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## INVESTMENT AND TRADE CLIMATE IN THE REPUBLIC OF CHINA

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Taiwan is a roughly oval-shaped island, about 240 miles long from north to south and 98 miles wide at its broadest point. Its total area is 14,000 square miles, which is a little less than that of Connecticut (10,577 square miles) combined with Maryland (5,099 square miles). Its population is approximately 16.5 million.

The achievement in economic development in the past two decades is a record of which the Republic of China (ROC) can justly be proud. Taiwan's living standard is presently one of the highest in Asia, second only to Japan.

The factors which brought about this successful economic development include the Land Reform Program carried out in the early 1950s, the consecutive Four-Year Economic Development Plans, the effective utilization of U. S. aid from 1950 to 1965, the rapid expansion of international trade, and the annual inflow of foreign and overseas Chinese capitals for industrial development.

### I. INVESTMENT

To welcome foreign investment has been and will continue to be the policy of the government of the Republic of China. Promulgation of the Statute for Encouragement of Investment in 1960 marked a concrete advance in giving incentives to such investment. Since this law came into force, the annual inflow of foreign private capital has risen sharply. For the nine years from

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1952 through 1960, the total amount of foreign investment approved was US\$35.6 million, averaging less than US\$4 million per year. Since the promulgation of this statute, coupled with the continuous improvement of the investment climate, not only has the influx of foreign capital increased rapidly, but the formation of domestic capital has also increased, at an even faster rate.

For the ten years between 1961 and 1970, approved foreign investments averaged US\$52.4 million per year, 13 times that of the initial nine-year period. During the latest six years from 1970 to 1976, the average reached US\$164.5 million per year, 41 times that of the initial nine-year period.

The total amount of foreign investment approved in the past 25 years was US\$1,547 million, of which 29% was from overseas Chinese and 71% from foreign nationals. Of this 71%, direct investment from the United States accounted for 31.8%; from Japan, 16%; from Europe, 12.6%; and 10.6% from other areas. Nearly half of the investments from Europe and other areas were made by subsidiaries or affiliates of American corporations in those areas. Hence, the United States is not only the ROC's largest trading partner but also the biggest source of the foreign investment capital that has gone into the ROC's industrial development.

#### **A. Foreign Sources of Investment Capital in Support of Economic Development**

In the process of Taiwan's economic development, domestic capital has come mainly from the private sector, followed by the government and public enterprises. Foreign capital is largely composed of U.S. aid, loans from international institutions and foreign private organizations, and investments by foreigners and overseas Chinese. Common to almost all developing countries, the supply of domestic capital at the initial stage of economic development was very limited, and had to be supplemented by foreign capital. Not until a country's economy has reached a certain level of development will domestic capital play a predominant role. The case is the same with Taiwan.

##### ***1. U.S. Aid***

In the fifteen-year period between 1950 and 1965, the United States injected into Taiwan's economy an average of US\$100 million a year. These funds were used to import large quantities of daily necessities, agricultural and industrial raw materials, and

industrial plants and equipment. At the same time, the local currency proceeds generated from the sale of U.S. aid commodities were used for the financing of various social and educational projects.

The U.S. aid during that period made up more than 90% of the deficits in Taiwan's international balance of payments, and provided one-third of its capital investments.

*a. The Initial Phase.* U.S. aid was the main source of Taiwan's investment capital in this period because of the limited supply of domestic capital resulting from low income, meager savings and a lack of motivation and ability on the part of the private sector to make investments. Although the ratio of fixed investment to the GDP (gross domestic products) averaged only 16% from 1953 to 1960, Taiwan still had to rely heavily on U.S. aid. The amount of U.S. aid to Taiwan ranged from US\$80 million to US\$120 million per year in the ten years from mid-1950 to 1960. It accounted for as much as 40% of Taiwan's gross domestic capital formation. It was also instrumental in stimulating the flow of domestic capital to economic development projects. In the initial phase of Taiwan's economic development, therefore, U.S. aid made immense contributions to increasing the commodity supply, stabilizing the economy, and laying the foundation for further economic progress in subsequent years.

*b. The 1960s.* The 1960s were years of rapid growth for Taiwan's economy. Gross capital formation went up sharply and reached 26% of the GDP in 1970. The share of U.S. aid as a source of investment capital declined and that of domestic capital increased. Moreover, prior to its termination in 1965, U.S. aid had not only been reduced but also shifted increasingly from grants to loans.

*c. The Termination of U.S. Aid.* Since the termination of U.S. aid in 1965, there has been a marked change in the sources of investment capital, and the importance of domestic capital has greatly increased. Furthermore, an increasing amount of investment capital has been obtained from abroad in the form of foreign and overseas Chinese investment as well as loans from international financing institutions and private organizations.

The Taiwan public was once apprehensive that the termination of U.S. aid would be a blow to Taiwan's economic growth. In fact, however, the government of the Republic of China had

realized long before the termination of U.S. aid that this source of financing could not remain available indefinitely. Therefore, timely efforts were made to improve the investment climate for a self-sustaining economy.

## ***2. Foreign Loans***

Since the 1960s, Taiwan has secured foreign loans from various international organizations and foreign countries. Up to June 1976, the total amount of loans stands at US\$2 billion from:

1. International Bank for Reconstruction and Development (IBRD or the World Bank)
2. International Development Association
3. Asian Development Bank
4. U.S. Export-Import Bank

These loans are used mostly to help develop Taiwan's infrastructure projects; a small portion is passed on as loans to private industrial enterprises. For years, Taiwan has had a reputation in the international money market for its consistent ability to make repayments on schedule.

## **B. Investment Environment**

When investors search for investment opportunities, first of all, they look for places having political, social and economic stability so as to ensure the security of their capital. These requirements are abundantly met in the Republic of China.

There are a number of factors contributing to Taiwan's investment environment.

### ***1. Political and Social Stability***

Political stability is one of the Republic of China's attractive features. The government is doing everything possible to improve the standard of living of the people through further development of its economy, and at the same time to provide a more equitable distribution of wealth.

