and non-factor services will suffer relatively low volume growth during 1989-90. Slackening external demand and weakening competitiveness will restrict export growth to probably 4.5% in 1989, following an estimated 4.9% growth in 1988. Growth in 1990 may improve to 7%, if demand from OECD markets revives in second-half 1990 and appreciation of the NT dollar is not sharper than is currently being forecast.

The current account surplus may drop gradually to about US\$8 billion in 1990, and foreign reserves may fall with growing capital outflows. Among the major economies with large international payments surpluses, Taiwan's surplus-cutting adjustment is one of the fastest and most significant. Rapid currency appreciation and import liberalization, which trimmed Taiwan's current account surplus by 54% during the first nine months of 1988, will continue to narrow the surplus -- though at slower rates -- over the next 12-18 months. This should help to relieve pressure on exchange rates and domestic money supply growth²⁹. But a lack of comprehensive design to tackle the large current-account surplus problem will continue to prompt make-haste responses and induce abrupt adjustments.

Further trimming the surplus will depend on increasing imports, as domestic demand rises with growing income and expanding public expenditure. Other surplus-cutting factors in 1989-90 will include increasing travel spending and service imports, a strong NT dollar and sluggish external demand that slow export growth. But part of the narrowing will be offset by growing investment income gained from Taiwan's mounting foreign assets³⁰.

present, the presenting of

what is, that is, reality,
the real, the actual, the
factual, the here and a
contingency not unrelated
to the manifold
interpretations of
historical record. The

past, what has passed,
has legitimately fallen
into categories of what
has been, what Being
was, how it was
evaluated, how it was
programmatically
established as a way to
determine ongoing --
future, not yet determined
as history, as past --
conditions through their
transitions and
legitimately, because they
survive as histories with
procedures of recall and

The next two years should also see more outflows of long- and short-term capital, given new capital outflow channels and fading expectations of further sharp appreciation of the NT dollar. Pressure to relocate labor-intensive factories overseas will also promote outward direct investment. These factors should prevent further buildup of Taiwan's massive reserves. But a significant drop in foreign reserves may not happen until early 1990 when the current-account surplus drops to match capital outflows.

Taiwan's current-account surplus should decline to about US\$8.3 billion in 1989, following an estimated 36% drop in 1988. Further decline to US\$8 billion is likely in 1990, given a more stable NT dollar and reviving exports spurred by higher OECD economic growth in second-half 1990¹¹.

The decline in the merchandise trade surplus will be responsible for the major cut in the current-account surplus. Although the 1988 merchandise import data was somewhat distorted by the incorporation of about US\$4-billion worth of gold imports (which was actually a shift of foreign assets and should be classified under the balancing item, not merchandise imports), an adjusted US\$15 billion trade surplus estimated in 1988 remained 24% lower than 1987's¹². Much of this trade surplus cut was due to the lagged effect of the NT dollar's rapid appreciation during 1986-87 and import liberalization of the past months.

In 1989, the exchange rate effect may continue, but to a lesser extent given a less rapid appreciation of the NT dollar in 1988 and a modest 4-6% annual rise predicted in 1989-90¹³. Strong domestic demand owing to an expansionary fiscal policy and high income growth will become the major support for import growth in 1989. Thus, import growth will be largely achieved by rising volumes rather than prices. A strong NT dollar and further cut in import tariffs will make imports relatively cheaper. Given the assumed appreciation of the yen during 1989-90, import prices of Japanese products may rise. But this is likely to only lead to further diversification of imports, especially from the US. In 1988, Japan's share of Taiwan imports dropped to 29.9% from 34% in 1987, while US products raised their share from 21.8% to 26.2%. It is likely that the US will overtake Japan as Taiwan's number one supplier in the next two years¹⁴.

Export prices will rise with higher labour and operating costs in 1989-90. Prices measured in US dollars will increase further due to the NT dollar appreciation, but prices in NT dollars may rise more slowly due to savings from cheaper

re-evaluation if only as within the context of conditional probability.

Categories for the evaluation of the

different criteria are mobile, moving with the interpretation of criteria.

drawn from a domain of all possible criteria with all attendant possibilities standing as reserve for the next movement.

