

DIVESTITURE OF STATE ENTERPRISES IN TAIWAN:

A Case Study of an Economy in Transition

by

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INTRODUCTION

This paper will study an economic event and trace a theme through a long-term governmental process, in order to serve a particular international development purpose. Specifically, the paper will investigate the following:

THE EVENT: The government on Taiwan turned over four large state corporations to private hands as partial payment to landowners for the forced sale of their lands during the final stage of the country's land reform program in 1953;

THE THEME: The divestiture was an important step in the transition of Taiwan from a centrally controlled agricultural economy to an essentially free market industrial economy;

THE PROCESS: The government has pursued a comprehensive and fairly consistent pattern of policies and programs related to the relationship of state corporations and private enterprise from 1953 to the present;

THE PURPOSE: To provide an analysis and guidelines for the benefit of economic planners in other developing countries facing similar problems of economic transition and who may be contemplating divestiture of state corporations and seeking directions for encouraging private enterprise.

It should be noted that this paper is not intended to be an analysis of Taiwan's general economic development or its land reform program, as remarkably successful as they both have been. Also, the challenges facing

Taiwan's economic planners today as the island's very successes have spawned a new and more sophisticated set of developmental problems -- some of them directly related to management of public and private enterprises -- will only be touched upon here. Such subjects must, for the sake of focus, be reserved for future studies, despite their acknowledged importance. In this paper those larger issues will be covered only as they focus on the central issues of the encouragement of private enterprise in general and the divestiture of state enterprises in particular.

Organizationally, the study is divided into six sections. The first section provides background on the conditions that led to the divestiture that took place in 1953. It covers in very summary fashion Taiwan's economic development under fifty years of Japanese colonial rule. Contrary to the popular belief that Taiwan is a unique case, the effects of Japanese rule show that Taiwan shared many of the traits and problems of other former colonies, including the matter of state controlled enterprises. Anyway, this initial section shows what they had to start with when the Chinese government repossessed Taiwan after World War II. A summary of economic issues during the period 1945-1953 concludes this section. Special, though brief, attention is given to state enterprises and to land reform during this crucial period, that included the fall of the mainland and the retreat to Taiwan.

The second section deals directly with the divestiture of four large state corporations in 1953. The reasons for and the mechanics of the divestiture are covered in some detail. The short range socio-economic effects of the divestiture and the closely related land reform program are discussed.

The third section provides a description and analysis of the performance of the now private corporations, with particular attention to general trends in their respective industries and to management issues during the first decade after divestiture.

The fourth section is concerned with the government's general policies and programs for encouraging private enterprise, and how they have related to overall economic development up to the present. In this section, the role of the American aid program and its influence on the Chinese government's policies and programs is evaluated. This section concludes with an evaluation of the long-range effects of land reform and the divestiture on the landlord group and the community in general.

The fifth section addresses current problems facing the Taiwan government with regard to the efficiency of state corporations and a renewed debate about further divestitures. This presents divestiture in a different light, one concerned with industrial, rather than agricultural issues and reforms. This is useful for the present study in terms of comparisons. The question is no longer transition from agriculture to light industry, but transition from a developing economy to a sophisticated internationally oriented economy. This transition is accompanied by qualitative changes in the type and dimension of management, marketing, planning, and competitive challenges. The question of state versus private enterprises is still central, but in different form.

The final section presents conclusions and recommendations. Throughout the preceding five sections, however, the approach of the writer has been to bear in mind several basic questions directly related to the purpose of this

study. It is hoped that the readers of the paper adopt the same preoccupation as the story of divestiture in Taiwan unfolds.

These basic questions fall into two categories: one set of six questions analyzes the Taiwan experience; a companion set of six questions stresses self-analysis for those involved with the development problems of other countries.

The two set of questions are:

SIX QUESTIONS TO PONDER ABOUT THE TAIWAN CASE

What did they do?

What were the conditions that prompted them to do it?

What were their short range objectives and strategies?

What were their long range objectives and strategies?