### ***2. Significant Economic Development***

Economic policies adopted by the government of Republic of China brought about significant results in economic development. From 1951 to 1960, emphasis was placed primarily on development of agriculture and establishment of import-substituting light

industries. From 1961 to 1970, stress was laid on industrialization, along with diversification of agricultural production and promotion of agricultural and industrial exports. From 1971 to the present, attention has been devoted to expansion of foreign trade, promotion of agricultural modernization and industrial sophistication.

### *3. High Quality of Labor*

Out of Republic of China's current population of about 16.5 million, the existing labor force totals over 6 million. In addition, there is a potential labor force of over 3 million, consisting of such people as students and housewives who may or may not work as they wish. There is also a supply of 180,000 to 200,000 new workers entering the labor market every year, mainly young people reaching the age of 15 who wish to seek employment.

Workers in the Republic of China are intelligent, hard-working, well-disciplined and highly adaptable. No labor strike has ever taken place, and the unions are encouraged to cooperate with the management in promoting the welfare of their members.

In recent years, more emphasis has been put on vocational and occupational training rather than academic studies. Furthermore, education in colleges and universities has lately become more closely geared to the needs of economic development.

### *4. Improvement in Infrastructure*

Because of Taiwan's rapid economic development, the existing facilities, though improved from year to year, are inadequate to meet the ever-increasing demands of growing industry and expanding trade. To improve the situation, the government is implementing the following projects.

A modern freeway, linking the principal cities of Keelung, Taipei and Kaohsiung now under construction and to be completed in 1978. This new freeway, together with the existing highway network, will provide fast door-to-door transportation.

A new railroad connecting the relatively less developed eastern part of the island to the more developed western part, for the purpose of accelerating the development of the eastern coast area.

Electrification of the existing railway trunkline on the west coast for more efficient rail service.

Construction of a new international harbor near Taichung in central Taiwan.

Building of a new harbor in the north to serve as an auxiliary to the congested Keelung harbor.

Opening up a new modern international airport near Taipei.

### ***5. Electricity and Water Supply***

Public water and electricity are supplied almost everywhere in Taiwan. The rates for such public utilities are relatively low.

### ***6. Industrial Districts***

In order to facilitate the acquisition of land by investors for industrial purpose, the government of the Republic of China has designated land at about 80 sites throughout Taiwan as industrial districts. These sites are all easily accessible by rail and highway, and are located in areas with adequate labor supply. Such new sites are constantly being designated. At the present, Taiwan has 40 developed industrial estates.

### ***7. Export Processing Zones***

There are three export processing zones, namely, the Kaohsiung Export Processing Zone, the Nantze Export Processing Zone and the Taichung Export Processing Zone, established in Taiwan for the purpose of facilitating investments in industrial production for export.

In addition to the industrial park facilities such as roads, water and power supply, and sewage systems, the export processing zones contain ready-built standard factory buildings which can be purchased on installment payments. Investors may also construct their own factory buildings in the zones. Land in such zones is owned by the government and leased to export manufacturers according to the provisions of the land law.

In addition to the public utilities generally provided in an industrial estate, the export processing zones have extra facilities such as the services provided by the Export Processing Zone Administration, branch offices of customs, tax collection offices, banks, post offices, business offices of the telecommunications administration, service stations of the Taiwan Power Company, airline business offices, and service stations of the public employment center.

By locating plants in export processing zones, manufacturers can be exempted from payment of import duties, commodity taxes and business taxes. Furthermore, the procedures concerning

imports and exports, settlement of foreign exchange, customs inspection and investment application are all handled within the zones, with minimal time and effort.

### C. Investment Incentives

Substantial investment incentives are incorporated in the investment laws of the Republic of China. The Statute for Investment by Foreign Nationals, promulgated in July 1954, was enacted specifically for enhancing the inflow of foreign capital and protecting the interests of foreign investors. Its major features are:

1. The right to repatriate capital as well as dividends and interest is guaranteed.

The foreign investor may each year apply for foreign exchange settlement against 15% of the total amount of his invested principal two years after the completion of the investment project.

He may also apply for foreign exchange settlement yearly against dividend and interest income from his investment.

2. Protection against government expropriation or requisition is also guaranteed.

As long as the foreign investor continuously holds more than 51% of the total capital of the invested enterprise, the enterprise shall not be subject to government requisition or expropriation for 20 years after commencement of business.

If the investor holds and maintains less than 51% of the total capital of the invested enterprise, he shall be reasonably compensated if the government, for reasons of defense needs, requisitions or expropriates the enterprise.

3. The enterprise invested in by foreign nationals shall be accorded the same treatment as is accorded to the same type of enterprise operated by Chinese nationals. In other words, there is no discrimination between enterprises invested in by foreign nationals and those invested in by Chinese nationals.

4. Full ownership by foreign nationals is permitted under the statute. Only when the enterprise is local-market oriented or poses a threat to established local producers will the domestic capital participation be deemed in order. However, the extent of such participation is negotiable.



The Statute for Encouragement of Investment was first promulgated in 1960 and has since been amended several times. Among the incentives granted by the statute, potential investors are perhaps concerned most with the exemption of import duty and income tax.

### ***1. Import Duty***

Exemption of deferred payment of import duty is made available to foreign and domestic investors alike for importation of capital equipment. The benefit is offered in three alternative forms:

a. For the setting up or expansion of an encouraged industry, customs duty on imported capital equipment is completely waived under specific categories and criteria as prescribed by the government.

b. A new investment or an investment in an existing enterprise belonging to one of the nine essential industries with production wholly for export is entitled for a five-year deferment for payment of import duty on capital equipment. The nine essential industries are (1) basic metals, (2) electrical manufacturing, (3) electronics, (4) machinery manufacturing, (5) shipbuilding, (6) chemicals, (7) textile dyeing and finishing, (8) mining and (9) organic fertilizers.

c. For an investment not belonging to any of the industries under government encouragement and not exporting all of its products, import duty on capital equipment may be paid by installments if the amount of duty involved exceeds NT\$500,000 (equivalent to US\$13,200).

