

and Cooperation," [Proceedings of the] 6th Asia-Pacific Roundtable on Confidence-Building and Conflict Reduction in the Pacific, 21-25 June, 1992, p.5.

³⁶Leticia R. Shahani, in "ASEAN and China," *Foreign Relations Journal*, p. 125.

³⁷*Philippine Star*, "PRA retirement fund for foreign elders launched," September 9, 1992, p. 19.

³⁸Theresa Cariño, *China-ASEAN Relations: Political, Economic & Ethnic Dimensions*, The China Studies Program, De La Salle University, 1991, p. 91.

³⁹Foreign Policy For Our Future, July 1992, p. 26.

⁴⁰See Dueñas, p. 27.

⁴¹Cariño, p. 91.

⁴²It is of course doubtful whether the Philippines could have undertaken bold foreign policy moves in the 1970s were it not for the artificial coherence in foreign policy that constitutional authoritarianism afforded.

⁴³The *Manila Chronicle*, "Pact signed with Taiwan," 8 July 1991, p. 6.

⁴⁴Assistant Executive Secretary Roberto Rafael V. Lucila, Chairman of the South Sea Fishery Dispute Settlement Committee signed the controversial Agricultural and Fisheries Agreement with Taiwanese officials in his official capacity, despite prior warnings by officials from the Departments of Justice and Foreign Affairs that such action would violate the "one-China" policy. The pact assigns two sea lanes through disputed territorial waters near the Kalayaan chain of islands to Taiwanese boats en route to fishing grounds in the South Pacific. To avoid further embarrassment, the Philippine government later unilaterally declared new sea lanes of passage for all types of foreign fishing vessels headed for the South Pacific. For more on this controversy, see Bert Castro, "Fishery pact deemed violating 'One-China'," *The Manila Chronicle*, 10 July 1991, p. 1 and the editorial of the *Philippine Daily Inquirer*, "Difficult Choices," 10 July 1991, p. 4. The agony of policymakers charged with correcting the damage done by the pact is detailed in Bert Castro, "Panel wants Taiwan pact set aside," *The Manila Chronicle*, 25 July 1991, p. 1.

⁴⁵The DFA has only 1,800 officers and employees. Of these, 1,682 are regular employees, the rest being casuals. See Raul Manglapus, "RP's foreign policy."

⁴⁶Dueñas, p. 27.

⁴⁷*Manila Inc.*, Top Ten Export Markets, August 1992, p. 14F.

TAIWAN'S ECONOMY: SHORT AND LONG-TERM PROJECTIONS

Julius Caesar Parreñas

Forty years after the exodus of the Nationalist Chinese government to Taiwan after the communist takeover in the mainland in 1949, Taiwan has become a significant economic player in Asia and the world. In 1990, it became the 15th largest exporter in the world, accounting for two percent of total world export revenues in that year. Its international reserves (minus gold) of \$73.1 billion, which in 1990 ranked second highest after Japan, have grown to about \$78 billion today.

Taiwan's per capita GNP is actually much higher than the officially recorded \$8,000 in 1990 due to its large underground economy [Table 1]. It posted high economic growth rates averaging almost 7 percent annually since 1965 [Table 2]. This growth was fuelled to a large extent by merchandise exports, which grew very rapidly and in 1990 totalled \$67 billion [Tables 3 and 4].

This phenomenal growth was accomplished without the economic dislocations and great social costs that have accompanied major economic transformations in other countries. In all these years, the Taiwanese economy was characterized by relative price stability and low unemployment rates [Tables 5 and 6]. For a country

TABLE 1
ECONOMIC PROSPERITY
Per capita GNP in US\$ in 1990

Japan	25,430
Singapore	11,160
Taiwan	7,954
S Korea	5,400
Philippines	730
PRC	370

Sources: WB, World Development Report 1992, and Taiwan Statistical Data Book 1992.

