

Remarks by Discussants:

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COMMENTS

MARTIN PILACHOWSKI

I won't go into some of the numbers that have been very ably presented by my predecessors, other than to say that I do agree with them. The progress that has been made is certainly substantial. I had a somewhat unique opportunity to see it on two levels, first during the sixties as a naval officer in Kao-hsiung, and later in my banking career travelling extensively through Asia.

I think it's important to look behind the progress and try to get a feel for the motivating factors that have generated the ROC's significant progress. I think the ROC is to be commended, and I think the ability of the country to come to the international marketplace is a very strong indication of just how soundly and how well they run their affairs internally and internationally.

The financial institutions in Taiwan bear a very heavy burden because of the lack of the substantial capital markets that one sees in other areas. To say the least, they have handled this role in a very commendable fashion. Looking at the structure, all the financial institutions are under control of one format under the Ministry of Finance with an ongoing relationship with the Central Bank of China, which is the lender of last resort. There is progress being made in areas that would be considered weaknesses based on the short-term money market operations which would expand the ability of both the investor and business to take advantage of varying opportunities for taking and replacing funds.

In looking at how we as a bank invest in the financial community in the ROC, it has traditionally been an ongoing

source of profits for U.S. banking institutions as well as European and other Asian institutions to provide not only for the infrastructure or developmental financing but also trade financing. On a more local level, trade between the Republic of China and the Baltimore area is probably a lot more significant than most people would realize in looking at the total tonnage that passes through the Port of Baltimore. We have been doing business there for quite some time. While I can't give you the exact figures, it is substantial, and it is constantly growing. For those of you involved in the Baltimore business community, our local involvement will continue to expand with some additional shipping lines coming into the Port, which I think bodes well for future prospects of two-way world trade. Since there was mention made of the relationship between the ROC and the attitudes revolving around the American businessman's approach to the PRC, I think all we need to do in this area is look at the numbers that are involved. Two-way trade with the Republic of China, as was mentioned, has now exceeded \$4 billion; certainly, the trade volume with the PRC in no way approaches this volume. I think that the attitude of current business, as bankers see it, is that the numbers are the key in a sense, and that we should continue to do things in this vein.

In summary, I again feel that the driving forces have been the government's determination to succeed in both internal development as well as implementing the practice and putting their products in the international marketplace. They have done a commendable job. Certainly the stability of the ROC economy is one of the most enviable in all of Asia. The exchange rate of the NT dollar has remained significantly stable over the last twenty years or so, varying only slightly, again attributable to the government's ability to implement ongoing economic thought processes which have kept the country headed in the right direction. Thank you very much.

Dr. Chiu thanked Mr. Pilachowski for his comments, especially his remarks on Baltimore's trade and financial relations with the ROC. He then introduced the second discussant, Professor J. S. Prybyla, to speak. Dr. Chiu said that

Professor Prybyla is a prolific writer and also a person of wide experience. He recently visited both the People's Republic of China (1974) and the ROC (1976) to observe their respective economic development, and is Professor of Economics at Pennsylvania State University.

Professor Prybyla praised Mr. Wu's presentation as a synthesis of the crux of the situation. He cited the ROC's "textbook transition" from dependency to economic independence. He said Mr. Wu's guide should be followed by those responsible for economic decisions, and that insufficiently informed decisions as to future U.S. relations with the ROC could be destructive. Dr. Prybyla commented that while Mr. Wu's presentation is positive on the investment and trade climate of the ROC, it does not reveal the difficulties and frustrations that investors face, e.g., frustrations arising from difficulties with workers and bureaucracies.

[The following is the summary of Professor Prybyla's statement.]

COMMENTS

J. S. PRYBYLA

I

Allow me, first of all, to congratulate Mr. Wu on his informative, well organized, and lucid presentation of the basic elements which constitute the investment and foreign trade climate of the Republic of China. The paper represents, in my view, a good synthesis of the fundamental facts of the situation and is a helpful guide for potential investors and traders.