### ***2. Income Tax Benefits***

Regarding income tax benefits, the recently amended Statute for Encouragement of Investment offers the following:

***a. Profit-Seeking Enterprise (Corporate) Income Tax.*** The normal rate for all profit-seeking enterprises is levied at 35% of net profit. For productive enterprises, the rate is lowered to 30%. To encourage the setting up of new capital-intensive or technology-intensive industries, the rate is further reduced to not more than 22%.

All newly established productive enterprises eligible for government encouragement are given the choice of either a five year tax holiday or accelerated depreciation of fixed assets.

For expansion of existing government-encouraged productive enterprises, the investor may enjoy either a four year tax holiday or accelerated depreciation of fixed assets with respect to the new investment.

**b. Withholding Tax.** The standard rate of consolidated personal income tax for local residents starts at 6% and progresses up to 60% when the consolidated personal income exceeds NT\$2 million (equivalent to US\$52,600). For nonresidents, a withholding tax of 35% is levied on the amount payable or distributable.

For nonresident foreign investors whose investment has been approved by the Chinese government, the withholding tax is reduced to 20% on dividends distributed. However, if the taxpayer is required to declare and pay income tax on his income from Chinese sources to his home government, then the withholding tax rate is further reduced to 15%.

**c. Special Encouragement for Reinvestment.** Reinvestment with undistributed earnings for expansion of production facilities is specially encouraged. The withholding tax on share dividends can be deferred until the transfer of the shares obtained through reinvestment. This measure has been most effective in the development of industry in the Republic of China and is also most welcome by all investors, both foreign and domestic.

### 3. Other Tax Benefits

a. Deed tax is reduced by 50% when acquiring fixed assets for productive use.

b. House tax is also reduced by 50% for buildings used for productive purposes.

c. For stimulating exports, export transactions are exempted from business tax. Stamp tax for export invoices is reduced by 75%.

### D. Investment Opportunities

The Republic of China is a developing country engaged in industrialization. Investment opportunities in the ROC cover a wide range. Local demands for new products, raw materials and intermediates are steadily on the increase. These growing demands justify the setting up of new ventures for local production. The demands range from basic metals, machinery, electronic and electric products to petrochemicals. It is not feasible

to itemize them here. In a word, all investment projects conducive to further development of industry and commerce are welcome.

For the inducement of technology transfer to promote industrial development, the Statute for Technical Cooperation was promulgated in 1962, providing guidelines for the payment of expenses and royalties for technical expertise.

Technical know-how and patent rights can also be used to invest at 15% and 20% of total equity, respectively.

Needless to say, the study of investment opportunities constitutes an important prelude to investment promotion. The Industrial Development and Investment Center of the Ministry of Economic Affairs of the Republic of China has compiled a booklet entitled "Industrial Investment Opportunities in Taiwan, Republic of China" in which there are enumerated more than 120 branches respectively under 10 major industries for reference of prospective investors.

There are, of course, numerous other investment opportunities stemming from the continued development process. In many cases, certain industries viewed yesterday as not feasible do become feasible in the course of economic development.

### **E. Investment Services**

Because overseas Chinese and foreign investors are frequently unfamiliar with Chinese investment laws and other pertinent laws and regulations, and with the required investment procedures, the government of the Republic of China has established the Industrial Development and Investment Center (IDIC) under the Ministry of Economic Affairs to provide all necessary services to overseas investors.

Another governmental body, the Investment Commission, is primarily a screening body that handles all investment applications. The commission, composed of ten members of vice-ministerial level from various government organizations, also issues duty-free or tax-holiday certificates and import licenses, and serves the investors in a number of other ways as a one-step service agency.

The Export Processing Zone Administration provides services for investors and screens investment applications intended for the export processing zones. All relevant government agencies, including customs and banks, have branches in the zones for the convenience of the investors located in the zones.

American investors who are interested in obtaining detailed information on making investments in the Republic of China are welcome to contact any of the following agencies:

Chinese Investment & Trade Office  
515 Madison Avenue  
New York, N. Y. 10022  
Tel: 212-752-2340

Trade Representative Office  
Consulate General of the Republic of China  
222 North Dearborn Street  
Chicago, Ill. 60601  
Tel: 312-332-2535

Office of Trade Representative  
Consulate General of the Republic of China  
Suite 1060  
3660 Wilshire Blvd.  
Los Angeles, Ca. 90010  
Tel: 213-380-3644

#### **F. Future Prospects**

Over the 24 years since 1953, six Four-Year Plans have been launched by the government of the Republic of China. Under these plans, Taiwan has experienced a sustained and rapid economic growth. The worldwide economic recession drastically altered the basic economic conditions of the Republic of China, to such an extent that the Sixth Four-Year Plan was no longer practical. At the same time, ten major construction projects have been vigorously pushed forward and their completion will automatically have a profound impact on the economic development in the Republic of China. Because of these facts, the Chinese Government decided to drop the Sixth Four-Year Plan, which was in its third year of implementation in 1975, and replaced it with a new Six-Year Plan starting from 1976. Initially, the plan will focus on the implementation of the on-going projects. In a later stage, it will spell out the guidelines and programs to be pursued after the completion of the ten major projects in order to usher the economy into a higher stage of development.

The new Six-Year Plan envisions an average annual rate of growth of 7.5% in terms of gross domestic product, and stresses the need for modernization of the economic structure through the

development of heavy and chemical industries, such as petrochemicals, steel, electrical and nonelectrical machinery, and precision products, as well as sophisticated labor-intensive industries. These undertakings will require massive inputs of capital and know-how. For the Six-Year Plan period, an estimated US\$36.6 billion is needed for investment. Most of this amount will come from domestic savings. The remainder, amounting to US\$330 million a year or 5.4% of the total, will have to come from external sources, ideally together with the latest managerial and technological know-how which are also essential to the modernization of the ROC economy. Foreign capital will therefore continue to play a very important role in the years ahead.

To encourage the inflow of foreign capital, the ROC government will continue to provide incentives and to improve investment climate including such infrastructural facilities as electric power and transportation.