Criteria exist, then as a standing reserve of transformation, ready to be utilized effectively as ocular nodes within a field of view. Radical shifts occur to the perimeter, to the ancillary of this field, simultaneously, chronically destabilizing

imports. In first-half 1988, the NT dollar export prices dropped by 6% from first-half 1987, but prices began to pick up toward mid-1988¹³⁵. Higher export prices will hurt export volumes, and the expected slackening demand in OECD countries toward mid-1989 may further restrain export growth. The effect of the currency appreciation may weaken in 1990. This, coupled with reviving external demand, may lead to higher export volume growth in 1990.

The trade surplus with the US is likely to be trimmed further in the coming 12-18 months. Although the US administration may not be totally satisfied with the pace of decline of the surplus, Taiwan's adjustment will be the fastest among all major surplus-running trade partners of the US. According to the US Department of Commerce, Taiwan's trade surplus with the US dropped by 31% to US\$10.4 billion in the first 10 months of 1988¹³⁶.

The trade deficit with Japan, however, is unlikely to shrink in 1989-90. Higher yen prices will turn some Taiwan consumers away from Japanese goods, but growing Japanese investment and increasing reliance of local industries on Japan's technology and material input will tie Taiwan to Japanese supplies. This dependency is especially strong in electronics, automobiles and home appliances which are the fastest growing sectors.

A major change in Taiwan's trade structure during 1989-90 will come from the emerging trade relations with China. Total indirect trade grew by 74% to US\$1.8 billion in the first nine months of 1988, making China the ninth largest trading partner of Taiwan. Although growth of Taiwan-China indirect trade may slacken in the coming months, it could still be higher than that with most other trade partners given the largely unexplored opportunities and China's accommodating attitude towards Taiwanese businessmen¹³⁷.

There are major factors which will direct Taiwan's invisible trade development in 1989-90: merchandise trade growth that will have a direct impact on Taiwan's shipment and transportation receipt and spending¹³⁸. The forecast slowdown in export growth will be largely offset by booming import volumes in 1989-90. This should help maintain spending on invisible. A strong NT dollar and the gradual liberalization of services trade may put some pressure on local freight carriers. But their highly competitive operations should be able to benefit from the growing freight volume, narrowing further the shipment and transportation deficits.

an acutely unstable process. To be radical is simultaneously to undercut and dismantle, to subvert the conventional and to operate, to suture within the perimeter to look to the outside, but from within.

Can putatively radial economic exist as such?

The expression "radical" mis-leads in as much as it suggests a heterodoxy of evaluative criteria "outside" the domain of referentiality which is, in fact, orthodox: that is within the universally legitimated criteria domain.

Relaxed controls on indirect trade and travel between Taiwan and China will boost remittance to and travel expenses in China. A strong NT dollar also will encourage more overseas travel spending. In the first three quarters of 1988, travel expenses grew by 52% and private unrequited transfers more than tripled. Over 400,000 Taiwanese visited China in 1988¹³⁹.

Foreign assets accumulated in the past three years should bring in larger investment income in 1989. While income from foreign reserves may be depleted gradually with a smaller current-account surplus, growing income from overseas investment will continue to boost the investment income account in 1990.

The NT dollar exchange rate holds the key to Taiwan's capital account balance over the next 12-18 months. Provided Taipei can restrict the NT dollar's appreciation to a modest 4-6% in 1989-90 as we are forecasting, capital outflows should gradually soak up Taiwan's current-account surplus and stop further reserve buildup.

Slowly, Taipei's efforts in the past 18 months to encourage outflow of surplus capital are paying off. But the coming few months will remain delicate as any rapid appreciation of the NT dollar may reverse people's expectations and invite large speculative inflows again. In the longer term, a more liberalized exchange environment and a more developed capital market is needed to channel the economy's excess liquidity to productive areas.

Since the lifting of controls on capital outflows in mid-July 1987, direct investment abroad has grown rapidly. A more stable NT dollar exchange rate in early 1988 also discouraged short-term capital inflows, which include substantial amounts of speculative money. In the first three quarters of 1988, direct investment abroad amounted to US\$2 billion, and short-term capital outflows reached US\$7.6 billion, compared with a net inflow of US\$243 million and US\$5.1 billion respectively in the same period 1987¹⁴⁰.

