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AMERICA'S ECONOMIC STAKE IN TAIWAN

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Whether directly involved in the business of foreign trading or not, most members of the U.S. business community are at least dimly aware that U.S. economic interdependence with the Far East and Taiwan has increased dramatically since the early

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1960s. The fuzziness of their perception of the Asian trade situation may be attributed to the fact that the bulk of published international business reporting remains devoted to U.S.-European affairs. Thus, this audience, as well as the broader audience of all American voters, would surely be surprised to learn the true degree of U.S.-Far Eastern trade interdependence. As of 1973, Taiwan was the seventh largest source of U.S. imports — more important than France. It was the fifteenth largest purchaser of U.S. exports, outranking countries such as Switzerland and Israel. The most recent assessment, 1976, places Taiwan thirteenth in two-way trade with the U.S. It is widely reported that multinational corporations regard developing countries as attractive investment sites, but seldom has Taiwan been able to attract new U.S. direct investment at the rate of 28% per annum, which is more than double the average rate for all developing countries.

These figures are bound to grab the attention of the general business audience, and although they are suggestive, they are not adequate to relate the magnitude of America's economic stake in Taiwan. Before embarking on that exigesis, it is helpful to review the question, "What is America's stake in participating in world trade at all?" The answer is, of course, that the U.S. can increase its level of consumption by specializing in the productions of those goods in which it enjoys a comparative advantage — cereals and sophisticated manufactures — and can trade some of these for foreign-made consumer goods. Thus, the U.S. gains from trade, but the American stake in this worldwide exchange is, in the following sense, less than that of virtually any other free world nation. Because it has such a huge domestic economy, the U.S. level of economic activity and consumption is comparatively less subject to the vagaries of world supply and demand than that of many of our allies. When one examines the list of those commodities of which at least 10% of the value of total U.S. supply originated abroad in 1971, one sees that the list consists predominantly of raw materials and consumer goods — generally non-strategic items in nonessential amounts. Our sole fear of unhealthy dependence, a newly emerged one, is the case of crude oil. Accordingly, the U.S. has embraced a policy of "import-substitution."

Just as imports seem insignificant in relation to domestic supply, so too do export markets for U.S. output seem piddling in relation to the domestic market. Historically, the U.S. has had one of the lowest exports to GNP ratio's in the world — in the past, 3 or 4%, recently a bit higher. However, for some classes of U.S. producers the foreign buyer is of somewhat greater significance; in excess of 10% of the output of chemicals, equipment and grain are exported.

U.S. IMPORTS

Having placed the U.S. stake in the international economy in perspective, let us return to the examination of the American stake in the Far East and Taiwan in terms of imports, exports and direct investment. Between 1960 and 1973 the annual growth rate of U.S. imports from East and South Asia (excluding Japan) was 16%. This is a couple of points faster than from the developing nations group as a whole and faster than the world average. Over that period our imports from Taiwan have grown at an extraordinary 39% per annum. Back in the early 1960s, when Taiwan's major export earner was sugar, the island was of marginal import supply significance to the United States. As stated above, by 1973 Taiwan was the seventh largest source of U.S. imports, outranking France. This rapid trade expansion by Taiwan is not solely with the United States, but with other trading partners as well: Japan, Asia and the EEC. Beginning in 1967, the U.S. became Taiwan's largest foreign market, overshadowing Japan ever since. As of 1975, America absorbed 34% of Taiwan's exports, while Japan took only 13%. In recent years the U.S. share has been slipping as Taiwan has begun to develop its European markets.

Obviously, Taiwan now makes commodities it did not make before; commodities which the United States and the rest of the world are eager to buy — namely, textiles and electrical goods. Looking at the 1974 composition of Taiwan's exports, one is struck by the fact that sugar, the first-ranked export earner in 1965, by 1974 had been demoted to fourth place, dwindling to 5.5% of total export value. In 1962 industrial products were 51% of exports; by 1972 they had risen to 83%. Thus, the importance of all agricultural products, both raw and processed, declined precipitously from a 49% share to 17% of exportables in just one decade. This steady economic shift in the composition of Taiwan's exports was stalled and even reversed a bit in 1975 when the price of sugar shot up, misleadingly magnifying the importance of that commodity. What underlies this realignment in the composition of exports are Taiwan's take-off into economic growth and the accompanying changes in the domestic structure of production and employment indicative of the transformation of an agrarian economy into a predominantly industrial one.

