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FREE EXPORT ZONES IN THE REPUBLIC OF
CHINA

Robert W. Patterson

Army War College
Carlisle Barracks, Pennsylvania

15 December 1973

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by

Colonel Robert W. Patterson
Infantry

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ii.

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20. ABSTRACT (Continue on reverse side if necessary and identify by block number) The Republic of China is at a crossroad period in its long history. Recent actions taken by the United States to open the door to The Peoples Republic of China on the mainland coupled with the ouster of the Nationalist Chinese Government from the United Nations has raised a serious question of whether or not the Republic of China can continue to exert influence on the conduct of international affairs.		

Block 20 continued

This study surveys the past and current economic advancement accomplished on Taiwan and focuses attention on establishment of a unique arrangement of export zones to stimulate foreign investment and trade.

In addition to standard research methods, original source material was obtained through correspondence with officials of the Military Assistance Advisory Group and the Government of the Republic of China on Taiwan in 1973. Selection of this topic was prompted by the author's service in Taiwan from 1970 to 1972.

The study concludes that the economy on Taiwan is one of the most important factors upon which the Nationalists must capitalize if the Republic of China is to continue to maintain an important role in world affairs and particularly in the growth of free nations in the Far East.

The study further concludes that the export zone organization could well serve as a model to other countries having an energetic labor force and the desire to shift from a predominantly agricultural nation to one with a broader industrial base.

GLOSSARY OF TERMS, DEFINITIONS, AND ABBREVIATIONS

Export Processing Zone Administration (EPZA). The principal government agency, located in Taipei, responsible to coordinate at the national level, the affairs of the three export processing zones. Its director reports to the Minister of Economic Affairs.

Government of the Republic of China (GRC). A term used interchangeably with the ROC by some authors. It actually refers more properly to the government agencies as opposed to the Republic as a whole. See page vii for abbreviated organizational chart.

Hectare. The standard unit of land measurement used on Taiwan. One US acre = .4047 hectares. One square US mile = 259.0 hectares or 2.59 square kilometers.

Industrial Development and Investment Center (IDIC). A government agency of 40 persons which serves as the focal point in Taipei between potential foreign investors and contacts throughout Taiwan. It maintains a close relationship with the Overseas Chinese and Foreign Investment Commission, which is under the Ministry of Economic Affairs.

KEPZ. Kaohsiung Export Processing Zone. Located in the vicinity of the principal southwestern port city of Kaohsiung. See Map, page 24.

MOEA. Ministry of Economic Affairs. Ministry directly above the Export Processing Zone Administration in the government organizational structure. One of ten such ministries (e.g., Ministry of

National Defense) that report to and are supervised by the Executive Yuan.

National Assembly. The popularly elected governing body of the government. All provinces, to include those on the mainland, were represented when the seat of government was moved to Taiwan in 1949. Some modification to the internal organization and representation process in this assembly has taken place since that time.

Nationalist China (or Chinese). A term used interchangeably with ROC, intended to differentiate between the Communist governed Peoples Republic of China (PRC) on the mainland and the ROC.

New Taiwan Dollar (NT\$). Basic unit of currency in the Republic of China. Originally established in 1961 and evaluated as 40 NT\$ to one US dollar, it was devaluated in early 1973 to 38.4. For the purposes of this essay the 40 to 1 ratio will apply.

NEPZ. Nantze Export Processing Zone. Located inland and 20 km northeast of the port of Kaohsiung. See Map, page 24.

TEPZ. Taichung Export Processing Zone. Located in the center of Taiwan, inland and 9 km north of the principal city of Taichung. See Map, page 24.

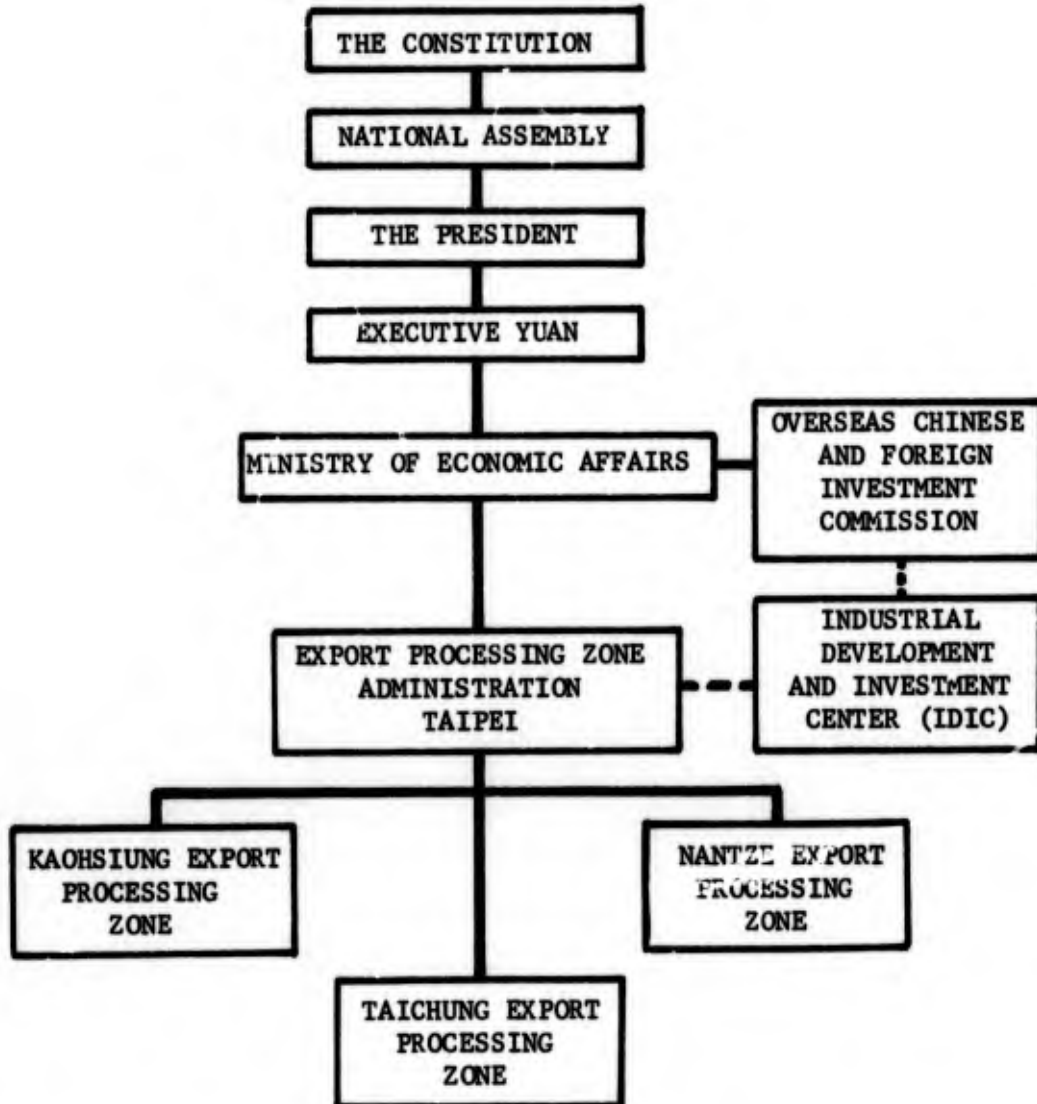
The Overseas Chinese and Foreign Investment Commission. A subordinate element of the Ministry of Economic Affairs. It is staffed with representatives of all governmental organizations and takes final approval authority on all foreign investment applications.