However, a short period of rapid NT dollar appreciation in late October immediately invited substantial capital inflows. Subsequently, foreign reserves rebounded from US\$69 billion at end-September to US\$74 billion on November 29¹⁴¹. This illustrated the fragility of investor confidence about exchange rate stability. Further fluctuation in capital flows is inevitable. But as the current-account surplus shrinks with growing imports, the chance of large scale appreciation of the NT dollar should lessen.

Beings are constantly presented and confronted with a choice between and among meaning possibilities. The world exists as public existence and private significance and creation within which there are determined and contingent, specified and amorphous movements from one meaning to another, forming and dissolving communities, establishing and breaking unifying ties. There are no primary ways in which human beings express meaning; there are only primary ways in which the contexts of understanding meaning are coextensive with

In the coming months, higher costs and labor shortages should discourage direct investment inflow, while local manufacturers will continue to be forced to relocate overseas. As previously stated, according to recipient country statistics, Taiwan is among the top investors in Thailand, Malaysia and the Philippines and indirect investment in China is estimated at between US\$0.5-2 billion⁴². Most of these outward investments are still in their early stages of approval or implementation, which means more capital outflows should follow in coming months. One major limitation to direct investment outflows is that most Taiwan companies are small and inexperienced in operating overseas. Government and information support are needed if more overseas investment is to take place.

Portfolio investment and other short-term capital outflows may remain limited by the few investment channels that exist and the public's lack of knowledge about international financial markets. The recent fall of the Taipei stock market has helped divert part of the excess liquidity overseas, and especially to U.S. markets which were perceived as safer. In general, the policy of restricting capital inflows while easing outflows is showing signs of mild success in reducing the balance-of-payments pressure, but more flexibility and quicker action from the administration are needed⁴³.

Liberalization and internationalization of the financial system has to be speeded up to maintain economic stability and promote growth. Despite central bank efforts to mop up excess liquidity in the economy, large current-account surplus will continue to fuel money supply growth and depress interest rates in 1989. Mild reduction of the current-account surplus and growing capital outflows in 1990 may gradually limit liquidity growth. But the expected economic slowdown toward mid-1989 may also slow credit expansion and keep interest rates low in 1990. The minimum rate for short-term loans (one year or less) charged by local banks will stay at 5-6% during the next 12-18 months, basically unchanged from the 5% at end-1988⁴⁴. A small rise toward late-1990 is possible if economic activity picks up as the current-account surplus narrows.

The problem of excess liquidity remains and continues to pose serious threat to money supply growth and inflation. Other than issuing government bonds to sterilize the additional foreign assets sucked in by the large current-account surpluses, the central bank also extensively removed restrictions on capital outflows in mid-1987. The effect of these measures however remains far from satisfactory and money supply (M1B,

discourses and practices that have been legitimated and authorized. Thus, there is no "central" meaning, since meaning is as manifold as understanding, discourse and creation. Once discovered and exposed, it is vulnerable to recreation and interpretation which renders it as different and potentially as same. The validity and justification of meaning is bound with the private realm as truth, beauty, and value arise from private understanding, contextual and contingent. Once organized and systematized, the freedom

including currency circulated outside monetary institutions, current and savings deposits) kept growing at 30-50% per annum during the past three years¹⁴⁵.

In December 1988, the central bank further tightened monetary policy by raising deposit reserve requirements by 1-2 percentage points. The act might serve as an indication of the central bank's determination to stem runaway credit expansion, especially those extended to stock and property speculators. But given the excess liquidity now flooding most financial institutions and the year-end redemption of government bonds, this is unlikely to have any significant effect on overall liquidity.

The use of reserve requirements to dampen liquidity growth, however, signified the central bank's choice for a broader spectrum of controls in addition to its traditional bond-issuing measures. In 1987, a total of NT\$64.8 billion of public bonds were issued, but MIB growth still averaged 38%. In the first nine months of 1988, another NT\$78.5 billion public bonds were issued and money supply growth remained at a 31% average¹⁴⁶. Despite the mandatory purchase system, a growing amount of maturing securities and higher interest payments will increasingly dilute the effect of future bond issues.