Taiwan's development is self-generated; Taiwan no longer receives U.S. economic or military aid (a minor exception: there are benefits from residual economic funds that generate 50 million dollars a year, i.e., old low-interest loans from the 1950s, and from purchases of weapons on credit); and the foreign debt is less than 5% of the gross national product. The remarkable Taiwanese achievement is, precisely put, that these people have propelled the growth of their real GNP at a rate of 10.7% per annum between 1963-73 (*Background Notes,* Department of State, May 1974). In 1972 the World Bank ranked Taiwan's per capita income as Asia's third highest after Japan and Fiji (*Far Eastern Economic Review, Yearbook 1975*). The extent of the Taiwanese economy's structural transformation is revealed in the following figures: between 1963 and 1974 the percentage of agriculture in GNP shrank from 22% down to 12%, while the contribution of industry swelled from 25% to 33%; the service sector remained constant at 24%.

U.S. EXPORTS

Computations based on annual trade data appearing in the U.S. Commerce Department's Overseas Business Reports indicate that over 1960-73 the growth of the U.S. share in foreign markets has not kept pace with imports.

The computations reveal that between 1960 and 1973 the growth of the East and South Asia market for U.S. exports (10.73%) was below the world pace (11.83%). But the growth rate of the Taiwan market (12.39%) is above the world market average, although it trails the growth of the Japan market (14.43% per annum).

In 1973, Taiwan was the fifteenth largest purchaser of U.S. exports, outranking Switzerland and Israel. By 1974, it had jumped to tenth place among our export markets, and it has been forecast to rise to sixth place in a relatively few years. ROC Ministry of Finance statistics for 1975 show that Japan was Taiwan's largest supplier, 31.83%, followed by the U.S. at 27%. Between 1964 and 1972 Japan had been increasingly edging the U.S. out of the largest share of the Taiwanese market. In 1964 the disparity in market shares was at its starkest: 44% versus 24%. Since 1972, however, Taiwan has had increasing success in reducing its dependence on Japan by taking its shopping list to Europe.

In contrast to the very pronounced shifts in the commodity composition of Taiwan's exports over the period 1960 to 1973, the evolution of the general commodity composition of Taiwan's purchases from abroad has been very gradual. As in the past, the largest import category in 1975 was agricultural and industrial raw materials, accounting for more than 60% of the total import bill. Capital equipment amounted to about 33% of the total, while consumer goods accounted for about 6%. Between 1972 and 1973, when imports of agricultural and industrial raw materials, on which Taiwan's resource-scarce processing economy depends, rose eightfold in absolute value (from $212 million to $1.6 billion), they declined only 8% as a share to total imports. Consumer goods dwindled from 9.3% to 6%. Not surprisingly for an industrializing economy, the greatest gain in share of imports was registered by the capital goods category. It gained almost a third, rising from 22% to 32% of the total value of imports.

The major import sources of these capital goods are Japan and the United States. In 1975 these two nations held virtually equal shares in the Taiwanese machinery and tools market, but that outcome was probably the result of the severity of the recession in Japan. In 1974, a year of more normal market shares, Japan enjoyed sales of $700 million, whereas the U.S. registered sales of only $550 million.