The Republic of China (ROC). The present government located on Taiwan, governed by Chiang Kai-shek, its current president.

The Republic dates from the Revolution of 1911 on the mainland and was founded by Dr. Sun Yat-sen. Taipei is the capital.

Yuan. The principal branches of the government through which the powers of government are exercised. There are five branches: Executive, Legislative, Judicial, Examination, and Control. These branches are above the various ministries and below the president and national assembly in the organization structure.

ABBREVIATED ORGANIZATIONAL CHART
REPUBLIC OF CHINA
TAIWAN



———— = Control and Supervision

- - - - - = Coordination

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INTRODUCTION

A nation's strength is measured in many ways regardless of its geographic size or population. Perhaps the most important way to gauge national strength is to examine basic factors such as military preparedness, political stability, social advances of the people, and its relations with its neighbors. The thread of economic stability and development winds its way through each of these factors and has considerable impact on each.

The survival of the Republic of China as a nation of influence in world affairs has been a subject of speculation, debate and, on the part of many, frustration during the past two years.

Present conditions in the Republic of China on Taiwan should be measured and applied to the continuing analysis of the above factors. The economic thread, its past success and opportunities for the future, is perhaps the most interesting and could serve as an example of what a nation can do to pull itself up by the bootstraps and emerge as a world influence despite a series of overwhelming political and military disasters.

Thus, the purpose of this paper is to examine some elements of the Nationalist Chinese economy with particular emphasis on one concept - the free export zone arrangement with friendly countries. Since economic strength impacts on political stability, a brief understanding of the recent political trends is in order.

As an assist to the reader, included is a list of terms and abbreviations used throughout the essay. Appropriate maps,

organizational charts and graphs are portrayed to gain a better appreciation of the economic development of this nation.

POLITICAL SURVIVAL

President Nixon's announcement in July 1971 concerning his intent to visit the Peoples Republic of China (PRC) in early 1972 came as a complete shock to the government and people of the Republic of China (ROC) on Taiwan. Disbelief, anger, and a feeling of uncertainty could well describe the feeling of the man on the street as well as high government officials, both those who came from the mainland in 1949 and natives of the province of Taiwan. The long standing U.S. support of the Nationalist government was in serious doubt.

Since the early 1930s the United States has had strong economic and, later, even stronger military ties with the ROC. Public sympathy and support for China was expressed at every major conference with our Allies during World War II. A mutual defense treaty to protect Taiwan from invasion was established after the government was forced to move to Taipei in 1949. Military and economic assistance was subsequently provided to the ROC in substantial amounts over the years. It now appeared that all this was to end in 1971, and the ROC would be abandoned by the United States and other nations in favor of expedient recognition of the Peoples Republic of China (PRC). Indeed, the subsequent ouster of the ROC and the seating of the PRC in the United Nations was a concrete demonstration to Taiwan that the long standing friendships and support of the free world had come to an end.

Although 1971 and 1972 were years of great concern to Nationalist China she behaved in a most calm and rational manner, truly a model of dignity to the other nations of the world that might be faced with a similar situation. The ROC did not experience a series of uprisings or exhibit a threatening behavior, but continued to express the national objective of full recovery of the mainland.

Perhaps the best summary of reactions to the Nixon visit is contained in the following extract report from one of our military elements in Taipei:

The initial reaction of the Government of the Republic of China (ROC) on Taiwan and its press to President Nixon's visit to China, particularly to the communique which President Nixon signed with Premier Chou, was anger, dismay, and alarm. While the Government was more restricted in castigating President Nixon's visit to China and the contents of the Nixon-Chou communique, the press bitterly denounced what it called US betrayal of Nationalist China, and asserted that President Nixon's 'appeasement' of the Communist Chinese would only bring harm to the free world, including the US itself.

Official statements of the Nationalist Government on the Nixon-Chou communique repeatedly stressed that the ROC Government considers 'null and void' any agreement reached between the US and the Communist rebel regime that involves rights and interests of the ROC Government and people. Both the Government and the press emphasized that the basic national policy to recover the Chinese mainland remained unchanged.