The across-the-board reserve requirement change should be more effective in controlling credit, but the ultimate solution lies in cutting down Taiwan's current-account surplus by raising effective domestic demand and channeling the excess money outside the island. The government is taking steps to promote domestic demand and to liberalize capital outflows. Apparently, some local investors are beginning to believe that foreign investments will command better returns than their domestic portfolios, especially after the recent stock market fall. Further cooling of the domestic stock market would prompt more outflows in coming months. But this has to be coordinated by wider participation of foreign financial institutions and enhanced efficiency of the local banks and finance companies.

It is in this context that internationalization and liberalization of Taiwan's financial industry is imperative. In the past months, the government has allowed local banks to open overseas branches and approved issuance of more overseas investment trusts. A recent bank-reform proposal eases curbs on foreign bank operations and encourages establishment of private banks. These are steps in the right direction, but a more coordinated liberalization plan for the financial sector is needed. Bureaucratic red-tape and policy indecision may

to create, to establish meaning exists within the boundaries and limits of this organization. Being sets limits for itself, sees transgressions and non-being as in opposition to Being.

Pathology

If we avoid Hegel's faltering step, the manifold of meaning extends over the possibilities of contextual realities such that time and space become contingent in the face of the determinants of specified interpretations and descriptions as representations within any contextual understanding.

continue to plague financial liberalization. If the necessary financial reforms are not implemented speedily, this could pose a serious drag on the real economy in the future.

The boom and subsequent correction of the Taiwan stock market during 1988 is largely a victim of the uncontrolled liquidity spiral. Slower economic growth and tighter regulations may put the market into lower gear in 1989, but not until there is significant diversion of excess liquidity out of the economy.

The basic problem of the Taiwan stock market is too much money chasing too little paper. With only 170 listed securities having a total par value of about NT\$325 billion at end-1988, the market has to cater for an average NT\$27 billion daily turnover⁴⁷. Barely 20% of listed shares are actively traded. The rest usually rest in safeboxes of controlling owners and the government. This explains why the Taipei Stock Exchange Weighted Price Index (1966=100) increased 276% so easily during the nine months to September 1988, even after a 51% drop during October-December 1987⁴⁸.

The announcement of a re-imposed capital gains tax served as the detonator of a much-needed adjustment on September 24, 1988. It sparked off a 19-day consecutive fall that brought the index from its all time high of 8,790 points to 5,615⁴⁹. More threatening was the dry-up of liquidity that trapped most investors during the downfall. A government orchestrated rescue finally succeeded in reversing the slide and within one month, the index recovered about 60% of its lost ground⁵⁰. But this reflected market intervention by a small group of large holders more than a recovery of investor confidence. So far, the government has made only mild improvements to the market, including expanding the daily price fluctuation limit from 3% to 5%, imposing tighter margin controls, and approval of more overseas investment trusts. These measures, however, are far from sufficient to rectify the fundamental weaknesses of the market in particular market manipulation and excessive liquidity.

The threat of another major correction remains, though there are more signs of a downward drift than the other way round. Notwithstanding the initial panic ignited by its announcement, the capital gains tax effective January 1989 is unlikely to have any significant impact given the vast tax loopholes that investors can exploit. Government plans to soak up liquidity by privatizing public assets will be slowed by conflicts between different vested interests. as exemplified by the privatization of three commercial banks. Moreover, there are

Antecedently available material is established as

precedence, evidence, proof and buttresses.

The stability of paradigmatic practices

and discourses exists

only when the veracity of

origins, continuity and totalities are verified.

This assumes the non-

efficacy of community,

culture, tradition, and

solidarity of shared

judgements, the

possibility of separating

out languages of meaning

from their contingent

logics. The result and

utility of such an

enterprise is that social

and historical contexts

are peripheral and

subordinate to principles

also concerns that too swift a tightening will spark another market slide¹⁵¹.

