

Economics Project

It's 1964 and you are in charge of the government on Taiwan. Only one political party and you control the military. The Communist government on Mainland China would like to attack and re-claim Taiwan. The United States and your own military are temporarily preventing them from doing so.

Taiwan is an agricultural society with few natural resources other than an abundance of food. You have a hard working, highly educated young population that is greatly under-employed. You have many international contacts, especially in the United States, developed as allies with the U.S. in World War II and the Korean conflict. Taiwan is an island, so you can control your borders easily and you have a closed market system heavy on planning, but a philosophy of open market trading.

Your only hope of a future as an independent free society is to develop an economy that grows and provides wealth for you citizens and opportunities for advancement and security. How would you do it?

Taiwan did it! It's now one of the richest (per capita income) Democratic (popular election of all government officials including the President) industrialized and free regions of the world. Population is now over 23 million (15 million in 1965).

Keep in mind that it took 30 years and controls on an economy are not always bad (like control of imports).

You can use different approaches or a combination of approaches to develop your actions.

1. Concepts contained in text book and in my lectures, plus your own experiences. (What would have made you succeed if you were a citizen of Taiwan in 1965)
2. Find out how they did it? A lot of material available.
3. Combination of 1 and 2.

I will be glad to provide additional information or answer questions. The attached background material should get you started.

The project will be considered extra credit.

1. Country – Republic of China (ROC) on Taiwan (1965).

2. Location – Western Pacific Ocean: 120 miles from Mainland China (PRC), separated by Taiwan Strait. 700 miles south of Japan, 325 miles north of the Philippines and approximately 10,000 miles from Savannah, GA.

3. Size – Island 285 miles long, 95 miles wide. Approximately same size as Holland.

4. Geography – Large mountain chain running north to south. Highest mountains in Southeast Asia. Highest peak is 13,000 feet. Mountains make up almost 75% of Total land.

5. Climate – Semitropical in north and tropical in south. Rainfall ranges from 70 to 283 inches a year, depending on location. Temperatures in the north range from 46 to 95 degrees F with high humidity (85%). Temperatures hotter in south. Typhoons (hurricanes) are common from June to November and usually approach from the east, away from heavily populated area on west coast. Earth quakes are also common and can be severe.

6. Population – 15 million concentrated on 25% of island, 95% of population is Chinese. Balance are aborigine tribes of Indo-Malay background and were original inhabitants. Population is young and birth rate is high. Language is Mandarin Chinese, with most of population speaking a Taiwan dialect as well. English is common and growing. Japanese spoken by older members of society. Population density 3rd highest in the world.

7. Resources – Agricultural economy. Rice cultivation dominates with two to three crops a year. Tropical fruit and vegetable production. Meat production limited primarily to pigs. Offshore waters support large fishing fleet. No oil or metal ores. Small deposits of low grade coal. Good supply of tropical hard wood. Island produces a surplus of food production. Farms are privately owned.

8. Government – Centralized (Federal), divided into counties. Single political party and most government positions are appointed and not elected by popular vote. Signs of democracy are growing. Government owns most of large corporations but small and medium companies are privately owned. A multitude of small family owned shops exist. General rule is making money is good.

Government is socially paternalistic and politically authoritative. Government officials are usually appointed based on merit and qualifications and have been educated in U.S. or Europe. Some corruption exists, but is minor in nature.

A central banking system is in place and currency (new Taiwan dollars) has a fixed exchange rate of 40 to 1 against the U.S. dollar.

A fair legal system is in place with local courts, appeal courts and an independent Supreme Court.

Contracts and property rights are upheld in courts.

A mixed economic system that leans toward a planned economic system. The NT \$ is not an international currency and tight foreign exchange rules apply.

9. Defense – Large standing army, well equipped with modern weapons purchased or provided by the United States. Officers are professional, but all males required to serve two years service after high school. Air force rated 5th best in the world (U.S. aircraft). Small coastal navy. United States provides military support and defense from attack (by treaty). Officially still at war with Peoples Republic of

China on the Mainland.

10. Education – 99% literacy rate. 12 years of education required by law. College admission is based on merit, high school grades and performance on college entrance exam. Schools are low cost. Education highly valued and many college graduates obtain advanced degrees in U.S. and Europe. Elementary and high school meets 5 ½ days a week and most students attend “cram” schools in the evening in preparation for college entrance exam.