Echoing the Government's admonition that the people should, in the words of President Chiang, 'continue to strengthen ourselves through calmness and dignity as well as to keep the destiny in our hands,' the press expressed support for the Government's adoption of a 'pragmatic' and 'flexible' foreign policy, and urged that the Government fully mobilize Taiwan's economic resources in international trade,

economic cooperation, and technical assistance to crush Chinese Communist attempts to isolate the ROC.

The tone of press comments underwent a change following the series of assurances and clarifications the PRC Government received from high-ranking US officials, including President Nixon, Secretary Rogers, and Assistant Secretary of State Marshall Green, who traveled to Taipei in early March to explain to Nationalist leaders the Nixon-Chou talks. The ROC Government and the people on Taiwan appeared to have recovered from the impact of the initial shock and felt somewhat relieved. However, the emphasis on 'self-reliance' and 'pragmatic diplomacy' continued to underline official statements and press components.¹

By November 1972 the ROC was in a less than influential position from a diplomatic standpoint. The scoreboard of recognition by other nations looked like this:

Number of governments recognizing Taiwan before the Nixon announcement, including the US and Japan	63
Number of governments recognizing the PRC before the Nixon announcement	54
Number of governments recognizing Taiwan in November 1972, including the US	48
Number of governments recognizing the PRC in November 1972, including Japan	82 ²

The major disaster appeared to be the fact that Japan had severed her diplomatic relations with the ROC in favor of the PRC. This move presented obvious and serious economic considerations for the ROC.

Survival was indeed the mood on Taiwan in late 1972. Predictions from government officials ranged from forced optimism

to open, if privately expressed, pessimism. Most government officials agreed that Taiwan had three options:

Capitulate to the Communists by reaching an accord with the PRC through discussions as suggested by the Nixon/Chou En-Lai meeting.

Establish Taiwan as a separate sovereign state with no ties to mainland China.

Continue the status quo, claiming to be the sole legitimate government of all China and maintaining the policy of returning one day to the mainland.³

Regardless of which course is ultimately followed, the current and projected economic situation on Taiwan cannot be ignored and may have a considerable influence on the political course of action to be pursued by the ROC. Taiwan can and should capitalize on many of its assets in the immediate future.

An energetic nation of approximately 15 million, composed of 13 million Taiwanese and 2 million mainland Chinese, can exert a great deal of influence in Asiatic-Pacific affairs, and given a better opportunity, can continue to make a contribution to the mutual efforts of the free world societies in the search for peace. How? Through its economic and foreign trade efforts, capitalizing on the strong thread of economic progress accomplished in recent years.

Mr. Henry Kearns, President and Chairman of the Export-Import Bank of the United States, supported this forecast during testimony before the Asian and Pacific Affairs Subcommittee of the Committee on Foreign Affairs of the U.S. House of Representatives on 25 July 1973. He said:

The problems facing the Republic of China are: its limited size geographically, and its dependence upon imported primary products, possible political difficulties, and a reduction in its international association with the rest of the world.

Its assets appear to be, among other things, the quality of its economic leadership; a strong, well disciplined, active, energetic, resourceful labor force; excellent cooperation and coordination among the various elements of the country; superb money management; excellent marketing ability, including maintenance of quality and expansive effort, the modest income and standard of living of its leaders; and a generally favorable location on the trade routes of the world. Even with a growing economy and substantial reserves, it is evident that financing is essential in the continuing growth of Taiwan's economy. All industries private or public, are expected to proceed on a pay-as-you-earn basis.⁴

We can tentatively conclude that Taiwan will continue to stress economic development to offset the political reverses. Any accord with the PRC appears to be many years away; while the economic growth can continue, provided other countries continue to show an interest in doing business on this relatively small Asian Island.

TERMINATION OF UNITED STATES ECONOMIC AID STIMULATES GROWTH

From 1951 to 1960 the main emphasis was on development of agricultural resources. The major accomplishment during this period was the Land Reform Program instituted and closely supervised by President Chaing Kai-shek.

The key to the past success of the economic development on Taiwan was that the government placed emphasis first on land reform, improvement of farming methods, development of physical and social infrastructure, achieving price stability, making judicious use of US aid, and paying attention to people oriented industries, not heavy status symbols such as steel mills and nuclear plants.

The ROC government learned a lesson from mainland history where for centuries, the land was owned by a few landlords and worked by tenant farmers. President Chaing set out to correct this and meet the basic needs of the people first - food, clothing, and manufacturing of items needed to support households.

One of President Chaing's most able economic planners, Mr. C.K. Yen,⁵ best stated the objectives when he said:

We carried out the rural land reform program in three stages, giving the people the title to the land they till. We have launched four successive four-year economic plans, starting with light and consumer goods industries on the basis of our agricultural success and moving only selectively into heavy industry....

Since the nineteenth century, as far as international balance of payment was concerned,

China as a whole has never had a year with more exports than imports. But we turned back that tide in Taiwan in 1965, the year when US economic aid came to an end.⁶

The Land to the Tiller Program was launched in 1953. Landlords who held more than 3 hectares of land were required to sell excess land to the government who in turn sold these lands to tenant farmers under a 10 year installment payment plan. The program has benefited nearly half a million farm families.⁷

The change in percentage of owner cultivated lands between 1949 and 1971 is rather dramatic as shown here:

	<u>1949</u>	<u>1971</u>
Tenanted Lands	41%	14%
Owner Cultivated Lands	59%	86% ⁸

The agriculture success was attributed to proper and sound use of US aid dollars and joint development of plans between the two countries. Agriculture was the backbone of the economy but in 1955 resources approached full utilization.

The fact that US economic aid to Taiwan was successful, well planned and terminated at the proper time is a matter of historical record. The matter of how and when to terminate US aid was a difficult one requiring detailed analysis of growth estimates and projections. The initial evaluation was started in 1960 and progressed through 1962. United States officials in Taiwan felt that aid could be terminated without endangering Taiwan's economy by mid-1966. The first public announcement came from the U.S. Agency for International Development Administrator, David E. Bell,

in Taipei in 1963 when he said US aid could end "in three to five years."⁹ Nevertheless, a decision to end aid on a definite date was not announced because of lingering doubts in Washington.