The coming two years should see some major changes in Taiwan's financial sector, which will not be smooth but may gradually lead to more healthy development of the capital market. An urgent task is to tighten control of the island's estimated 600 underground investment houses, which now have about NT\$100 billion of investors' money and represent a major speculative force in the market¹⁵². Other changes may include expanding existing investment outlets by establishing gold and commodities markets and the encouragement of indirect investment abroad through the introduction of more overseas investment trusts, depository receipts, and more foreign brokerage and insurance houses.

Persistent high money supply growth, rising wages and property prices, and less rapid appreciation of the NT dollar in 1988 will contribute to higher inflation in the coming 6-9 months. But compared with most of its Asian neighbors, Taiwan's domestic prices will remain relatively stable, thanks to a strong NT dollar and extensive tariff cuts that trimmed import prices. Slower economic growth in second-half 1989 and a narrowing current-account surplus will gradually restrain price rises and keep inflation at an annual 3-4% in 1989, up from an estimated 1.4% in 1988. A modest 4-6% appreciation of the NT dollar in 1990 will continue to keep prices low and maintain inflation at 3-4%¹⁵³.

Among the factors that will determine Taiwan's inflation in 1989-90 is money supply growth. It is the single largest threat to Taiwan's domestic price stability. Since July 1986, narrow money supply (M1B) has been growing at above 30% each month (year-on-year). Broad money supply growth (M2) averaged 23% in the first nine months of 1988, 15 percentage points above the estimated 7.9% nominal GNP growth. Such a high money supply growth cannot maintain a 1.4% inflation if not for much cheaper import prices¹⁵⁴. The central bank's broadened efforts to control money supply are gradually paying off. In the recent months, money supply (M1B) has been growing at below 30%. But a more substantial cut in money supply growth is unlikely unless there is a significant drop in the current-account surplus or through large capital outflows. Both are not anticipated in the coming 6-9 months. This means the inflationary pressures of high money supply growth will stay.

Appreciation of the NT dollar and tariff cuts are the most important contributors to cheap import prices and low inflation

of universality. The authority of the same, the identity, then establishes the locus of the normalization procedures of repeated mentioning without recognizing that use is a special case of mentioning. If recontextualization is gambling and contingency then rules, goals, standards, protocols, symbols, methods and criteria are references to be circumscribed by economic assumptions in which global patterns can be formed by creating normalized categories of work, labour, value, power. Rationality assumes

in the past three years. In the 30 months to July 1988, unit import prices dropped by an annual 5.8%. Although only about 8% of Taiwan's total imports are consumer goods, cheaper imports of capital and intermediate goods like crude oil and automobiles are important to keeping consumer prices low. Scheduled tariff cuts in early 1989 will offer more import savings, but a more stable NT dollar in 1988 and slower appreciation in 1989 will mean less import price cuts in the coming months. However, much of the import savings will depend on how much Taiwan will shift its imports from Japan to the US¹⁵⁵.

In a booming economy the tight labour market may continue to push up wages in the coming 6-9 months. Manufacturing wages have been growing at a nominal 9.9% annually during 1986-88, and another 8-9% rise is likely in 1989¹⁵⁶. The service sector may see even higher salary increases. The stronger labour movement and increasing welfare requirements will also push up labor costs. These will add to inflation. Slowing economic growth and further automation may help to ease the labor shortage slightly in 1990. More so, if the government decides to import foreign labor to speed up implementation of its 14 infrastructural projects. These factors may lead to less rapid wage rises of 6-8% in 1990¹⁵⁷.

Taiwan's heavy reliance on imported oil and most commodities will make it vulnerable to international price fluctuations of these resources. In 1979-80 import prices rose by 19.2% after the sharp increase in world oil prices, leading to an average 14.3% inflation. Efforts in the past decade to restructure the economy and to improve energy efficiency have helped reduce oil consumption growth. In 1987, oil accounted for only 7.3% of total imports, down from 1980's 21%. Low oil prices also contributed to decreased import share in value terms. Although oil prices may strengthen slightly from its current low in the coming two years it is unlikely to impose any serious threat to domestic prices.