TABLE 2 ECONOMIC GROWTH Average annual growth rate of GNP per capita in percent	
1965-90	
S Korea	7.1
Taiwan	6.8
Singapore	6.5
PRC	5.8
Japan	4.1
Philippines	1.3

Source: WB, World Development Report 1992, and Taiwan Statistical Data Book 1992.

TABLE 3 MERCHANDISE EXPORTS IN 1990 \$ millions	
Japan	286,768
Taiwan	67,025
S Korea	64,837
PRC	62,091
Singapore	52,627
Philippines	8,681

Source: WB, World Development Report 1992.

TABLE 4 GROWTH OF MERCHANDISE EXPORTS Average annual growth rate in percent		
	1965-80	1980-90
S Korea	27.2	12.8
Taiwan	18.9	12.1
PRC	4.8	11.0
Singapore	4.7	8.6
Japan	11.4	4.2
Philippines	4.6	2.5

Source: WB, World Development Report 1992.

TABLE 5 STABILITY OF PRICES Price indices (1991=100)		
	Wholesale	Retail
1960	114.14	118.44
1961	103.22	107.83
1962	103.03	102.34
1963	106.48	99.80
1964	102.48	102.24
1965	95.34	99.92
1966	101.49	101.99
1967	102.53	103.35
1968	102.96	107.92
1969	99.73	105.04
1970	102.73	103.58
1971	100.03	102.83
1972	104.45	103.01
1973	122.86	108.17
1974	140.58	147.47
1975	94.92	105.24
1976	102.76	102.50
1977	102.76	107.04
1978	103.54	105.77
1979	113.82	109.75
1980	121.54	119.01
1981	107.62	116.34
1982	99.82	102.96
1983	98.81	101.35
1984	100.48	99.98
1985	97.40	99.83
1986	96.66	100.70
1987	96.75	100.52
1988	98.40	101.28
1989	99.62	104.41
1990	99.39	104.13
1991	100.00	100.00

Source: Taiwan Statistical Data Book 1992.

1960	4.0
1961	4.1
1962	4.2
1963	4.3
1964	4.3
1965	3.3
1966	3.0
1967	2.3
1968	1.7
1969	1.9
1970	1.7
1971	1.7
1972	1.5
1973	1.3
1974	1.5
1975	2.4
1976	1.8
1977	1.8
1978	1.7
1979	1.3
1980	1.2
1981	1.4
1982	2.1
1983	2.7
1984	2.4
1985	2.9
1986	2.7
1987	2.0
1988	1.7
1989	1.6
1990	1.7
1991	1.5

Source: Taiwan Statistical Data Book 1992.

highly dependent on export markets and on imported energy supplies, it had successfully weathered the two major oil shocks and the recessions that have hit the West.

Taiwan's economic power has become even more apparent with the increasing role of Taiwanese capital abroad. Taiwanese direct investments abroad have jumped considerably in the late

1980s as a result of several factors: rising labor costs at home, the appreciation of Taiwan's currency and protectionism in the US against Taiwanese products. Unlike in earlier years, when Taiwanese businessmen preferred to invest in the US, most of the Taiwanese overseas investments today go to other Asian countries [Table 7].

	TOTAL	SHARE OF U.S.
1960	0.000	0.000
1961	0.000	0.000
1962	0.492	0.000
1963	1.428	0.000
1964	1.021	0.000
1965	0.971	0.000
1966	0.718	0.000
1967	0.967	0.000
1968	1.769	0.000
1969	0.122	0.000
1970	0.527	0.000
1971	1.212	0.100
1972	4.124	0.440
1973	3.210	0.561
1974	7.371	0.100
1975	2.419	0.800
1976	4.460	1.195
1977	13.789	1.650
1978	5.196	3.270
1979	9.364	0.620
1980	42.105	35.130
1981	10.764	1.645
1982	11.632	2.500
1983	10.563	2.858
1984	39.263	30.530
1985	41.334	35.690
1986	56.911	45.967
1987	102.751	70.058
1988	218.736	123.335
1989	930.986	508.732
1990	1,552.207	428.690
1991	1,656.030	297.795

Source: Taiwan Statistical Data Book 1992.