In attracting the inflow of foreign investment capital, the following areas deserve priority consideration:

1. Where investment creates greater value-added through the introduction of modern methods of production.
2. Where the investment significantly improves the quality of local products or reduces their manufacturing costs.
3. Where the investment is made for significant import-substitution.
4. Where the investment has a strong linkage effect; and finally,
5. Where the investment contributes significantly to the expansion of exports.

## II. FOREIGN TRADE

The major force behind the rapid economic growth in the Republic of China has been the expansion of international trade. Of all the sectors of the economy of the Republic of China, foreign trade has shown the most dramatic growth. While total trade was still in the neighborhood of one-third of a billion US dollars throughout the 1950s, it amounted, in 1976, to as much as US\$15.67 billion, 8.08 billion for exports and 7.59 billion for imports. The Republic of China has enjoyed a consistent trade surplus since 1974.

In the decade between 1964 and 1973, the Republic of China's export increased from US\$860 million to US\$8.3 billion.

From 1970 to 1974, the Republic of China had enjoyed a steadily growing trade surplus. On the basis of customs clearance, the Republic of China's total imports in 1974 amounted to US\$7 billion and total exports US\$5.64 billion. The substantial deficit registered in 1974 was largely due to the worldwide recession and sharply increased cost of such essential imports as crude oil, grains and industrial raw materials.

The Republic of China's progress in industrialization in recent years could be reflected in export and import compositions; industrial products now account for almost 85% of the total exports, while in 1952, they made up only 8%.

In 1974, textile products remained as Republic of China's top dollar earner. The second major export item was electrical machinery and appliances. Machinery and metal products came next. The other principal export items were plywood, lumber products, and plastics and plastic products.

The Republic of China, with its economy characterized as a typical island economy, has to import large quantities of raw materials and capital goods to sustain a steady economic growth. Machinery and tools, most of these imported to meet the needs of the ten on-going construction projects, topped the import list of 1974, followed by basic metals, electrical machinery and supplies, crude oil, chemical products and transportation equipment.

### **A. Recovery from the Recession**

The big recession of the free world economy that came in 1974 also hit the Republic of China hard. The Republic of China's difficulty is that its trade pattern is similar to that of a developed country although the Republic of China is still a developing nation.

Like all other petroleum-importing countries, both trade and the balance of payment of the Republic of China suffered severe blows in the year of 1974. On January 26 of that year, the government of the Republic of China lifted all subsidies on grain imports, etc. Prices jumped from 25% to 60% in the ensuing weeks but have held that line ever since.

Since May 1974, the government of the Republic of China has taken various steps to stimulate the export trade. Among the important steps are the Fourteen-point Fiscal and Economic Program launched on November 14, 1974 and the Ten-point Financial and Economic Plan announced on December 9, 1974. Through adjustment in taxation and reforms in economic

regulations, these remedial steps helped set the stage for a slow but steady revival of export trade.

However, it must be pointed out that the huge trade deficit of US\$1.33 billion in 1974 was largely the result of policy implementation. In order to stabilize prices in the country, the government had to purposely suspend or curtail the export of many essential commodities to ensure an adequate supply for domestic market. On the other hand, for facilitating rural reconstruction and expediting the ongoing infrastructure projects, the importation of agricultural and industrial raw materials and capital equipment was substantially increased.

The export slump also led to a decline of the economic activities of the Republic of China as a whole. Therefore, there appeared on the economic scene typical signs of recession: sharp drop of purchasing power, rise of unemployment, accumulation of inventories, the simultaneous increase of interest rates and commodity prices.

Fortunately, the steps for countering the recession paid off. The economy of the Republic of China started to pick up from 1975. In February 1975, both trade and the balance of payments of the Republic of China began to climb and by May of that year, the Republic of China successfully left the recession behind.

In 1975, the Republic of China exported US\$5.31 billion in goods and services, but imported US\$5.95 billion, thereby suffering a small deficit of US\$640 million. In 1974, the figure was US\$1.33 billion.

### **B. The 1976 Trade Performance**

The Republic of China's foreign trade volume in 1976 totaled US\$15.67 billion, representing an increase of US\$4,409.5 million or 39.2% over 1975. According to customs statistics, in 1976, exports totaled US\$8,080 million, up 52.2%, against imports, US\$7,590 million, up 27%, resulting in a surplus of US\$490 million. During 1976, the Republic of China registered trade surpluses with 13 of 20 major trade partners and deficits with seven others. A breakdown of the 13 countries and areas with which the nation registered surpluses is given in Table 1. A breakdown of the seven countries and areas with which the nation suffered trade deficits is given in Table 2.

Table 1. 1976 Trade Surpluses

Country	Exports	Imports	Surpluses
1. U. S. A.	3,010	1,802	1,208
2. Hong Kong	607.6	100.6	507
3. Canada	312.1	56	256.1
4. Singapore	207.2	38	169.2
5. West Germany	416.1	253.7	162.4
6. The Netherlands	159.3	55.1	104.2
7. Panama	61.7	5.5	56.2
8. Philippines	76.8	31.2	45.6
9. Australia	223.9	181	42.9
10. Belgium	56.1	34.6	21.5
11. Indonesia	220.1	199	21.1
12. Italy	61.4	54.1	7.3
13. France	63.3	58.3	5

Unit: US\$1 million.

Table 2. 1976 Trade Deficits

Country	Exports	Imports	Surpluses
1. Japan	1,090.3	2,442.4	1,352.1
2. Kuwait	108	682.3	574.3
3. Saudi Arabia	124.7	410.6	285.9
4. Malaysia	53.5	105.5	52
5. Thailand	75.7	90.3	14.6
6. Korea	72.8	83.5	10.7
7. United Kingdom	159.2	165.8	6.6

Unit: US\$1 million.

The Republic of China's two-way trade with other areas totaled US\$1,659.7 million with a surplus of US\$179.3 million in 1976.