What did they accomplish?

Why were they able to accomplish what they did?

SIX QUESTIONS FOR OTHER COUNTRIES TO PONDER ABOUT THEIR OWN SITUATION

What are we trying to accomplish in the long range?

What do we want to accomplish in the short range?

What is our plan of action?

What factors will affect us the most, either positively or negatively?

What can we use from the Taiwan model?

What must we do differently here, and why?

This approach may seem somewhat simplistic to some; but, actually, it strikes to the heart of our purpose. Each fact, each step in the process

and each thought brought out in the study should be scrutinized through the medium of the questions on the two sides of the divestiture coin. Such application, done with thoughtfulness, candor, and consistency can transform a document to be read into a tool to be used.

The present study has been researched and written through a personal services contract authorized by the Bureau for Private Enterprise of the U.S. Agency for International Development and administered under an Interagency Agreement by the U.S. Department of Agriculture Graduate School. The writer is, however, solely responsible for the content of this paper.

The research was done in April and May 1983 in Washington, D.C., and Taipei, Taiwan. A two-week trip to Taiwan was made in May to collect data and, more importantly, to interview leading economic planning officials and industrialists. A list of people interviewed is attached. Almost all of those interviewed were known to the writer through his work as Representative of The Asia Foundation in Taipei from 1967-1972 and subsequent service as Director of the Northeast Asia Division and Director of Management and Economic Development Programs in the Foundation's San Francisco headquarters. Footnotes appear at the end of the paper.

Since the present paper is the first comprehensive study of divestiture of state enterprises in Taiwan, materials on the subject were almost non-existent. Therefore, the writer was forced to extrapolate from sources dealing primarily with land reform and economic development and to depend heavily on interviews of economic planners and industrialists. It is hoped that this pioneering study adds in some small way to knowledge and understanding of this important aspect of economic development.

I - BACKGROUND - DEVELOPMENT IN THE YEARS LEADING TO 1953

A - The Japanese Period, 1895-1945

The Chinese island province of Taiwan was ceded to victorious Japan under the terms of the Treaty of Shimonoseki ending the Sino-Japanese War of 1894-95. It remained under Japanese control for exactly 50 years until the end of World War II, when it was returned to the jurisdiction of the Republic of China.

Colonial status was a mixed bag for Taiwan. Much of what the Japanese did during their stewardship laid the groundwork that permitted later economic development to start from a fairly solid base. In writing his landmark study of American aid to Taiwan, Neil Jacoby was prompted to state that when US aid started in 1950, Taiwan had already undergone a 55-year development process.¹ While this may be overly generous to the Japanese colonial record, there is no doubt that much of what they did paid dividends later. Infrastructure was developed, including more than adequate railways, highways, and power systems.

Taiwan was a very productive agricultural colony. Perhaps Japan's greatest, though unwitting, contribution to later development was infusing in the local population an appreciation of the advantages of scientific advances and methodology in agriculture. This was accomplished through good research and an efficient agricultural extension service. The acceptance of this kind of change in a traditional society reaps large harvests later in more than agricultural terms. A fledgling system of cooperatives helped

create attitudes and administrative skills that flourished later under the more sophisticated and much admired Farmers' Associations.

But it must be remembered that Taiwan was run as a colony, serving the home country. Eighty percent of all trade was with Japan, and it was constructed to serve Japanese interests and needs. Under the Japanese, industrial growth was centered in the food processing industry. As late as 1930, 64% of all factories were devoted to that activity.² Sugar was the largest export crop by far, followed by rice and pineapple. It is interesting to note that fertilizer, which became a major industry later, was not produced in Taiwan during the Japanese period. It was brought in from Japan, thereby insuring control of the agricultural sector.