The announcement was finally made in May 1964 to terminate all economic aid effective 30 June 1965.¹⁰

All of this meant that, for the first time, the ROC was really on its own from an economic standpoint. The decision proved to be a sound one from the viewpoint of the United States as supported by some statistics concerning the Gross National Product.

The Taiwan GNP increased at the rate of 7% per year during the period 1953, which launched the first 4 year plan, to 1961. Industrial production rose 120% and manufacturing exports expanded by a factor of 140 during this same period.¹¹ During the period 1961-1970, the GNP grew at the rate of 9.6% per year and in 1971 by an astounding rate of 11.4%.¹²

In order to accomplish this growth a basic decision to shift emphasis from an agricultural economy had to be made. By 1965, Taiwan had both benefits of high levels of foreign aid and the problems associated with their profitable absorption. It was obvious that new foreign markets or development of internal industry was the only answer.

The decision to shift to an industrial base was also influenced by the need to employ more people. As farms became more efficient and mechanized to some extent, jobs had to be found for those workers who decided to leave the agricultural scene to seek higher pay and develop other skills.

The change in economic structure in the ROC in terms of total employment shows that industry is taking over as the backbone of the national economy as shown below:

<u>1952</u>		<u>1971</u>
18%	Industry	34%
36%	Agriculture	18%
<u>46%</u> 100%	Others	<u>48%</u> ¹³ 100%

The US played no small role in influencing and encouraging the ROC to make this shift. One outgrowth of the decision to energize the industrial concept was the establishment of the export zone concept. The first zone at Kaohsiung became operational in 1966, one year after the termination of US aid.

EXPORT ZONES, A NEW CONCEPT

About six months before the official termination of US economic aid (July 1965), the ROC government finalized a master plan to encourage foreign investment in industrial type activities. As previously stated, this was a major shift from emphasis on agricultural development and attested to the success of the joint US-ROC economic planning started in 1950-51.

One of the principal commodities on which the ROC could capitalize was labor; skilled and unskilled. The problem was rather simple: the ROC needed foreign investment and had available manpower and limited land areas that could be reserved for industrial expansion.

This was a pioneer project. Although there are many free trade zones located throughout the world, none of them feature the combination of an industrial park or manufacturing area and the free export zone in the same controlled area.

Two outstanding Chinese engineers headed the original planning group. They were Mr. K.T. Lee, the current Minister of Finance, and Mr. S.Y. Dao, the late Minister of Economic Affairs.¹⁴

The first step was the establishment of a central administrative agency to coordinate foreign investment activities and plan for the development of special production zones within the country. The Ministry of Economic Affairs was assigned this task, and it created three principal agencies.

Established first was the Overseas Chinese and Foreign Investment Commission whose principal mission is to take final, coordinated government action on all foreign investment applications. Next, the Industrial Development Investment Center (IDIC) was organized in Taipei to act as a bridge between the ROC government and foreign corporations to provide information, promotional literature and advice. The third element created was the Export Zone Processing Administration (EZPA) to coordinate the operations of the first zone, to be established at the port city of Kaohsiung.

Although applications by foreign investors are submitted directly to the EZPA, the IDIC has played an active role in the establishment and growth of these zones.

The major reason necessitating establishment of these agencies was to pull together all governmental elements, cut red tape and provide speedy review and approval to foreign customers desiring to establish operations on Taiwan. The results are highly effective, for it now takes only 30 days or less from the time a foreign company makes initial application to operate in a zone until approval is granted by the government.

Three sources of financing were initially made available. First, appropriations by the ROC government; second, funds generated from the Sino-American sale of excess agricultural products (when US aid was in effect) as well as US grants; and finally, loans from private banks.

Thus, there were four principal objectives established in planning these industrial park-export zones. These objectives were to:

1. encourage new industrial investment.
2. promote foreign trade.
3. introduce modern industrial techniques.
4. create job opportunities.

Such an undertaking could be successful from the outset only if there was a friendly political and social climate. Foreign investors had to be assured of a spirit of cooperation, not hostility, and certainly would not agree to do business in a country that was supporting insurgency in neighboring states. The Republic of China recognized the importance of this factor and has continually encouraged contacts with friendly foreign nations on a worldwide scale. Indeed, Taiwan has the open, friendly atmosphere necessary for economic stability and increasing world trade.

MAJOR FEATURES OF EXPORT ZONE OPERATIONS

Incentives

A number of investment cost incentives and regulations which now make it attractive to do business in Taiwan have been established. Although foreign corporations conduct operations in various locations throughout the entire country, activities concentrated in three export zones contribute the most to all parties concerned and provide the launching platform for continued economic growth and prosperity of the people.

Labor Rates

The law requires payment of 600 NT\$ per month as the minimum wage for each person. At the 1971 rate this equates to fifteen US dollars per month for 8 hours of work, 6 days per week. The 1971 monthly wage scales for laborers in the export zones were:

Unskilled males	800-1200 NT\$
Unskilled females	700-900 NT\$
Skilled males	1500-2000 NT\$
Skilled females	1200-1800 NT\$

Bonuses and overtime compensation are provided by agreement with individual investors. A low labor force turnover rate of 5% is most attractive. Annual leave authorizations provided

by law are much more favorable to the employer than in Western nations as shown here:

<u>Years of Service</u>	<u>Days Granted</u>
1-3	7
3-5	10
5-10	14

Each year beyond 10, one additional day (30 days maximum)

Restriction on Products

Only certain products may be manufactured in the export zones as shown on the chart on page 18. This restriction is established to protect export industries located elsewhere on Taiwan outside the zones. A certain number of products manufactured outside the zones are allowed to enter the Taiwan market, but raw materials entering the zones and finished products going out of the zones are for export purposes only.