11. Health – Most major diseases have been eliminated and population is very healthy by world standards. A system of Welfare Clinics throughout the island provide basic health care at low cost. Government and some private hospitals provide excellent care with private hospitals staffed by U.S. and European trained doctors.

12. Infrastructure – Three large deep water ports. Keelung in north, Tainan mid- island and Kaoshuing in south. One major highway running length of island and many secondary roads connecting farming areas. One major international airport, a few regional airports capable of handling commuter travel and two large military airports off limits to civilian aircrafts. No privately owned aircraft permitted. Most cities are small but four have over one million inhabitants. The capital city, Taipei, is over three million. Transportation is by train and bus for long distances, but small motorcycles prevail. Automobile ownership is growing and locally provided vehicles predominate. Foreign produced vehicles are either prohibited (Japanese) or very expensive due to import tariffs as high as 140%. Vehicles are taxed based on size of engine and gasoline sells for the U.S. equivalent of \$4.00 per gallon. All fuel is imported. Electricity is generated by coal fired plants with imported coal, hydroelectric and some thermal production.

Water supply is abundant due to high rainfall, but city distribution system does not guarantee potable water. No large rivers exist.

13. Crime – Very little major crime exists. Laws strictly enforced by professional police force and military. Gun ownership prohibited. Death penalty exists. Minor crime treated gently, but any use of a deadly weapon has serious repercussions. Gangs and secret societies exist and control gambling, prostitution and loan sharking, but stay away from contact with normal society. Courts handle all cases quickly. Population is homogenous and very supportive of enforcement procedures.

Minor problems are handled by individuals, families or by village elders outside of the legal system. Few lawyers exist and standing in court system is minimal. Most lawyers involved in

business related activities.

14. Religion – Most of population is Confucian (not strictly a religion). 5% of population is Christian with a multitude of denominations. Buddhism and local sects also exist. Total religions freedom with no government involvement.

Americans are well liked and Taiwan is very pro-American. U.S. military on island for long period of time and continues to support and defend Taiwan. Taiwan was returned to the R.O.C. in 1945 after belonging to the Japanese since 1895.

Inter-marriage is a non-issue. Women have full rights and opportunity. Culture of family support limits full female participation to some degree. No safety net operated by government. Families expected to take care of their own problems.

Unions are common in business sector, but are “company” unions and operate under the “Basic Standard Labor Law” implemented in 1949 and revised many times. Very detailed document and ahead of it’s time regarding protection of worker’s rights. Most small Chinese companies ignore the law for the most part, but foreign companies ignore it at their peril. Government enforcement normally very lax. Employment opportunities more important than enforcement of the labor law.

Visiting Taiwan requires a visa issued by the government. Residence for a foreigner requires a special visa and person must demonstrate special skills and be guaranteed by an ROC citizen. Very tightly controlled and visa must be renewed each year. Immigration almost non-existent. Passport for Chinese citizens very difficult to obtain and therefore travel except for business or study is rare. In 1977, my wife only got a passport after she married a foreigner and permission to travel was a real pain until she became a US citizen in 1978.

Income tax system is progressive and widely ignored. Rates are very low at bottom end, but rise steeply to a high of 60%. Major source of government income is from tariffs, customs and operation of government owned enterprises. Bulk of government expenditures devoted to military. Unemployment, while reported percentage is low, is deceptive. Large portions of city residents are under- employed and a large agrarian population is unnecessary as farms are kept artificially labor intensive. Mechanization would free a large population of available workers. Wages are very low and opportunities to earn money are few, but poverty as we think of it doesn’t exist. Consumer goods in short supply. Very little manufacturing and existing enterprises are very labor intensive.

Credit cards don’t exist and most people can not obtain a checking account. It’s a cash society. Credit and consumer loans don’t exist. The saving rate is very high. Government Postal authority and informal groups handle most of savings deposits. Interest paid is very low. US dollars are in demand and obtained for the most part from “unofficial” sources.

Remember the description above is of Taiwan during a period from 1945 through 1985. Taiwan is a very different place today. Modern, prosperous and democratic. How did it happen? It wasn’t luck!