The movement of the NT dollar will continue to attract attention in the next two years. Given the large current-account surplus, any movement of the NT dollar is more likely to be upward rather than downward, especially against the US dollar. The speed and range of this movement will determine not only the performance of the external sector, but also the whole economic transition process, and much will depend on pressure from the US. Given the new administration in Washington and pending clarification of US monetary and trade policies, it is difficult to gauge at what level the NT dollar will settle by end-1990¹⁵⁸.

order, efficiency and consistency as a priori.

Private creation and invention of self is subsequent to or in light of the public context of being. To be Taiwanese

is therefore to be part of a global community and to extend the public domain of work over a cosmopolitan context.

Identity sets and domains remain to be discovered ignoring the differences which establishes individuals and communities, judgements and values as remarkable.

The force of the economic global community remains weak, unconvincing and dangerous since solidarity

The Taiwan currency should see relatively mild appreciation in 1989-90 and the NT dollar could appreciate 4-6% annually against the US dollar during 1989-90. Rapid appreciation, like the 40% rise of 1986-87, is unlikely to be repeated, but it would also be difficult to contain the currency's rise to 1988's 1.3% increase¹³⁹. A more likely scenario is a steady annual increase of 4-6% against the US dollar during 1989-90, notwithstanding occasional fluctuations that may temporarily over- or under-shoot the projected range. This will put the NT dollar at NT\$26.5-27:US\$1 by end-1989. Such a range of appreciation should pose no serious threat to Taiwan's economic adjustment, though more small labor-intensive exporters could be forced out of business. To some extent, a mild and gradual appreciation is good for Taiwan especially if it succeeds in speeding up the process of industrial upgrading.

Given Taiwan's relatively larger improvement in its trade imbalance with the US, Taipei may face less pressure from Washington to appreciate its currency against the US dollar than Japan and Korea in the coming months. Taipei's genuine efforts to rectify the imbalance and previous appreciation of the NT dollar will lead to further narrowing of the trade surplus with the US in coming months, thus cutting its exposure to US criticism. Widening overseas investment channels and easier capital control will prompt more outflows of short- and long-term capital, diffusing the excess liquidity trapped inside the economy and lowering the pressure on the NT dollar exchange rate¹⁴⁰. The lagged effect of the NT dollar appreciation will become more apparent in the coming months. Coupled with slowing external demand and rising foreign competition, concern about the erosion of Taiwan's export competitiveness will grow. This may force the government to resist any significant and rapid appreciation of the NT dollar.

Provided there is steady improvement in the trade imbalance in 1989, pressure on the NT dollar should remain manageable in 1990. The NT dollar may end 1990 at about NT\$25-25.5:US\$1, or another 4-6% rise against the US dollar¹⁴¹. Given a predicted faster appreciation of the Korean won against the US dollar during the same period, and higher inflation in Hong Kong (whose nominal exchange rate would remain basically unchanged against the US dollar), Taiwan export competitiveness may be sustained even in a more competitive global economy.

However, it is clear that if Taiwan is to keep pace with other NICs and especially if trading blocs in North America and Europe in 1992 are successful, Taiwan may find it increasingly necessary to substitute modern and Western ones for those

is created and not discovered: unless there is a community of workers at any time that is a solidarity only by virtue of its assignment as brutal act, as objectification, as commodity. However, the search for, and the use of, any metavocabulary which takes into account all possible vocabularies and all possible ways of judging has reduced the private realm to the "safe" in deference to the determination of the public only recently has been interpolated as pernicious. Conspicuously exiguous in continued attempts to

traditional practices that still remain. In all sectors Taiwan will have to deploy the logics of a scientific and technological society, employing new techniques which depend on modern and distinctly technological-rational thinking. this drive would imply that the logics of economic strategies and policies have logically valid inferences formed on a specified knowledge of reality. Substantially, the promotion of efficiency and productivity envisages progress in contradistinction with the out-moded, and equality in relation to wealth. Modernization creates marginalization through the propensity to specify the normal.

systematize practices is the recognition that rationality verifies the veracity of efficiency by totalizing discursive universalizing principles.

Paradigmatic human activity assumes the possibility of infinite human progress: the forces of freedom, liberation, emancipation, salvation. The force of cosmopolitanism is the purported foundation of universal progress, on the way to progress, always here and there, a stabilizing event, superficial and deep.

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