In later years, particularly after Japan went on a war-time footing in the thirties, a handful of very large industrial companies was established, along with innumerable small firms. For example, the six largest companies accounted for 80% of the capital in industry.³ Only 5% of the factories employed more than 30 people, and 57% had less than 5 workers.⁴

Kaohsiung in the south was developed as a port and a ship building facility. An aluminum company in the same city produced 1/6 of Japan's use of that metal in 1940.⁵

Almost all the capital for these industrial concerns came from Japan. For example, the two largest companies (they were in sugar and power) were financed by 98% private Japanese capital and only 2% from Taiwanese sources.⁶

Taiwanese investment generally increased in the thirties, financed by savings generated from agricultural and commercial profits. Taiwanese

invested in small mechanical shops, rice milling, noodle manufacture, handicraft production, and other traditional commercial activities. Taiwanese capital was not allowed in the major industrial enclave.⁷

The only locally owned companies of any consequence were Tatung Industries and Tang-Eng Iron and Steel Company. Tatung has become a gigantic manufacturing complex, mainly, but not exclusively, in electrical machinery. Tang-Eng started as a joint venture with both Japanese and Taiwanese capital, and is still operating in Kaohsiung. More will be said about that corporation later.

Almost all the managerial positions in Taiwan's economy were filled by Japanese. As the years went by, Taiwanese in increasing numbers gained experience in blue collar jobs as technicians, foremen, skilled artisans, and metal workers.⁸ A small number even worked into middle level white collar positions as section chiefs.⁹ Very few got farther.

As so often happens in a colonial environment involving tight control from the homeland, the conditions cited above "prevented the emergence of a dynamic Taiwanese entrepreneur-capitalist class."¹⁰ On the positive side of the same question, however, almost complete Japanese control did not permit a high concentration of capital and leadership in the hands of a few wealthy Taiwanese. This contributed to a more even income distribution than normally found in underdeveloped countries; and it also turned out to be very beneficial during land reform after the war when Japanese assets were distributed. Local interests did not already have monopoly control.¹¹

At the minimum, the Japanese colonial period resulted in the establishment of an adequate infrastructure and left a market-oriented

agricultural economy where formerly there had only been a subsistence economy. A fledgling industrial-commercial base was developing. The traditional society had shown a receptiveness to change and scientific methodology; and a new semi-urbanized middle class was just starting to emerge which would later come to dominate the private industrial sector.¹²

The final stages of the Japanese period had less to do with colonialism than with war. The drain on Japan's resources of 14 years of waging war showed in obsolete and worn out equipment and facilities. American bombing destroyed an estimated 85% of the industrial complex. The people were exhausted. At the end of the war, almost every industry except some public services was at a standstill.¹³

B - The Chinese Rebuilding Period, 1946-1953

Little improvement was possible in the private industrial sector from 1945-49, due to the vacuum created by the departure of Japanese personnel, markets, and capital, and because of the social and economic upheaval of the civil war on the Chinese mainland.¹⁴ Nevertheless, the Japanese holdings were transferred to Chinese hands in 1946. The smaller and comparatively intact enterprises were handed over to city and county administrations for continued operation, or were sold to private individuals.¹⁵ The medium sized companies were put in the hands of the provincial government, the larger ones were placed under the control of the central government.

The Chinese government has always maintained that it would have preferred to turn over all of the Japanese enterprises to private hands, but that the deplorable condition of plants and equipment and the lack of capital and managerial skills necessitated that the government be responsible for their rehabilitation. The above-mentioned sale of small enterprises is cited as evidence of this basic desire and intent.¹⁶ Taiwanese had priority on purchase or repossession, particularly if they had (as Japanese citizens) invested in the concerns.¹⁷ This had important ramifications for further development of the private sector.

However, organized efforts for industrial expansion on a major scale really did not become operational until the arrival on Taiwan of the Nationalist regime after the fall of the mainland. The government included in policy statements of 1949, 1951, 1952, and 1953 affirmation of its intent to expand the private sector. It also included the promise that most corporations then being run by the government would gradually be turned over to private hands.