For some years Taiwan has been incurring increasingly severe trade deficits with Japan, a situation which has focused the Taiwanese authorities' attention on the idea of trying to reduce reliance on Japan. To sustain industrialization, the ROC has planned a shift from light and labor-intensive industries such as textiles to capital- and technology-intensive industries such as petrochemicals, precision machinery and heavy industries. This means substantial sales opportunities for capital goods producing nations. The stated preference of the ROC authorities is that the U.S. and Europe should win the largest share of these new sales. However, several factors point to the continued strength of Japan in the capital goods market. Because Japanese suppliers have been able to offer local Chinese firms comparatively inexpensive products, there has been little inclination to "buy American" or to "buy European." The Japanese supply high-quality goods while offering lower freight costs, shorter delivery schedules, and in many cases easier payment terms. Furthermore, as many manufacturers are currently using production equipment originally purchased in Japan, reliance on Japanese suppliers for parts and consulting services, at least for the meantime, is unavoidable.

U.S. DIRECT INVESTMENT

East and South Asia comprise a region in which the net capital flow component of U.S. direct investment grew more quickly, over the period 1960 to 1974, than anywhere else in the world. This particular measure is used here, rather than total direct investment, because this was the only type of data available on Taiwan.

Computations based on Commerce Department data appearing annually in its Survey of Current Business show that between 1960 and 1973, U.S. venture capital was attracted to the East and South Asia region at a growth rate of 32.22% per annum, which is more than twice the average for all developing countries, 13.69%, during this period. In Taiwan the growth rate of new U.S. investment has been 28.21% per annum.

Venture capital is sent where its owners expect to find rapid growth in sales and profits. Indications are that U.S. capital is being deployed to Asia at such a rapid rate because that is where it gets the best of both. A recent Department of Commerce survey of sales by the foreign subsidiaries of U.S. multinational corporations, covering the years 1966 through 1972, shows that the Asian region has enjoyed much more rapid market growth than, for example, Latin America, and a total of more than 200% in sales growth over the period for these majority-owned subsidiaries.

Next, consider the sales record of a subset of U.S. multinationals — the manufacturing subsidiaries, that is, excluding those engaged in such operations as trading, petroleum, mining and smelting, and finance. Between 1966 and 1972, U.S. manufacturing subsidiaries in East Asia have outperformed those located elsewhere. A sales index based on Commerce Department sources shows that the Far East outstrips Africa, Latin America and the world average. But this performance is heavily influenced by Japan, which did significantly better than the rest of the Far East. In 1972, a solid 60% of sales in the Far East were controlled by U.S. manufacturing subsidiaries located in Japan. Sales growth by non-Japanese Asian manufacturing subsidiaries conforms to the world average 15.2%, and is only slightly better than that achieved by subsidiaries in other developing economies, 14.0%. Within the manufacturing category, U.S. subsidiaries in non-Japanese Asia engaged in the manufacture of machinery had a sales field day. During the period 1966 to 1972, their sales increased at the rate of 44.5% per annum, nearly double the rate anywhere else.

The Far East (including Japan) continues to be the world's most profitable region for U.S. investment in manufacturing. *Business Asia,* a Hong Kong weekly, using Commerce Department data, reports that the average 1973 rate of return on U.S. direct investment in manufacturing in Asia was 22.8%, and Australia 19.7%. In stark contrast, Latin America offered a return of only 13.3%, a rate below the world average of 15.9%. As usual, the high return from Middle East oil operations made this region the leader in overall profitability. In 1974-75, as world inflation surged and recession set in, profit rates sank in all areas except the oil regions. The rate of return on U.S. investment in manufacturing in Asia in those abnormal years plummeted to 14% from the lofty 22% figure.

Unfortunately, there are no accessible published sales and profit data on U.S. multinationals located in Taiwan. However, since 90% of the foreign capital in Taiwan is devoted to manufacturing, it seems reasonable to accept the average sales and profit statistics on all Asian multinational manufacturers presented above as suggestive of the Taiwanese profit rates.