An Analysis of foreign trade of the Republic of China in 1976 is as follows:

### 1. *Export Composition*

With the transformation of the economic structure, the composition of the Republic of China's exports and imports has shown a marked change. Agricultural products such as rice and sugar accounted for an overwhelming 86% of the total exports in 1952. In 1976, the main exports were textiles, electronics, electrical appliances, machinery and metal products.



In 1976, industrial products were still the leading export of the Republic of China, accounting for 87.7% of the total export. The export of processed agricultural products was the next, being 7.4% of the total export, and the agricultural products accounted for only 4.9% of the total.

Industrial products exported from the Republic of China in 1976 included 53 sets of complete machinery plants, of which 10 sets were for manufacturing PVC products, 13 for paper making, and three for cement manufacture.

Industrial goods exported from the Republic of China with higher export volumes in 1976 were: Textile products, worth US\$2,475.8 million, accounting for 30.6% of the nation's total exports and representing an increase of 53% over the previous year. Exports of electrical machinery amounted to US\$1,269.6 million, accounting for 15.7% of the export total, up 71.3%. Plastics and plastic products amounted to US\$571.8 million, representing 7.1% of the export total, up 55.1%. Machinery and total products were worth US\$566.8 million, 7% of total exports, up 53.7%. Wooden products and furniture valued at US\$534.8 million, 6.6% of the total, up 61.8%. Exports of transportation equipment totaled US\$194.3 million, 2% of the total, up 65.6%. Exports of refined petroleum products totaled US\$122.4 million, 1.5% of the total, up 125.4%.

## ***2. Import Composition***

In the early 1950s, textiles, agricultural products, and fertilizer made up over half of total imports of the Republic of China, while in 1976, agricultural and industrial raw materials constituted 63% of total imports of the Republic of China, while capital goods made up 30.7% and consumer goods 6.3%.

To meet the domestic production and construction requirements, machine tools have been imported in large quantities in recent years. In 1976, the import value of major manufacturing equipment totaled US\$4,614.9 million, topping all other items. This amount was 60.8% of total import value. Next were major primary products. The import value of this item was US\$1,860.8 million or 24.5% of the total import value. Machine tools and crude petroleum came next with total import value at US\$1,187.8 million and US\$1,050.9 million, respectively. Still next in the descending order of their values were electrical machinery and apparatus, chemicals, basic metals and transportation equipment.

For such agricultural and forestry items as soybean, corn, wheat, lumber and raw cotton, their import values either

increased or decreased much depending on the price fluctuations in the world market and the level of the stockpiled inventories carried over from 1975.

### C. Trade with the United States

Close friendship and strengthened bilateral economic ties have fostered rapid growth in the trade volumes between the United States and the Republic of China in recent years. In 1964, the two-way trade volume was only US\$220 million. After approaching the US\$1 billion mark in 1970, it hit a record high of US\$3,716 million in 1974. In spite of the world recession, the total trade between the two countries in 1975 still reached US\$3,474 million, or 30.9% of the aggregate value of the Republic of China's foreign trade.

The United States retained its position as the largest market for the Republic of China's products, taking US\$3,010.7 million or 37.3% of the Republic of China's total exports for the year. The Republic of China's imports from the United States in 1976 amounted to US\$1,802.3 million, or 23.3% of the total imports.

The Republic of China is now the eleventh largest supplier and the fifteenth largest customer of the United States. And the Republic of China is the largest trade partner of the United States in the Far East after Japan.

During the last few years, the Republic of China's leading exports to the United States were:

1. Electrical and electronic products, including TV sets and radios
2. Textile products
3. Manufactured products
4. Plastic articles
5. Plywood and rattan products
6. Metal products
7. Machinery

The Republic of China's imports from the United States were:

1. Agricultural products
2. Electronic parts
3. Machinery
4. Cotton goods
5. Iron and steel

6. Transportation equipment
7. Chemicals

In this overall picture of the trade relations between the Republic of China and the United States, however, there is one problem which has been causing careful reflection and thoughtful scrutiny in both the Republic of China and the United States. The problem is one of imbalance.

The Republic of China has in recent years taken a series of steps to enhance the reciprocity of trade and is doing its utmost to improve its trade relations with the United States.

One of the most important remedial measures the Republic of China instituted in 1973 was a "Buy American" program. A special trade mission was sent to the United States from Taiwan in that year. The mission, after scouting the various industrial and agricultural centers, signed a series of long-term contracts to buy US\$750 million worth of American products, including 5.5 million metric tons of grain, over the next three years.

Again in 1976, another grain purchase mission from Taiwan successfully concluded negotiations and signed an agreement with nine American suppliers for the supply of soybeans, wheat, corn and barley totaling 10.2 metric tons for the next five years starting July 1, 1976 and worth US\$1.5 billion at current prices.

On the other hand, the government of the United States has also taken steps to further United States trade with the Republic of China. For the express purpose of promoting the sale of American goods in Taiwan, the United States Trade Center, the third in Asia and fourteenth in the world, was officially dedicated on March 18, 1974.

The trade between the United States and the Republic of China is bound to keep rising for the following reasons:

1. The plants and equipment needed in the development of capital- and technology-intensive industries in Taiwan will most probably have to be purchased from a few highly industrialized nations, and the United States is surely among them. Such sophisticated plants and equipment can not as yet be produced in Taiwan locally, nor could they be readily imported from other countries. For such items as nuclear power generators, aircraft and computers, Taiwan will have to rely on countries like the United States.

2. As the standard of living rises rapidly in Taiwan, the demand for luxury goods in all aspects of daily living from home

decoration to recreational facilities will certainly increase rapidly. This can be a growing and attractive market for the U.S. products, especially consumer durables.

3. For the same reason, the Republic of China will need more American agricultural products. The United States, as the leading food grower and cotton exporter in the world, will be the first country the Republic of China will turn to for these commodities.

4. Another certainty in US-ROC trade is the latter's growing dependence on the United States for industrial know-how. The modernization of the economic structure and infrastructural facilities in Taiwan calls for large outlays of capital. Advanced technology in such areas as electronics and petrochemical industries will be a crucial factor in the next stage of the industrial development in Taiwan. Thus, the Republic of China will become a good customer of the American industrial equipment and technology.