High Nationalist officials have subsequently acknowledged that one of the main reasons they lost the mainland was their lack of knowledge of economics. They learned from their mistakes and were, therefore, more receptive to new ideas and recommendations for change. They were also goaded by the realization that they could not afford to fail again.¹⁸

The official position was that the government should continue to run industrial activities that directly affected national security, as well as monopolies and those industries that required capital too large for the private sector. The rest was open to private development. This subject

will be covered in more detail in sections dealing specifically with government policy. At this point, it is only necessary to point out that in the early fifties the government ran the railroads, the utilities, the fuel, chemical, mining and metal industries, fertilizer and food processing, textiles, and about every other major economic activity.

Government corporations accounted for 80% of the island's industrial output in the early fifties.

Many of the government enterprises were actually clusters of several companies that had been run separately in Japanese days. For example, the Taiwan Sugar Corporation was a combination of seven former Japanese companies. The Taiwan Industrial and Mining Corporation was made up of no less than 56 small and medium sized enterprises.

These government enterprises were staffed mainly with mainlanders supplied by the National Resources Commission. Some were experienced, capable people. For example, managerial and technical personnel who had run alcohol plants in Szechuan Province were assigned to Chinese Petroleum and especially Taiwan Sugar Corporation.¹⁹ The latter was the largest industrial entity, earning 80% of Taiwan's \$100 million foreign exchange revenue in 1952.

By and large, the government enterprises were cumbersome and badly run. They suffered from the typical problems of government run entities: inefficiency, over-staffing, rigid (and inadequate) pay structures, lack of drive and initiative, and bureaucratic procedures and interference.²⁰

Most of the managerial personnel were public administrators by training, experience, and inclination. They felt comfortable in the

atmosphere of government enterprises and were not suited to developing profit-making ventures. Almost all of the government corporations were losing money, some heavily. Planning officials, who wanted to promote industry anyway, knew something had to be done with these floundering government enterprises; but they did not know quite how to go about it.

Meanwhile, despite these shortcomings, the country's general economic performance reached prewar levels by 1952, in both agricultural and industrial sectors. The government was, therefore, in a position to take concrete steps toward socio-economic progress. The first Four-Year Economic Plan was enacted in 1953.

The first step in the new phase of economic development, however, had already been in progress for several years -- land reform. It reached its culmination in 1953 with the Land-To-The-Tiller Program, which had a direct and major effect on the development of private sector industrial activity. The planners had found their vehicle.

C - Land Reform, 1949-53

Much has been written about Taiwan's land reform program, generally acknowledged to be the most successful ever carried out anywhere. Here, however, we will restrict our coverage to the basic outline of the program, stressing the motivations of the planners and those aspects that bear directly on the subject of this paper.

Land reform in Taiwan was carried out in three well planned stages over a period of four years. In 1949, stage one limited the rent landlords could charge tenants to 37.5% of the annual yield of the main crop. Rentals had

been averaging slightly in excess of 50% and were at times 70%. One side result of this was to psychologically condition landlords to the idea that renting was less than the best way to make money. At least, they began to expect less from it.²¹

The second stage took place in 1951 and involved the sale of publicly owned lands to private citizens. The land was offered for sale to incumbent tenants. The government at that time owned 21% of the farmland on Taiwan. Since it was known that private landowners would eventually be forced to sell their land holdings above a certain small acreage, this second stage demonstrated the government's good faith. It was willing to do what it was asking others to do. The move also reinforced the inevitability of the next and final stage.²²

On January 26, 1953, the epoch-making Land-To-The-Tiller Program was signed into law by President Chiang Kai-Shek.²³ Essentially, it forced the landowners to sell to the government all but a few hectares of their farmlands. The government, in turn, was to sell the land to tenant tillers. The Provincial Government and the Land Bank were designated to handle both sets of transactions. For both the purchase from the landowners and sale to the tenants, the land was valued at 2.5 times the crop yield, the same as done in stage two.

Of special importance to this study was the nature and method of payoff by the government to the former landowners. They were paid off 70% in either rice or sweet potato commodity bonds and 30% in the shares of four large state-owned corporations.²⁴ The intent was to turn over the four companies to 100% private ownership and management.