Structural Change

The Taiwanese leadership has succeeded in transforming their country from a largely agricultural economy to an industrial powerhouse within a very short span of time. This is reflected in the structure of Taiwan's exports. Industrial products now compose more than 95 percent of Taiwan's exports as compared to 32 percent in 1960 [Table 8]. Together with structural changes, Taiwan's external economic relations have also diversified gradually away from an excessive dependence on the US and Japan [Tables 9 and 10].

Taiwan's industrialization banked on labor-intensive manufactures. These industries were initially established during the 1950s, when Taiwan embarked on its import-substitution industrialization, protecting infant industries with tariffs, instituting quantitative restrictions on non-essential imports and maintaining an overvalued currency. In the mid-1960s, Taiwan began to encourage its industries to look outwards. The currency was forced to depreciate, a drive to penetrate the US market through the establishment of export processing zones was initiated and foreign direct investments in Taiwan were promoted.

However, Taiwan is entering a new stage of structural transformation characterized by improvements in labor productivity, a shift to higher value-added and higher skill production and the development of a more specialized and sophisticated service sector. This entry into a new phase of economic development has been forced upon Taiwan by certain problems arising out of its previous successes.

One of these problems was the increasing tension in US-Taiwan economic relations due to the growing deficit the US has been incurring in its bilateral trade with Taiwan. This has led to protectionism directed against Taiwanese products. The US government has been putting pressure on Taiwan to revalue its currency vis-a-vis the US dollar. The attainment of NIC status has also led to the phasing out of Taiwan's generalized system of preferences privileges in the US market.

A second problem has been brought about by the attainment of full employment. This has led to rising labor costs, which in turn have rendered Taiwan's labor-intensive industries less competitive with those of many Southeast Asian countries. This labor shortage is being worsened by the ageing of its population, whose growth rate is declining, and by the increasingly negative attitude towards manual work which has accompanied growing prosperity. The last

TABLE 8
COMPOSITION OF EXPORTS
Percentage distribution of exports

	Agricultural Products	Agricultural Products	Industrial Products
1960	12.0	55.7	32.3
1961	14.8	44.3	40.9
1962	11.9	37.6	50.5
1963	13.5	45.4	41.1
1964	15.0	42.5	42.5
1965	23.6	30.4	46.0
1966	19.8	25.1	55.1
1967	15.2	23.2	61.6
1968	11.1	20.5	68.4
1969	9.3	16.7	74.0
1970	8.6	12.8	78.6
1971	7.9	11.2	80.9
1972	6.8	9.9	83.3
1973	7.5	7.9	84.6
1974	4.8	10.7	84.5
1975	5.6	10.8	83.6
1976	5.0	7.4	87.6
1977	5.4	7.1	87.5
1978	5.0	5.8	89.2
1979	4.4	5.1	90.5
1980	3.6	5.6	90.8
1981	2.6	4.6	92.8
1982	2.0	5.1	92.9
1983	1.9	4.8	93.3
1984	1.7	4.3	94.0
1985	1.6	4.5	93.9
1986	1.6	4.9	93.5
1987	1.3	4.8	93.9
1988	1.4	4.1	94.5
1989	0.7	3.9	95.4
1990	0.7	3.8	95.5
1991	0.7	4.0	95.3

Source: Taiwan Statistical Data Book 1992.

	1960	1971	1991
USA	11.5	41.7	29.3
Japan	37.7	11.9	12.1
NICs	18.6	11.8	21.1
Germany	2.0	4.2	5.1
Others	30.2	30.4	32.4

Source: Taiwan Statistical Data Book 1992.

