Mr Alter
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CONFIDENTIAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OFFICE MEMORANDUM

To: Staff Economic Committee Date: June 19, 1961

DECLASSIFIED

From: J. Froland

JUN 04 2025

Subject: The Economy of Taiwan

WBG ARCHIVES

The Staff Economic Committee met on Tuesday, June 13, 1961, to discuss a draft report entitled The Economy of Taiwan. It was explained that the report had been made in connection with possible IDA lending of altogether $15.8 million for groundwater development, harbor-dredging equipment, municipal water supply and industrial loans through the semi-public China Development Corporation.

Eligibility for IDA Lending

It was noted that the Taiwan economy had made creditable progress over the last decade. Gross national product has been rising considerably more rapidly than the rate of population growth, although foreign aid has remained at about the same absolute level. Considerable progress had been made towards financial stability. Exports had continued to grow and had become considerably more diversified.

The Committee therefore agreed that Taiwan offered a good opportunity for constructive IDA assistance, the more so since it would evidently supplement and not displace aid from the U.S. Government, which had indicated a readiness even to step up its contribution if a program for accelerated economic growth were effectively carried out.

The Committee accordingly felt that the positive reasons for providing IDA assistance to Taiwan might be more elaborated in paragraph 73 of the report and in paragraph 10 of the Summary and Conclusions.

Political Factors

In reply to a question by the Committee, the mission explained that in their opinion the friction between those having emigrated from the mainland and the original population of the island is decreasing as the immigrants' interests become identical with those of the original population of the island. It was explained that the local governments on Taiwan receive their power from the Central Government which mainly is made up of immigrants. They are also in the majority among the higher civil servants since, during the Japanese rule, any higher education aside from medicine and dentistry was discouraged. The mission expressed the opinion that little corruption was to be found on the island.

National Income and Production

The Committee noted that the figures given for GNP and per capita GNP in the table on page 2 seemed to imply a growth of population somewhat in excess of 3% p.a., and asked if the government had taken any steps to encourage population limitation. The mission explained that population data were based on civilian registration only, excluding the armed forces. These data indicate little change in the natural growth of the population, which exceeds 3% p.a., or immigration, which was an important element in the early fifties, has virtually ceased. The Committee was told that the government is undertaking to provide family planning instruction to the rural population, but the strong reliance on the family in Chinese society, as well as religious feelings, make definite government policy declaration politically difficult.

The Committee suggested that it be made clear to which time periods the percentage growth figures in paragraph 7 in the report refer.

In reply to a question by the Committee, the mission explained that unemployment statistics were unreliable, but that in their opinion little unemployment existed on Taiwan, although there is under-employment.

It was explained that a change from an index of cattle population to a meat index might have influenced the livestock index in the table on page 3. The Committee suggested that the apparent leveling off of the increase in total agricultural production during the last three years be explained more clearly in terms of the three successive bad rice crops in 1959 and the first half of 1960 as well as in terms of the difficulties experienced with the Ta Hsueh Shan forestry project. The Committee also was of the opinion that it should be made more clear in paragraph 10 of the report that the decline in sugar production had been deliberately brought about as an element in the policy to improve the competitive position of this industry and to make resources available for increased output of rice. In general the structural changes in agricultural production indicated in Table III should be brought out in the text of the report as well.

In reply to a question by the Committee, the mission explained that the land reform, contrary to experience in some countries had no initial negative effects on production because it involved merely a transfer of ownership from absentee landlords to tenants who were well educated and had been working without supervision.

It was observed that Table I seemed to indicate that the public share of total investment is increasing and has for some years been about as high as private capital formation. Since it appeared that government enterprises are concentrated in the field of public utilities and capital intensive industries, the Committee suggested that it be made clear that the rapid growth in private industry reported in paragraph 12 applied really to manufacturing industry.

In reply to a question by the Committee, the mission stated that the railways are running a deficit partly as a result of unrealistic rates for armed forces personnel and students, but that steps have been implemented to adjust rates so as to make the railways profitable. ICA has emphasized the development of railways and competition from road transport is no serious problem for the railways at present. It was observed that the report did not spell out clearly the high priority of the projects proposed for IDA lending, but the Committee felt that the priority of investments in the sectors in which IDA lending might take place was implied in large part in the economic report and that the technical reports would deal with the merits of the specific projects.

Internal Finance

The Committee suggested that the report explain that the cash deficits of the Public Enterprises in the table on page 8 included capital expenditure and thus do not necessarily imply that prices of the goods and services produced by these enterprises are subsidised. The Committee also suggested that paragraphs 24 and 27 should be changed to indicate that to the extent the removal of subsidies on supplies to the armed forces involved simply a transfer of expenses from public enterprises to the budget, no increase in total public expenditures was involved.

The Committee expressed some concern about the large increase in the government cash deficit in the first half of 1960/61 as compared with the corresponding period of 1959/60, particularly since the pay rises, which contributed to this deficit, were of a permanent character. While it was perhaps too early to conclude that a deterioration in public finances had taken place, the Committee thought that the report should mention the danger of renewed inflationary pressures arising from the government budget together with the possible further adjustments of prices to the previous devaluation of the currency. In this connection it was brought out that during 1960, when money supply increased 10%, the inflationary consequences of a large public sector deficit and an increase in net foreign assets were offset largely by a sharp rise in U.S. and counterpart deposits and a contraction in private credit. It was felt that it was undesirable to continue such severe restrictions on private credit; moreover the accumulation of U.S. aid funds probably would not continue at the 1960 rate.

External Finance and Economic Planning

It was explained that changes in the structure of foreign trade had made it difficult to construct reliable indexes of the terms of trade, though price changes had evidently been a factor in bringing about a decline in the relative importance of exports of agricultural products. The government was putting great emphasis on the development of private industrial enterprise and the promotion of industrial exports which had been facilitated by the favorable effect of devaluation on export prices. Both the overall growth and the diversification of exports that had taken place in the past justified the projections of exports.

It was noted that the balance of payments showed a sharp increase in receipts of private donations and private capital in 1958. This appeared to have been due in part to greater confidence in the economy following exchange reform, resulting in more foreign financing of imports, and in part to the incentive given by devaluation to use legal channels for remittances from overseas Chinese.

The Committee noted that the illustrative projection of GNP and savings over the next decade given in paragraph 70 of the report assumed that private consumption would go up as rapidly as GNP and that accordingly the increase in savings relative to GNP would be achieved only by holding the absolute amount devoted to defense stable. It suggested that the report should stress that strong efforts would be necessary to achieve results similar to those shown in illustrative projection.

External Debt

It was explained that the government services all foreign debt incurred after the arrival in Taiwan, and the Committee suggested that a paragraph be added to bring out this fact as well as the size of the serviced and non-serviced debt.

cc: Staff Loan Committee.

Staff Economic Committee: Messrs. de Wilde, Hoffman, Adler, Alter, Avramovic, Gilmartin, Kamarck, Larsen, Sadove and Weigel.

In Attendance: Messrs. Brakel, King, Thome, Tolley, van der Mel and Williams.