Private enterprises flourish throughout Taiwan indicating continuation of a free market economy to meet the basic needs of the people. As the per capita income increases, luxury goods appear on the store shelves in greater numbers. Thus we can conclude that these restrictions do not damage the economy but strengthen it.

List of Foreign Investors

Every month a great number of foreign firms send representatives to Taiwan to explore the business opportunities available.

Taiwan now competes with Hong Kong, Guam, Japan, Bangkok, and Singapore as a tourist and commercial center in the Far East.

Indicative of the great interest in Taiwan investment despite political setbacks is the chart of partial overseas investors as of 1973 as shown on page 19 thru 21.

Note that Japanese investment and interest continues, despite the severance of diplomatic relations between the two countries. This is a unique arrangement indeed considering the attitude voiced by the ROC towards any country that extends diplomatic recognition to its age old enemy on the mainland.

This trade arrangement is accomplished through the ROC East Asian Association, established in Japan to handle trade, cultural, and travel affairs for the people of the two countries. The Interchange Association of Japan has established similar offices in Taipei. Perhaps this is a strong indication that economic motives will someday be so powerful as to outweigh political or military elements of power existing between nations with divergent forms of government.

Foreign Products Permitted to be Manufactured on Taiwan

1. Precision machinery and instruments
2. Electronic products and components
3. Optical products
4. Metal products
5. Plastic products
6. Machinery
7. Furniture
8. Handicraft products
9. Electrical appliances and products
10. Rubber products
11. Chemical products
12. Printed matter
13. Cosmetics
14. Leather products (except tannery)
15. Paper containers
16. Toys
17. Yachts
18. Knitted and woven goods (non-cotton)
19. Garments (non-cotton)¹⁵

Partial Listing of Overseas Investors in Taiwan
as of February 1973

American Investors:

Admiral Corporation (radios, TV sets, phonograph chassis)
American Cyanamid Company (pharmaceuticals, feeds)
Ampex Corporation (memory planes)
Atlas Chemical Industries Inc. (dynamite)
The Bendix Corporation (radios)
Bulova Watch Company (watch cases)
Cornall-Dubilier Electric Corporation (capacitors)
Corning Glass Works (electronic TV bulbs)
Eli Lilly & Company (pharmaceuticals)
General Instrument Corporation (electronic components)
Gulf Oil Corporation (lubricants)
IBM Corporation (memory planes, punched cards)
Mattel Inc. (toys)
Minnesota Mining & Manufacturing Company (industrial &
electric tape & ribbon)
Motorola International Development Corporation (electronic
components, TV sets)
National Distillers & Chemical Corporation (polyethylene)
Parks Davis & Company (pharmaceuticals)
Pfizer Pharmaceuticals Corporation (pharmaceuticals)
Philco Corporation (radios, TV sets, phonographs)
RCA (memory planes, IC, TV sets)
Singer Manufacturing Company (sewing machines)

Sprague Electric Company (capacitors)

Texas Instruments Inc. (electronic components, IC)

TRW Inc. (capacitors, IFT, coils)

U.S. Time Corporation (watches & components)

World Tableware Corporation (stainless steel tableware)

Zenith International Inc. (TV sets)

Ford Motor Company (vehicles, parts & components)

Goodyear Tire & Rubber Company

Japanese Investors:

Asahi Chemical Industry Company, Ltd. (synthetic fiber)

Canon Inc. (camera, electric table calculators)

Hitachi Ltd, (electronic tubes, TV sets)

Janome Sewing Machine Company, Ltd. (sewing machines)

Matsushita Electric Industries Company, Ltd. (electrical appliances)

Mitsubishi Electric Corporation (fluorescent lamp, transformers)

Mitsumi Electric Company, Ltd, (electronic components)

Mitsubishi Rayon Company, Ltd. (synthetic fiber)

Nippon Electric Company, Ltd. (communication equipment)

Nippon Felt Company, Ltd. (felt for making paper)

Nippon Gakki Company, Ltd. (musical instruments)

Okai Electric Industry Company, Ltd. (communication equipment)

Ricoh Company, Ltd. (cameras, photostat machines)

Sanyo Electric Company, Ltd (electrical appliances)

Sharp Corporation (TV sets)

Takeda Chemical Industries Ltd (pharmaceuticals)

Teijin Ltd. (synthetic fiber)

TDK Electronics Corporation (electronic components)

Tokyo Shibaura Electric Company, Ltd. (transformers,
fluorescent lamps)

Toray Industries Inc. (synthetic fiber)

Toyo Bearing Manufacturing Company, Ltd. (ball bearings)

Unitika Ltd. (fiber)

European and other Investors:

Bauer & Sun Optical Company, Ltd. (camera lense, camera
parts)

Farbwerke Hoechst Aktiengesellschaft Vormals Meister
Lucius & Brunign (pharmaceuticals)

German Development Corporation (pharmaceuticals)

N.V. Philips (electronics)

Triumph International Overseas Ltd. (brassieres,
pantygirdles, corselets)

The Titan Manufacturing Company Pty, Ltd. (tungsten
carbide tools)¹⁶

Customs and Taxes

Liberal customs arrangement provide for exemption of duties on raw materials, parts and machinery, and export of the finished products from the zones. There is no sales tax on exported goods, no commodity tax and a five year tax exemption on corporate income tax.

Perhaps the most attractive feature of conducting business in these zones is a one stop processing of applications and follow-on administrative requirements. A foreign company need only apply to the Export Zone Processing Administration in Taipei, for review and approval. Import and export licensing, foreign exchange settlements, company registration, and custom clearances are all handled in a timely and expeditious manner.