	1960	1971	1991
USA	38.1	22.1	22.4
Japan	35.3	44.9	30.0
NICs	2.1	3.1	8.2
Germany	3.8	4.4	4.8
Australia	1.3	3.3	3.2
Others	19.4	22.2	31.4

Source: Taiwan Statistical Data Book 1992.

major problem is environmental degradation, which resulted from policies that pushed the country's rapid industrialization at the expense of environmental concerns.

Future Direction of Taiwan's Economic Development

These problems and the responses being undertaken by Taiwan's political and economic leadership point to the direction in which the Taiwanese economy is heading:

- a. *The shift from labor-intensive to high-technology, high value-added and skill-intensive industries and services.* This has resulted in the relocation of many labor-intensive industries, like the textile, garment and footwear industries offshore.

This is reflected by the sudden increase in Taiwanese direct investment flows in the late 1980s, particularly to the labor-surplus countries of Southeast Asia, as shown by Table 7.

However, there is still resistance from many labor-intensive Taiwanese firms, many of which are small and medium-scale enterprises, to relocate abroad. At the same time, there will still be an excess demand for manual laborers with the undertaking of major infrastructure projects in the next few years. Taiwan will have to resort to the importation of cheap labor from abroad, particularly from Southeast Asia and mainland China, in the short run.

- b. *Economic liberalization.* Taiwan has begun to undertake measures that will further liberalize its economy. One of the main objectives of this policy is to reduce Taiwan's trade surplus. Thus, effective tariff rates have been reduced from an average of 11.6 percent in 1979 to 3.5 percent today. Many non-tariff restrictions have been removed. In 1989, 98.4 percent of Taiwan's imports were already free of such restrictions.

	1983	1989
Singapore	325	1,354
Indonesia	219	568
Malaysia	351	566
Thailand	64	330
Philippines	75	210

Source: Direction of Trade Statistics.

Taiwan has also relaxed its restrictions on capital flows and the operations of firms. In response to American pressure, the Taiwanese authorities have allowed the currency to appreciate against the US dollar. The value of the US dollar has thus gone down from NT\$40.53 in 1985 to NT\$25.00 today. The Taiwanese currency has thus appreciated against the US dollar by about 62 percent during this period.

- c. *Diversification of export markets.* The trends during the period 1960-1991 have shown the increasing diversification of

Taiwan's trade relations, which at the beginning were highly focused on the US and Japan. The Taiwanese leadership is working towards enlarging the share of Europe, the other NICs and Southeast Asia in its total trade.

- d. *Modernization of the organizational infrastructure.* Taiwan needs to promote the transition of its firms from family-based firms to modern corporations. This is important especially in view of the need for Taiwan's firms to spend more on research and development and to have longer-term and more strategic business plans and strategies.
- e. *Increase in domestic consumer demand and investment in physical and human resources.* The Taiwanese leadership is now beginning to spend massively in infrastructure, environmental protection and social programs, which are supposed to help Taiwan make the jump to high technology and skill-intensive production. In 1991, Taiwan adopted a six-year development plan for infrastructure development worth about \$328 billion, and which includes the following:
 - (1) a high speed rail link between Taipei and Kaohsiung, worth \$17 billion;
 - (2) new highways, worth \$41 billion;
 - (3) telecommunications infrastructure, worth \$5.7 billion;
 - (4) energy and industrial projects, worth \$68 billion; and
 - (5) environmental protection schemes involving incinerators, waste water-treatment plants, advanced urban sewerage systems, worth \$11 billion.

With all of these steps, the Taiwanese government is aiming to raise Taiwan's per capita income to \$20,000 by the year 2000. By then, Taiwan would have become a fully industrialized society and accomplished the leap from a labor-intensive to a high-technology economy.

Future Prospects

Taiwan's economy is very likely to continue to be strong in the coming years, with relatively high-level growth. The massive government spending program is expected to result in some inflation, but given Taiwan's record in coping well with heavy inflationary pressures in the past, this can be maintained at manageable levels. Japan and the US will still be Taiwan's two largest trading partners, but Southeast Asia, with its rapidly growing economies, will become

increasingly important to Taiwan's economy. Taiwan can easily be an important market for manufactured exports from Southeast Asia and an important source of direct investment. It will also continue to offer opportunities for overseas employment at least within the next few years.

