Taiwan

I. Economic Structure

The Anomaly

Taiwan is a large island off the coast of mainland China. When the mainland was taken over by the Communists in 1949, the nationalist government of Chiang Kai-shek retreated to Taiwan where it has survived under the leadership of the Kuomintang Party. The People's Republic of China and the authorities on Taiwan each claim to be the sole legitimate governmentof China. This has forced the world to choose between recognizing the Republic of China on Taiwan or the People's Republic of China in Beijing. Most nations now recognize the government in Beijing. As a result, Taiwan has become something of an anomaly, a major economic powerhouse with virtually no diplomatic recognition by the world community. Despite the fact that Canada does not diplomatically recognize Taiwan, the federal government does maintain a trade presence through the Canadian Trade Office, Taipei, an office of the Canadian Chamber of Commerce.

A Trade-Oriented Economy

The island of Taiwan is heavily populated and poor in natural resources. As a result, the government looked to foreign trade to serve as the engine of growth and it adopted a strategy of importing raw materials, processing them domestically, and exporting the finished products. In the 1950s, Taiwan developed labor-intensive, import substituting industries. When these succeeded in the 1960s, it improved the domestic investment climate and established low-cost and low value-added export-oriented industries. By the 1970s, Taiwan was moving to industries based on intermediate goods and developing basic and heavy industries. With this infrastructure in place, Taiwan adopted a more strategic orientation in the 1980s, emphasizing and promoting certain key industrial sectors, especially technology-based activities. As a result of this strategy, between 1953 and the end of 1989, Taiwan's economy grew at an average annual rate of 8.8%.

Economic Slowdown

Taiwan's expansion culminated in 1987 when exports grew by 19% and GDP increased by 12.5%. Since then, the economy has been cooling off. In 1988, exports grew by only 5.8% and GDP rose by 7.8%. In 1989, exports grew 4.9% and GDP grew 7.2%.

To some extent, the slowdown was the inevitable result of earlier success. Strong export performance led to a domestic cash glut and an appreciation of the New Taiwan dollar, which made Taiwanese exports less competitive. At the same time, the export-led boom was being constrained by labour shortages, rising wages, increases in the costs of land, and new concerns about environmental degradation.

As a result, Taiwan has been experiencing significant inflationary pressures. In 1989, it was estimated that inflation was running at an annual rate of about 4.4%, but this was understated since the official basket of goods and services used to measure it was out of date and no longer reflected the real spending patterns of the Taiwanese.

Rising domestic costs made Taiwanese exports less attractive at a time when Taiwan's trade partners were heading into recessions. As overseas demand fell, Taiwan's trade surplus shrank, as did its current account balance, and domestic investment in new plants weakened. By 1990, Taiwan's GDP grew by only 5%, still an impressive rate by western standards, but low in terms of Taiwan's previous performance.