In the latter half of the 1960s, these sales and profits lures drew U.S. investments into the Far East at an increasingly rapid pace, especially in South Korea, Taiwan and the Philippines (the U.S. share of total invested stock in this area reached about 40% in 1969). But as the 1970s opened, Japan's investments in this area began to increase sharply; investment stock at the close of 1975 increased 10.8-fold compared with the 1969 year-end. By the end of 1973, Japan's investment share topped all investor countries including the U.S., in Thailand and South Korea. And by the 1974 year-end, Japan's share was the highest also in Indonesia. Japan's share in Asian investment stock rose conspicuously from 13.6% at the close of 1969 to 33.6% at the 1975 year-end. In contrast, the share of U.S. investments in Asia declined from 38.5% to 25.2%. However, the U.S. share of investment in the light industry countries — South Korea, Taiwan, Hong Kong and Singapore — did not fall so precipitously as it did in the primary product countries — Philippines, Thailand, Malaysia, and Indonesia. In the former group it slid from 39% to 31%, whereas in the primary products group it dove from 38% to 21% in just six years. Accordingly, Japan's gains were far more dramatic in the primary group, up from 13% to 33%, than in the light group, from 16% up to 26%. Of these eight Asian nations, Indonesia, with its opportunities for petroleum extraction, has taken the lion's share of foreign capital — $4.8 billion as of 1975. Taiwan with $1.3 billion was a close third to Singapore's second place with $1.4 billion.

Having assessed the general Far Eastern direct investment situation, we turn to an explicit examination of the available Taiwanese data. At the end of September 1976, the total amount of overseas Chinese and foreign investments reached $1.5 billion, of which $488 million under 280 projects came from the U.S., accounting for more than 32% of the total inflow of foreign private capital. During the recession years 1974–75 the U.S. was adding but little new investment. In 1974, the U.S. held $428 million (only $50 million less than the 1976 figure) or an overwhelming 46% of the total stock in 1974. The source of America's importance as a foreign investor in Taiwan can be traced to the nature of the annual new capital flows in 1974 through 1976. In 1974, Japan and the U.S. committed equal shares of the flow of new investment; in 1975, the U.S. took the lead again, 42% versus 24% of the new flow. But in 1976, Japan put up 30% compared to our 21% of the inflow.

Although U.S. direct investment commitments to Taiwan have faltered, other items in our capital account dealings with ROC remain prominent. Loans from U.S. banks remain strong. The U.S. Eximbank alone has, in fact, extended more than $1 billion in loans to Taiwan and guaranteed another $700 million of private bank loans. This clearly makes Taiwan the country with the third largest Eximbank exposure worldwide, (only Brazil and Spain have more). As of the end of March 1977, $1.54 billion of loans had been granted to state-run enterprises like Taiwan Power Co., China Steel Corp., Chinese Petroleum Corp., and Taiwan Railway Administration.[1] The largest recipient was Taiwan Power Co., with a large portion of the funds going to Taiwan's ambitious nuclear power development program. And as Minister Sum of the ROC remarked in his address to the USA-ROC Economic Council, this Eximbank credit will bring American firms $2.5 billion worth of business. (Eximbank loans are granted for 60% of the purchase price.)

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1. During discussion at the conference, Marvin Solomon, Senior Counsel to the Export-Import Bank, supplied these figures to replace the already out-of-date published ones I had presented orally.

CONCLUSION

Perhaps the reader is feeling more befuddled than informed after this heavy onslaught of statistics. As one last exercise, tally up America's economic stake in Taiwan — nearly $500 million in direct investments; enjoyment of one of the highest rates of profitability and sales growth in the world; all the goods exchanged with our thirteenth-ranked trading partner; $1.54 billion in loans outstanding and the $2.5 billion in sales which they generate — in this author's opinion, a very substantial stake indeed.

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Dr. Chiu thanked Ms. Norma Schroder for presenting her paper and then invited the discussants to comment on the papers presented. The first discussant was Mr. Martin Pilachowski, Vice-

President of Maryland National Bank, who discussed the economic relations between the Port of Baltimore and Taiwan, giving a banker's view of the ROC. Mr. Pilachowski cited the ROC government's determination to succeed through internal development and through participation in the international market, and the ROC government's ability to implement its ongoing economic evolution.

[The following is the summary of Mr. Pilachowski's statement.]