#### **D. Trade Environment in Taiwan**

##### **1. Foreign Trade Administration**

*a. The International Trade Commission* acts on the following matters:

1. Approval of and amendment to trade regulations;
2. Approval of measures for import of essential and staple commodities;
3. Approval and planning of the use of funds for the promotion of exports;
4. Approval of regulations governing essential imports and exports not involving exchange settlement;
5. Approval of regulations governing imports and exports by processing industries;
6. Approval of export program and promotional measures;
7. Approval of and amendment to the classification of import and export commodities;
8. Other important matters related to trade.

*b. Board of Foreign Trade.* The functions of the Board of Foreign Trade are:

1. Screening of applications for export of agricultural, forestry, livestock, mining and industrial products and issuance of export licenses;

2. Screening of applications for import of various kinds of commodities and issuance of import licenses;
3. Screening and supervision of imports approved for overseas and foreign investment projects;
4. Formulation of an "Annual Import and Export Program";
5. Studying and making recommendations for improvement in packaging and quality of export products;
6. Studying and making recommendations regarding export standards and inspection;
7. Regulation of the trading activities of traders (importers and exporters), local agents of foreign suppliers and other exporters/importers (e.g., manufacturing plants);
8. Research and development relating to international trade;
9. Other matters relating to international trade.

***c. Semi-official or Private Organizations for Export Promotion.***

1. China External Trade Development Council
2. China Productivity Center
3. Taiwan Handicraft Promotion Center
4. Chinese Display Center
5. Chinese Products Promotion Center

***d. Government Trading Agencies.***

1. Central Trust of China
2. Taiwan Supply Bureau

***e. Overseas Agencies concerned with Trade Promotion.***

1. Economic Offices and Trade Missions:

Office of Economic Counselor  
Embassy of the Republic of China  
4301 Connecticut Ave. N.W. Suite 420  
Washington, D.C. 20008 U.S.A.

Office of Economic Counselor  
Embassy of the Republic of China  
83, 2-Ka, Myong-dong, Chung-Ku  
Seoul, Korea

Office of Economic Counselor  
Embassy of the Republic of China  
No. 503/504 Maghrabi New Building  
New Street  
Jeddah, Kingdom of Saudi Arabia

Bureau de Conseiller Economique  
Ambassade de la Republique de  
China  
Imm. S.M.G.L. BLD-11, AV. BARTHE  
Abidjan, Ivory Coast

Office of Commercial Attache  
Consulate-General of the  
Republic of China  
Suite 605, The Trust Bank Center  
56, Eloff Street, Johannesburg  
Republic of South Africa

Office of Commercial Attache  
Embassy of the Republic of China  
Between the First and Second Circle  
of Jabal Amman, Amman, Jordan  
P.O. Box 2719 Amman, Jordan

Oficina del Agregado Comercial  
Embajada de la Republica de China  
Edificio Pan America  
2 Piso, 6 Av., 11-43, Zona 1,  
Guatemala City, Guatemala, C.A.

Oficina del Agregado Comercial  
Embajada de la Republica de China  
Edificio Corecol.  
Calle 71 No. 11-10 5° Piso  
Bogota, Colombia

Office of Trade Representative  
Consulate General of the  
Republic of China in Los Angeles  
3660 Wilshire Blvd., Suite 1060  
Los Angeles, California 90010  
U.S.A.

Trade Representative  
Chinese Consulate-General  
222 N. Dearborn Street  
Chicago Ill., 60601 U.S.A.

Chinese Investment & Trade Office  
515 Madison Avenue  
New York, N.Y. 10022 U.S.A.

## 2. Overseas Representatives of China External Trade Development Council:

CETDC Representative's Office in  
San Francisco  
604 Commercial St., San Francisco,  
Calif. 94111, U.S.A.

Oficina Comercial de Taiwan  
Av. R. S. PENA 636, 8  
Buenos Aires, Argentina

CETDC Representative's Office in  
Indonesia  
C/O Chinese Chamber of Commerce  
to Jakarta, P.O. Box 2922, Jakarta,  
Indonesia

CETDC — Ufficio Di Rappresentanza  
in Italy  
Via Fabio Filzi, 2, 20124, Milan, Italy

CETDC Representative's Office in  
Singapore  
Rm. 310, Industrial & Commercial  
Bank Bldg., No. 2,  
Shenton Way, Singapore

CETDC Correspondent in Chicago  
9302 N. Tripp  
Skokie, Ill. 60076 U.S.A.

CETDC Correspondent in Melbourne  
P.O. Box 4823, Melbourne, Vic. 3001  
Australia

Far Eastern Trading Co., Ltd.  
P.O. Box 349, Place Bonaventure  
Montreal 114, P.Q., Canada

CETDC Branch Office in New York  
14th Floor New York Merchandise Mart  
41 Madison Avenue  
New York, N.Y. 10010, U.S.A.

CETDC Representative's Office in West  
Africa  
P.O. Box 20872, Abidjan, Ivory Coast

CETDC Representative's Office in  
Korea  
C/O Embassy of the Republic of China  
Seoul, Korea

3. Others:

Far East Trade Service, Inc.  
Switzerland Office  
Seefeld Strasse 35 (3 Stock)  
8034 Zurich 8, Switzerland

Far East Trade Service, Inc.  
Succursale en Belgique  
World Trade Center 1  
16 E Etage, Boulevard Encile  
Jacqmain 162, 1000 Bruxelles  
Belgique

Far East Trade Service Center  
West Germany Office  
Alfred-Brehm-Platz 19  
6 Frankfurt/main  
West Germany

Far East Trade Service, Inc.  
Toronto Branch Office  
2 Bloor Street, East, Suite 2624  
Toronto, Ontario, M4W 1A8  
Canada

A.S.P.E.C.T.  
17, Ave. Matignon (Time-Life Bld.)  
75008 Paris, France

Majestic Trading Company Ltd.  
5th Gl., Bewlay House  
2 Swallow Place  
London W1R 7AA  
England