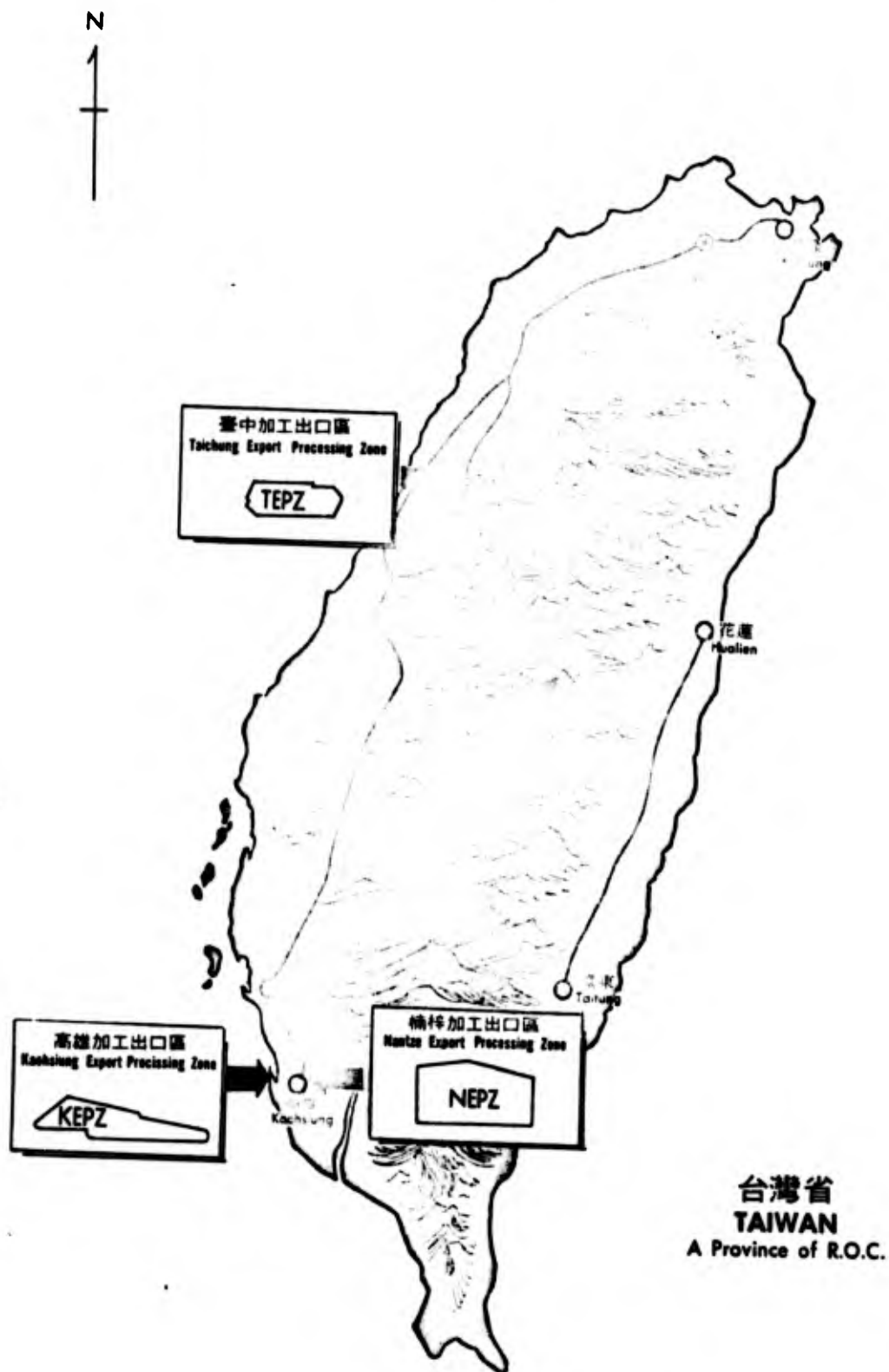
Facilities

The prospective investor has two options with respect to facilities. They may choose to occupy and purchase a previously constructed standard 2 or 3 story factory building or they may lease a parcel of land and construct their own factory building, subject to government specifications. Bank loans of up to 70% of the purchase price or construction costs are available on a 10 year installment payment arrangement. Five percent of purchase price of the government constructed building or one year's advance rental if land lease is desired is required at time of application. Refund is made if the application is denied. Complete facilities

for warehousing, utilities and transportation services are provided in each zone.

A map showing locations of the three export zones is shown on page 24.

加工出口區地理位置
Geographical Location of Export Processing Zones



KAOHSIUNG EXPORT ZONE

This was the first of three zones to be established, and it held its inauguration in December 1966. As is true of the others, the principal mission of the zone is to support export oriented industries.

It is located on 68.5 hectares (169 acres) of land which was reclaimed from the bottom of the Kaohsiung Harbor. There are presently 22 three storied concrete factory buildings constructed by the ROC. The entire plot is surrounded by high walls with four entrances closely supervised by customs and security officials.

One unique feature of this and the other zone is that it is a self-contained city within a city. Banks, post offices, utility companies, airline offices, telephone and telegraph (telex) companies, dispensaries, clinics, recreation areas, and dormitories for men and women are all located within the walls. A unique approach to the "home to work" transportation problem is illustrated by the two modern buildings which provides accommodations for 2500 single women.

The proximity of this zone to the harbor which handles two thirds of all import and export commodities of the island, makes this area highly desirable for foreign investment. An international airport to the south of the city was recently opened and will undoubtedly have a favorable impact on continued interest in this zone.

By 1969 the capacity of the zone was so oversubscribed that a decision was made to expand this concept to Nantze and Taichung. As of 1973, 161 of the 163 enterprises approved for Kaohsiung are in operation.

NANTZE EXPORT ZONE

This zone is similarly located near Kaohsiung City with its excellent harbor and international airport. The property is composed of 114 hectares of land (284 acres) and is the largest of the three zones. The land was formerly owned by the Taiwan Sugar Corporation, a government enterprise.