Mainland China has begun to draw more investments from Taiwan. Taiwanese firms' investments in the mainland are estimated to reach \$1.5 billion in 1992, up from an estimated \$400 million in 1989. However, the Taiwanese government is strongly discouraging firms from investing in the mainland. This has prevented many of Taiwan's larger companies to move across the straits, but could hardly stem the trend of smaller and medium-scale enterprises investing in China.

A reunification of mainland China and Taiwan will definitely divert Taiwanese investments and trade away from Southeast Asia. However, the political situation in the mainland and the renewed tensions resulting from the ongoing modernization of Taiwan's military dimmed reunification prospects even more for the foreseeable future. This gives Southeast Asia some more years to take advantage of Taiwanese firms' need to invest overseas, to import goods and to hire non-Chinese, low-cost labor.

Opportunities for the Philippines

The Philippines has lagged behind its ASEAN neighbors in tapping the Taiwanese market for its merchandise exports and in attracting Taiwanese investments, despite geographical proximity [Tables 12 and 13]. However, it has become a major destination for Filipino overseas contract workers, many of whom had stayed there

TABLE 12
TAIWAN'S DIRECT INVESTMENT IN
SOUTHEAST ASIAN COUNTRIES
In \$ million

	1986	1988	1990
Malaysia	4	3317	2,076
Indonesia	18	910	378
Thailand	1	109	248
Philippines	0	110	141

Source: International Centre for the Study of East Asian Development.

TABLE 13
TAIWANESE DIRECT INVESTMENTS IN THE PHILIPPINES
 As percentage of total direct investments

1986	0.4
1987	5.4
1988	23.3
1989	18.5
1990	23.3

Source: International Centre for the Study of East Asian Development.

illegally. Estimates based on the Taiwanese Office of Foreign Affairs records showed at least 10,000 Filipinos illegally staying in Taiwan in 1989.

The unstable political environment, peace and order problems, uncertainties about the direction of economic policies, infrastructure and energy problems and unfortunate political interventions in business affairs under the Aquino administration had led many Taiwanese firms to prefer other ASEAN countries, where the investment climate was perceived to be more favorable, as sites for their overseas investments. Nevertheless, Taiwan became one of the main sources of direct foreign investments for the Philippines during these years.

Developments during the last year of the Aquino administration and the election of Ramos to the presidency have encouraged most Taiwanese investors to take a second look at the Philippines. Better prospects for political stability, good macroeconomic management and liberalization policies have addressed most of the concerns of foreign investors in the country. Some problems in peace and order and infrastructure remain, but the investment climate has markedly improved.

The direction which Taiwan's economic development is taking widens many opportunities for the Philippines, which has the advantage of proximity, personal links between Taiwan and the Filipino-Chinese business community, and political and strategic importance to Taiwan. Given the right economic and foreign investment policies, an improved peace and order situation and aggressive promotion efforts, the Philippines could capture a large share of massive Taiwanese overseas investments, especially in labor-intensive manufacturing industries, that will flow out into Southeast Asia as a result of Taiwan's economic restructuring within the next few years.

The shift to high-technology, high value-added and skill-intensive industries and services and the increase in domestic consumer demand and investment in physical and human resources will also make Taiwan a large future market for consumer products, which Filipino and Philippine-based Taiwanese firms can exploit. The undertaking of large infrastructure projects in the next five years will also provide opportunities for temporary overseas employment to Filipino workers in Taiwan.

The prospects for the reunification of Taiwan with the mainland at some point in the future, though still unforeseeable, lend urgency to the task of harnessing the opportunities for expanding economic relations with Taiwan. By promoting such links with Taiwan now — when conditions are still favorable — the Philippines can begin building bridges that may connect with the large Chinese market that the next century might see emerging.