Investment Liaison Office  
415 Central Building Pedder Street  
Hong Kong

Centro Commerciale per L'estremo  
Oriente  
Via-Fabio Fizi 2-20124 Milan, Italy

Chinese Chamber of Commerce to  
Djakarta  
JL Banyumas No. 4  
P.O. Box 2922  
Jakarta, Indonesia

Trade Mission of the Republic  
of China  
Room 310, Industrial & Commercial  
Bank Bldg., No. 2, Shenton Way  
Singapore 1

Tokyo Office, Association of East Asian  
Relations (Economic Department)  
2-4th Floor, Heiwado Booki Honsha  
Bldg., No. 8, 1-Chome, Higashi Azabu  
Minato-Ku, Tokyo, Japan

Pacific Economic and Cultural Center,  
Manila Office (Economic Division)  
8th Flr., B.F. Homes Building, Aduana  
St.  
Intramuros, Manila, Philippines

Economic Section, Office of Represen-  
tative China Airlines Ltd.  
10th Fl., Shell House, 140 Wireless Road  
Bangkok, Thailand

Oficina Comercial Del  
Lejano Oriente  
Huerfanos 886-Oficina 714,  
Santiago, Chile

East Asia Trade Centre Fiji, Ltd.  
4th Fl., Air Pacific House,  
CNR. McArthur & Butt Streets,  
Suva, Fiji

Oficina Comercial de Taiwan  
Av. Pte. Roque Saenz Pena 636  
Piso 8, Buenos Aires  
Republica Argentina

Far East Trading Co., Pty. Ltd.  
Suite G, 5th Fl. 582 St. Kilda Rd.  
Melbourne, Vic., 3004 Australia

Taiwan Trade Office  
5, Argyokastron St.  
Strovolos, Nicosia  
Cyprus

## ***2. Control Over International Trade***

***a. General Description.*** With a view to promoting the wholesome growth of domestic productive enterprises and as a necessary measure in economic development, the Board of Foreign Trade is exercising certain control over the nation's international trade. Thus, exports of goods which are either living necessities not produced in adequate quantities locally or commodities needed for national defense have been put under a ban or under restrictions; and so are the imports of weapons, narcotics, precious stones and goods which can be supplied locally.

The control is subject to adjustment in accordance with the developments in the particular fields of production at home and also with the changes in the international market. Hence, there have been constant changes and modifications in the classification of import or export commodities.

According to the provisions of the Regulations for Classification and Control of Imports and Exports, imports and exports are classified as follows:

1. Permissible imports
2. Permissible exports
3. Controlled imports
4. Controlled exports
5. Prohibited imports
6. Prohibited exports

### ***b. Various Restrictions on Imports.***

***i. Restrictions on Procurement Area.*** For political, diplomatic and economic reasons, restrictions have been placed on sources of import of certain commodities. At present, areas designated as the sources of their supply are:

1. Free world countries and areas other than Hong Kong and Macao;
2. Areas other than Hong Kong, Macao, Australia, Singapore and Malaysia;
3. Areas other than Hong Kong, Macao, Singapore, Malaysia and Japan;
4. Europe and America;
5. Europe, America, New Zealand and Australia;



6. North America;
7. Countries specified. (Commodities to be imported from specified countries are mostly Chinese medicines, e.g., medicines from South Korea, Japan, etc. Details are shown in the Commodity Classification Table.)

*ii. Eligibility of Applicants.* Certain commodities, while being permissible imports, are not to be imported by traders. For these imports, BOFT has limited the eligibility for application to the following:

1. Industrial plants
2. Processing plants for export
3. Public trading agencies
4. Tobacco & Wine Monopoly Bureau
5. Public enterprises

The above provisions show that sometimes there are not only restrictions in regard to applicants but also on area of procurement. For example, waste paper can be imported only by paper manufacturing plants and must be procured from free world countries and areas other than Hong Kong and Macao. This dual restrictive measure is adopted in accordance with the actual necessity.

***c. General Provisions for Import and Export Applications***

*i. "Permissible" imports.* Applications for import or items on the "Permissible" list may be submitted by traders directly to the responsible departments of BOFT. They may also be submitted to the responsible department of a government bank if the bank has been authorized for import licensing for the particular commodities provided, however, that there is a record of such imports in the past.

However, if the article to be imported is not specified in the "Permissible" list and there is no record of such import in the past (e.g., an item to be imported for the first time, as discussed in Section 3), applications may be made only after the importation of that item is considered and approved by the Committee on Commodity Classification.

*ii. "Controlled" imports.* Applications for import of items on the "Controlled" list may not be made by traders. Only

industrial plants and direct end-users may apply for import of such items according to existing regulations.

*iii. "Prohibited" imports.* Import of commodities under this category is prohibited mainly for security, health or economic reasons. Neither traders nor manufacturers nor productive enterprises are permitted to apply for such imports.

*iv. "Controlled" exports.* Export of such products is not absolutely prohibited; approval for export of such products should be based on the regulations for Application for Export by Productive Enterprises which provide:

1. that the export may not affect the people's livelihood or economic development needs;
2. that for strategic goods, there should be no possibility of their being transhipped for supply to the communists;
3. that all applications for export of "Controlled" items should be submitted to the 1st and 2nd Departments of BOFT for approval.

*v. "Permissible" exports.* For export of "Permissible" items, the exporter may file an "Application for Export License" directly with one of the authorized licensing banks.

*vi. "Prohibited" exports.* Application may not be made for export of goods of this category.

### ***3. Procedures for Application for Export***

Unless otherwise provided for by the Board of Foreign Trade, to apply for a license for export of goods on the "Permissible" list, an exporter manufacturer/trader registered with and approved by BOFT may file an "Application for Export Permit" directly with one of the licensing banks appointed by the Foreign Exchange Department of the Central Bank of China.