Construction was started in May 1969 and completed in April 1970. This is an example of the remarkable energy put forth by the Chinese to complete a project. Their will to do the job properly is one of the secrets of economic success enjoyed by an ambitious society on Taiwan.

As of 1972, 17 of the 32 projected enterprises are in operation.

TAICHUNG EXPORT ZONE

Construction was started in August of 1969 and completed in November 1971. This is the smallest of the three zones located on 23.8 hectares of land (58 acres) near the major city of Taichung in the middle of the island, close to the west coast on land formerly belonging to the Taiwan Sugar Corporation.

Although no major port has been established near Taichung, a long range plan has been established and construction started to provide an excellent deep water port near the mouth of the Ta-Tu River and near the town of Wu-Chi by 1982. The ambitious plan calls for a total of 32 deep water berths with a handling capacity of 12 million tons annually. This is yet another example of the internal efforts of the Nationalist government to help themselves and thus become self-sufficient. This new port will take some of the load from the two overtaxed ports of Keelung, in the north, and Kaohsiung, in the south, and will open the entire middle of the island to lower cost, direct shipping from the west coast.

As can be seen from the map on page 24, the TEPZ is located a considerable distance from existing harbors and airports as indicated.

Keelung (north port) - 199 km

Taipei (north airport) - 170 km

Kaohsiung (south port and airport) - 232 km

It was expected that this might pose some problems in the transport of tax free raw materials and products. A system of bonded, sealed and, where necessary, escorted trucks, is used to overcome this situation. Thus, this type of industrial park-free trade zone operation can be operated practically anywhere where there is a sufficient labor force and suitable land.

As of 1971, twelve enterprises were approved and six were in operation.

PROGRESS OF THE EXPORT ZONES

The chart on page 33 clearly shows that the objectives established at the termination of US economic aid for development of the processing zones have been met, are on target, or, in some cases, far exceeded expectations.

One particularly interesting figure shows that the Kaohsiung Export Zone now employs 49,000 people as compared with the original estimate of 15,000. About 40,000 of the 49,000 employees are women.¹⁷ This has expanded the use of manpower resources on Taiwan and, of course, has significant positive impact on social advances as women become available to fill higher managerial openings. What this means in reality is that a great number of people, some of whom would otherwise be unemployed, have been put to work. They have gained a new skill, and helped Taiwan to progress from a primarily agricultural economy to an industrially oriented society. Since agricultural products still contribute to export income and food is plentiful for on-island consumption, a proper balance has been achieved.

Foreign investments rose from a mere \$2.5 million US per year in the 1950s to \$126.7 million in 1972.¹⁸

During 1952-72 the total number of overseas capital investment projects approved by the ROC were 1,584. Total capitalized investment was 848.8 million US dollars as follows:

ELEMENT (COUNTRY)	APPLICATIONS (CASES)	US DOLLARS
Overseas Chinese	901	227.3
US	191	323.2
Japanese	430	109.2
Others	<u>62</u>	<u>189.1</u> ¹⁹
TOTALS	584	848.8

Mr. William Morell, former US Counsellor for Economic Affairs, U.S. Embassy, Taipei, noted in early 1973 that the US considers Taiwan an important and increasingly attractive area of opportunity for American business. It was further announced that by 1975 the total amount of US investment capital made by private American investors would exceed half a billion US dollars.

Finally, success of this project is further indicated by the fact that Korea and the Philippines have recently established export zones. As expected, many visitors each year to Taiwan leave impressed with the progress and operation of this pioneer effort. South Vietnam, Indonesia, Thailand, Panama, Nigeria and other South American countries have sought technical advice from the ROC on planning, construction and operation of the export zones.²⁰

The unavoidable conclusion is that this project has had a considerable influence on the economic growth of Taiwan and has

contributed to the advancement of international affairs and understanding.

Export Processing Zones
Progress vs Scheduled Development
as of September 1972

Designation	No of Enterprises			Annual Sales*			No of Employees**		
	1	2	3	1	2	3	1	2	3
KEPZ	120	163	156	72	34	32	15	60.0	49.0
NEPZ	200	32	17	120	68	37	40	13.5	4.6
TEPZ	50	14	12	30	61	59	10	7.8	3.2
TOTALS	170	209	185	222	163	128	65	81.3	56.8

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Column 1 - Projected

Column 2 - Approved

Column 3 - In operation as of September 1972

* In millions of U.S. dollars

** In thousands

ECONOMIC PROGRESS COMPARISON WITH THE PEOPLES REPUBLIC OF CHINA

It is very difficult at this time to properly assess the true economic development of the Peoples Republic of China on the mainland and compare it to other nations of similar size and population. Population alone negates any true comparison, for no other nation has 800+ million people to clothe, feed, house, employ, educate or bury.

Yet one known factor, that of per capita income, can be used as one significant gauge of progress. The PRC per capita per year income in 1969 was \$140.00 US while the ROC figures for 1972 was \$372.00 US; almost double, as shown by the chart on page 36. This chart also indicates that the ROC can be justly proud of its development in comparison with other Asian nations.

During the time that the ROC has been so successful with development of a free enterprise system, the PRC has suffered a series of economic setbacks brought on by a combination of mismanagement at the governmental level, natural disasters, and a relatively closed but well disciplined society.

One other factor which caused some difficulty to the PRC was its policy to pursue both agricultural and heavy industrial expansion at the same time. As previously discussed, the ROC elected not to do this and appears to have better control of the economy because of this decision.

In the past, the PRC was a closed society and all indications were that they did not intend to rely on assistance or encouragement from abroad, particularly after the termination of Russian economic aid and accompanying advisers. As previously discussed the ROC recognized much earlier, that economic advancement was dependent on an open, friendly society to encourage foreign investment.