Mr. Wu performs a distinct service in stressing (i) the significant achievements of the Republic of China in economic growth over the last quarter century; (ii) the successful creation of a model of development that combines private initiative with constructive governmental intervention, and the profit motive with equity in the distribution of land, income and opportunity; and (iii) an almost textbook perfect transition of a once dependent economy to self-sustained growth. Not the least of the paper's merits is to remind us of the close commercial relationship between Taiwan and the United States and of the important stake which this country has in the continued viability and prosperity

of the Republic of China. Such reminders are especially important at this time when crucial political decisions affecting our diplomatic and legal relations with the ROC are under active consideration in Washington. Mr. Wu's guide to investment in and trade with the ROC merits attention by our policy makers and by those whose involvement in trade and investment with Taiwan puts them in a position to bear influence on decision-making councils of our nation. As other papers at this conference make clear (I have in mind, in particular, the analyses by N. Shroder, Y. L. Wu and K. C. Yeh as well as the instructive German case study by R. Heuser), nothing could be more disruptive to the economy and society of Taiwan as well as damaging to our own economic interests and international credibility than an insufficiently informed decision concerning our future relations with the Republic of China. In this setting, Mr. Wu's essay is most timely and sobering.

II

My reservations about the paper are of two kinds. The first concerns a methodological point which, I think, is important both as a matter of substance and from the standpoint of the paper's persuasiveness or — if I may use the word — “saleability” to informed American opinion. The second concerns updating and elaboration of some of the facts mentioned by Mr. Wu.

1. As is to be expected, the paper draws a very positive picture of the investment and trade climate in the ROC, and concludes on an optimistic note. If there are shadows on the economic landscape, as there surely are, and if future prospects are fraught with dangers and uncertainty, they are hardly to be detected in the presentation. Now, we all know that there exist difficulties with which foreign investors in Taiwan must cope and of which they should be made aware in fairness to all concerned. While the argument of a favorable investment and trade climate is basically accurate, it is not the whole story. Failure to spell out, openly and clearly, some of the more important problems, and frustrations which foreign investors and traders are likely to encounter in their dealings with Chinese managements, workers, and government bureaucracies can only contribute to later disillusionment and discouragement. I think the paper's value would have been much enhanced had the author enumerated some of the major negatives and suggested ways and means of dealing with them. In this regard the paper weakens, through omission,

its own strong case. I have seen analyses of this kind from the pen of researchers in the Republic of China, so the subject is clearly not taboo.

2. (a) The author correctly points to the crucial changes currently taking place in the structure of the ROC economy. The pivotal change concerns the transition to a more capital- and technology-intensive economy and the preoccupation with upgrading the quality of output, especially exportable output. In this connection it would be useful, I think, to mention some of the measures currently under active consideration by the government of the ROC aimed at revising the present Statute for Encouragement of Investment in a way that would generate the appropriate investment from foreign and domestic sources. I am thinking in particular of discussions concerning the possibility of extending the five-year tax holiday by one to three years to encourage investment in the priority industries; proposed tax incentives to large trading companies as a means of expanding the export trade; the proposed revision of tax incentives to firms undergoing mergers; suggested exemptions from import duty to be given to productive enterprises for the import of equipment not produced domestically; and the exemption from withholding and consolidated income tax of one year savings deposits, post office savings deposits, and trust funds. These, plus the proposed revision of the Statute for Technical Cooperation, are important measures designed to stimulate domestic and foreign private investments in the years to come when the present stimulus provided by expenditures on the ten major projects declines with the projects' completion.

(b) Mr. Wu addresses himself briefly to the problem of imbalance in Taiwan's trade with the United States. This is a sensitive issue in this country and will certainly require thoughtful corrective measures by both partners. It would have been desirable, I believe, to have dealt more fully with this subject in the paper, for a continuation of the present lopsided exchanges could easily lead to a deterioration in the climate of US-ROC trade.

(c) Finally, I would have liked to hear more about the progress being made in the development of the twelve new industrial parks and the implementation of the Hsinchu Scientific and Industrial Park Project, which appears to be a most interesting pilot experiment in providing an appropriate environment for the development of technologically advanced industries. I would be especially interested in the author's views on the

ability of Taiwan's social structure to absorb rapidly high-level technology.

I understand, of course, that time and space limitations militate against the inclusion of all these various issues in the paper. I am quite simply raising them as a possible subject of our discussions.

Dr. Chiu thanked Professor J. S. Prybyla for presenting such constructive comments on Mr. Wu's paper; he then announced a fifteen minute break for this session, after which the floor would be open for discussion. He also informed the participants that the third discussant, Professor James P. Chandler, had just arrived and would present his comments at the discussion period.

This session adjourned at 11:20 a.m. and resumed at 11:30 a.m.

Dr. Chiu called the session into order and announced that the floor was now open for discussion.