An export manufacturer or trader may collect his foreign exchange earnings through export transactions by one of the following methods:

1. Letter of Credit (L/C);
2. Advance settlement of Export Foreign Exchange (T/T);

3. On collection basis:
  - a. Document Against Payment (D/P)
  - b. Document Against Acceptance (D/A);
4. Export sales on consignment basis;
5. Payment made by installment or in other ways.

#### ***4. Export Loans***

There are two kinds of export loans, viz., industrial export loans and general export loans.

1. Industrial export loans are conducted by the International Commercial Bank of China to help finance export capital goods and important industrial products in keeping with the government policy of promoting export;
2. All appointed foreign exchange banks may engage in the activity of extending general export loans for the purpose of promoting foreign trade.

#### ***5. Import Financing***

For the import of necessary consumer goods and important raw materials for industrial production, if the importer is unable to obtain the consent of the foreign supplier to import on D/A basis, he may submit application to the BOFT for issuing the import license thus enabling him to apply for financing at the appointed bank.

#### ***6. Foreign Exchange***

The government of the Republic of China permits unlimited conversion from authorized currencies into New Taiwan Dollars. But this function and foreign currency financing of imports and exports is limited to appointed foreign exchange banks.

#### ***7. Air and Sea Connections with the Outside World***

***a. Shipping.*** The shipping industry in Taiwan has kept pace with the demand from the rapid growth of foreign trade and other sectors of the national economy. Shipping companies operate liner services all over the world. The opening of new routes are always under planning. New ships including containers, refrigerator-ships and super tankers have been obtained for special purposes.

At the end of 1975, the Republic of China had a merchant fleet of 168 ships, totaling 2.1 million DWT. If Chinese vessels flying foreign flags of convenience were counted, the Republic of China's fleet would be one of the biggest in the world.

Foreign shipping lines serving ports in Taiwan include the American President Lines, the Barber Blue Sea Line, the United States Lines, the Sealand Service Inc., etc.

*b. Airlines.* Taiwan is on the main route between Tokyo and Hong Kong, the most heavily traveled air line in Asia. Apart from domestic airlines, there are twelve international airlines serving Taiwan. Foreign airlines serving Taiwan include the Cathay Pacific Airway, Japan Asia Airway, Korean Air Lines, Northwest Orient Airlines, Pan American World Airways, Philippine Air Lines, Singapore Airlines, Thai Airways, etc.

*c. Harbors and Airports*

*i. Harbors.* There are three international harbors in Taiwan, located at Keelung in the North, Kaoshiung in the South and Hualien in the East. With the expansion of international trade and ever-increasing demands for navigation services, harbor authorities have taken steps to increase facilities such as warehouses, loading-unloading equipment, container wharves, terminals and expanded entrances.

With a view to easing the congestion at Keelung and Kaoshiung and to stimulate the development of business and industry in central Taiwan, a decision was made in 1969 to build an international port at Taichung. The project will be carried out in three phases. Full completion is scheduled for 1982, when the new harbor will have an annual cargo handling capacity of 12 million tons.

At the same time, the Suao Harbor, originally a fishing port which serves as an auxiliary for Keelung, will be expanded into an international seaport in eight years. When it is completed in June 1979, cargoes bound for and originating from Suao and its surrounding areas are expected initially to reach 2 million tons.

*ii. Airports.* There are two international airports in Taiwan, at Taipei and Kaoshiung. A third, eventually to replace the Taipei International Airport, is being built at Taoyuan in northern Taiwan.

### E. Future Trade Prospects

The worst and longest recession since the 1930s has now bottomed out. While the world trade is making an upturn, the Republic of China will certainly grasp every opportunity to explore sales outlets for its products in the foreign markets, for it is only through export that the Republic of China can induce an acceleration of economic growth and impart renewed vigor to its national economy.

The Republic of China is about to enter a new era of technological expansion. Despite the phenomenal increase of her industrial capacity and trade volume over the past years, the fact remains that the progress has been more quantitative expansion than qualitative improvement. In other words, the expansion of industrial capacity was much more impressive than the advance of industrial capability. The result of this is that the Republic of China continues to depend on simple industrial products for export.

However, both the government and the people of the Republic of China are keenly aware that the time to rely on labor-intensive and low-technology industries as the foreign exchange earners is definitely over. The new emphasis is on upgrading industrial technology. Progress is being made in this regard, particularly in the machinery and the petrochemical industries. Certainly, however, the technical level in the Republic of China is still way below that of the advanced countries.

The Republic of China can not, of course, afford to remain in this stage very long. For one thing, the market for simple industrial products is limited, and for many items, already saturated. Furthermore, the rising wage scale in the Republic of China is beginning to reduce her competitiveness in simple industrial products while new competitors continue to arise from among other developing countries.

To maintain the high growth rate of the Republic of China's foreign trade, it is absolutely necessary for her to upgrade the quality of its products, selling them at higher prices, rather than exporting them in greater quantities; and the Republic of China has to develop more sophisticated products in order to make labor more valuable. Only then can the Republic of China solve the problems of limited labor supply, rising wages and growing competition from other developing nations and keep foreign trade expanding. Therefore, in the Republic of China, upgrading of

industrial technology will be the first priority within the next 10 to 20 years.

As I have said before, the economy of the Republic of China is in a period of rapid expansion. It will not be long before the Republic of China could attain the status of a developed country. With rising income will come greater purchasing power and a keener desire for the things that make life more pleasant. Under such circumstances, the Republic of China will become a very large open market in Asia and also one of the most effective suppliers of industrial products in international markets in the years ahead.

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Dr. Chiu thanked Mr. Wu for preparing such an excellent paper for the conference and then invited Ms. Norma Schroder, a Ph.D. candidate at Stanford University, to present her paper on "The American Economic Stake in Taiwan." Ms. Schroder compared the current status of Taiwan with respect to import and export trade with the U.S. and Japan. She stated that Taiwan is attempting to reduce its dependency on Japan and that the ROC wishes the U.S. and Europe to have the largest share in capital goods, despite certain advantages of using the Japanese. She characterized the U.S. growth in direct investment as accelerating faster than elsewhere in the world.

[The following is Ms. Norma Schroder's paper.]

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