Even with this self-imposed restriction on outside contacts the Communist leaders were able to establish a real nuclear weapons capability and thus pose a threat to other nations.

In 1973 we see some admission that the PRC cannot go it alone. In fact, Premier Chou En-lai was reported to have stated in 1972 to Alain Peyrefitte, head of a French parliamentary delegation, that it would take the PRC at least a hundred years to catch up with industrially advanced countries.²³

While there has been steady economic progress in the PRC over the past 20 years despite the problems created by the "Great Leap Forward" and the "Cultural Revolution," with a steady increase of the GNP to about 10% in 1970-71, the fact remains the PRC now requires considerable outside help to assist in technological, industrial and agricultural development.²⁴

One fact which may not be apparent to everyone is both the ROC and PRC have well disciplined population. The obvious difference is one has prospered under a free enterprise society and economy which has encouraged foreign contacts, while the

other has floundered in a closed society. It will be interesting to see which program survives in the future, for the ethnic background and will of the people of both societies is the same.

For the future we can expect to see the PRC opening its door to more foreign trade fairs and encouraging more countries, including the United States, to assist in its economic development. This is a rather strange situation where the United States, a "capitalist nation," now offers trade and technical assistance to a Communist controlled nation possessing a nuclear weapons capability. This fact suggests, once again, that two divergent societies can develop along parallel routes, provided the military and political balance is maintained.

In comparison to the economic development on Taiwan, the PRC is, by its own recent admissions and actions, far behind.

Per Capita Income Comparison

<u>Country</u>	<u>Population</u>	<u>U.S. Dollars</u>
US	204 million	\$4,530.00
USSR	242 million	2,090.00
Japan	103 million	2,230.00
India	538 million	80.00
PRC	836 million	140.00
Thailand	39 million	174.00
Philippines	40 million	266.00
Korea	33 million	258.00
ROC	15 million	372.00 ²⁵

CONCLUSIONS

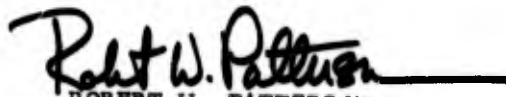
We can conclude that US economic aid to the ROC has been a success and Taiwan is now able to stand as a model of the free enterprise system to other Asian nations.

The pioneer export zone concept developed on Taiwan is unique and played a major role in furthering the peaceful development and trade goals since 1965. All of this has been accomplished despite severe political adversities in recent years. This exemplifies the iron will and determination of an energetic society to overcome all obstacles and remain an influential member of the world community.

Since the United States and the PRC have entered a new era of understanding and relationship, the progress of Taiwan should serve to strengthen the peace and stability of Asia. Considering the economic grant aid and other programs to Taiwan was a success, perhaps we can hope for similar results in years ahead in the PRC, if for different reasons. Grant aid by the United States has not yet been proposed and it would appear that this would not be a proper course for us to follow with the PRC. The PRC could well follow the excellent example of attaining self sufficiency set by the ROC and consider the establishment of the export zone concept to stimulate foreign investment at the appropriate time. This can be done if the PRC is willing to truly establish a non-hostile political and social society operating in a climate of good will toward its neighbors and the rest of the free world.

The sound economic condition of Taiwan will play a major role in determining the future courses of action open to the Government of the Republic of China. Past success such as the Free Export Zone project stand as a monument to the ingenuity of a strong government supported by energetic, free people.

Taiwan remains one of freedom's true Allies in the Pacific and perhaps our best friend in these tenuous and uncertain times.


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FOOTNOTES

1. Department of the Army, Headquarters 7th Psychological Operations Group, Psyop Intelligence Special Report, Reaction in the Republic of China on Taiwan to President Nixon's Visit to China, p. 2.

2. Richard Halloran, "Taipei Officials Describe Their Main Concern Now As Survival," New York Times, 6 November 1972, p. 22.

3. Ibid.

4. "American Policy Toward China," Background on China, 6 August 1973, p. 3.

5. Also Vice President and Prime Minister (Premier) until 1972 when the duties of Prime Minister were assumed by Chaing Ching-kuo, President Chaing's eldest son. Mr. Yen is highly respected in international economic and political circles.

6. K. S. Yum, Successful Economic Development of the Republic of China, p. 13.

7. Council for International Economic Cooperation and Development, Republic of China, Economic Progress in the Republic of China, p. 12. (Hereafter referred to as CIECD.)

8. Ibid., p. 15.

9. Neil H. Jacoby, U.S. Aid to Taiwan, p. 228.

10. Ibid., p. 230.

11. Irma Adleman, Taiwan - A Case Study in Successful Economic Development, p. 1.

12. CIECD, Economic Progress and Investment Climate in the Republic of China, p. 2.

13. Ibid., p. 7.

14. C. O. Kuo and LTC C. F. Ball, Jr., Taiwan Export Zone Processing Administration and MAAG China, letter to author, 27 October 1973.

15. EPZA, MOEA, EPZ Introduction, p. 11.

16. IDIC, IDIC Stands for Services to Investors in Taiwan, Republic of China, p. 5.

17. EPZA, Briefing on the Export Processing Zones in the Republic of China, p. 61.

18. IDIC, p. 1.

19. Ibid, p. 2.

20. C. O. Kuo and LTC Ball.

21. Taiwan Industrial Panorama, p. 4.

22. EPZA, MOEA, EPZ Introduction, p. 2.

23. C. L. Sulzberger, "China Trying to Catch Up," Kansas City Times, p. 18D.

24. LTC N. H. Marshall, et al, To Determine the Capability of the Peoples Republic of China (PRC) to Counter Japanese Influence in South, South-East and East Asia in the Period 1973-80, p. 74.

25. Central Intelligence Agency, Peoples Republic of China Atlas, p. 72.

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International Bank for Reconstruction and Development, World Bank Atlas, pp 2-3.

(All are 1969 figures with the exception of the last four countries which reflect 1972 data.)

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