

Committee IV
Developmental Experiences in East Asia
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Discussion Paper

by

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on

John C. H. Fei's

ECONOMIC DEVELOPMENT OF TAIWAN (1950 - 1980)

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Discussion on J.C.H. Fei's
Economic Development of Taiwan (1950-1980)

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1. Professor Fei masterly explained the 30 years development of Taiwan after the World War Two, applying his growth typology framework in which a labor surplus, open dualistic economy develops through three transition phases to the Modern Economic Growth: Import Substitution (IS), External Orientation (EO) and Technology Orientation (TO) Phases. Taiwan's successful shift from the IS to EO phase is elaborated in detail as well as its control of inflation under high interest rate, its achievement of full employment through export expansion and improvement of income distribution. Taiwan's affinity to South Korea is frequently pointed out and their differences from the Latin American counterparts are implied.

2. Changes in policy manieuvre by the government are highlighted between the IS and EO phases. While the IS is "a process manipulated by a centralized political power," which "artificially augments the profits of the domestic entrepreneural class in new industrial activities, the EO requires the efficiency improvement in new industries under competition both at world and liberalized domestic markets.

Unlike the Asian NICs, Latin American countries have stayed in the IS phase but failed to shift to the EO phase partly because they are not driven to do so with their rich resource endowments ("desperation thesis"). I expect it may invite an inter-disciplinary discussion by non-economist participants.

Distinct changes in the governmental role between the IS and EO phases, however, seem to have been strengthened since World War Two. Japanese development before World War Two shares the same family affinity with Korea and Taiwan, due to their cultural and geographical proximity.⁽¹⁾ Japan terminated her IS phase around 1900 and achieved export expansion for the next 20-40 years (both mainly in textiles). Since Japan achieved the IS under competitive pressure without tariff protection due to the lack of tariff autonomy, the shift to EO was realized smoothly without significant policy changes. Increased governmental intervention after World War Two has certainly accelerated their growth rates in some developing countries but distorted the development process in others.

3. I do agree that the education - and hardwork - oriented populations and honest and efficient governments have contributed to the rapid growth of the Asian NICs. But I would like to emphasize as well the contributions of such an exogenous factor as the unprecedented global prosperity.⁽²⁾ Both Taiwan and Korea could switch from IS to EO successfully in the early 1960's under the global prosperity. Both could achieve rapid export expansion abroad, resolve unemployment at home and continue their growth through the 1970's. They have been lucky in this sense, although they were smart enough to take full advantage of this exogenous condition.

This exogenous factor, however, has a few implications.

(1) The exogenous atmosphere may turn adversely as it has happened since the last year. The Asian NICs' exports were badly affected by the depression caused by the second oil shock and they were forced to slow down their development program. Although their exports and industrial growth has been activated again by the quick recovery of the US economy since early this year. This vulnerability will continue so long as their exports concentrate on the outside developed countries.

(2) The degree of freedom will decrease in governmental policy manoeuvre under this exogenous vulnerability. In other words, the government should refrain from intervening for their policy benefit. In world depression, too ambitious development program will easily lead to a big governmental debt and balance of payment deficit. It, however, requires a strong political leadership in order to switch to unpopular deflationary policy.

(3) The external orientation may well be regarded as an evidence of flexible response to changing environments. The competitive discipline during the EO phase may help the switch to the next Technology Oriented phase for far more than the direct switch from the IS to TO phase.

Footnotes

- 1) John C.H. Fei, Kazushi Ohkawa & Gustav Ranis, Economic Development of Korea, Taiwan and Japan in Historical Perspective, presented to the Conference on Japanese Historical Development Experience and Contemporary Developing Countries, International Development Center in Tokyo, January 1982.
- 2) The contribution of the global prosperity is elaborated in John C.H. Fei, Evolution of Growth Policies of NICs in a Historical and Typological Perspective, presented to the Conference on Patterns of Growth

and Structural Change in Asia's NICs and Near-NICs in the Context of Economic Interdependence, East-West Center, Honolulu, April 1983.