The four state enterprises being divested were the Taiwan Cement Corporation, Taiwan Pulp and Paper Corporation, Taiwan Agricultural and Forestry Development Corporation, and Taiwan Industrial and Mining Corporation.

Most of the subsequent sections of this paper will be concerned with the mechanics and results of this divestiture and the overall question of encouragement of private enterprise. In the remaining few paragraphs of this section, we will deal, albeit briefly, with the rationale for the land reform program and its role in the transition of an agricultural based society and economy to an industrial base.

Land ownership is usually a major obstacle to agricultural growth; and without agricultural growth, the overall economy cannot thrive in a less developed society. Land reform, particularly if it puts land ownership in the hands of the actual tiller, and hence motivates him, can be extremely important. In Taiwan's case, the time was right for land reform; and it created an environment for socio-economic transformation and future development.²⁵

The planners in Taiwan saw all this and put together a remarkably balanced and fair program. These long-range plans called for gradual step-by-step growth, and recognized that a sound agricultural economy would push the industrial economy. Many, in fact most, developing countries have erred badly on that point, trying to leapfrog into industrial development too fast for their resources or capabilities.

The first priority was to get the land in the hands of the tiller. Most of the landowners balked at the idea of giving up their land, which in

China has always been equated with wealth. There was much argument and debate. However, another unique feature of the Chinese land reform program (and, in fact, Taiwan's overall economic development) was the fairness with which it was planned and implemented. The option used elsewhere of land confiscation was discarded at the outset. The landlords may not have always acted admirably in dealing with their tenants, but they were not to be treated as villains.²⁶ Land reform was the first of a series of moves made by the government that created the remarkably even income distribution that has characterized Taiwan's development.

In the end, the landlords capitulated rather gracefully. Most eventually saw that this particular transition had been in their long-range interests. It must also be noted that land reform was made easier for the mainlander government by virtue of the fact that the Taiwanese land owners were not part of the Kuomintang's own power structure (a principal reason early attempts on the mainland had failed). By redistributing the land, the government not only eroded the power of an important opposition elite, it made the mass of small farmers beholden to the regime.²⁷ In later sections, we will return to the economic benefits of land reform. For now, our attention should be directed to the divestiture itself.

II - THE DIVESTITURE IN 1953

A - Why Divestiture?

It was the right time for such a move. By the early fifties, the devastation, social upheaval, and rampant inflation of the foreign and civil wars had been overcome. The government gradually had begun to concentrate on developing Taiwan as a model province, and large amounts of capital and skilled personnel from the mainland had contributed to building a sound economic foundation. Infrastructure had been rebuilt and by 1952 production had reached prewar levels. The economic environment was ready for a qualitative leap.

Economic planners were, therefore, seeking appropriate ways to stimulate the economy and further the transition from an agricultural to an industrial base.

They knew that more innovation and progress would result from greater private industrial activity and investment; so they undertook several measures to make investment more attractive. The Korean War and renewed American support and aid also gave investors confidence about making long-term investments.²⁸ This was particularly true for light industries oriented toward consumption, which required less capital and technical know-how, but generated quick returns.²⁹ The First Four-Year Economic Plan, promulgated in 1953, stressed encouragement of private enterprise. They were moving forward on all fronts.

The Land-To-The-Tiller Program gave the economic planners a timely opportunity for a major breakthrough in promoting private enterprise in very

special ways. By paying off former landowners partially in industrial stocks, they were able to transfer agricultural assets to industrial assets.³⁰

Vice President Chen Cheng, who was governor of Taiwan Province in 1953, has written, "We know only too well that the best way to effect changes in an agrarian economy is to develop industry and trade."³¹ He went on to say, "Gradual transfer to industry and trade of the capital originally tied up in land has led to a phenomenal development of trade and industry, transformation of the social and economic structure, and a big forward step toward an industrial society."³²

The turnover to private hands of four large and complex state corporations was, indeed, a major step in both economic and social transition. Up to about that time, "private industries were small in scale, with obsolete equipment and limited production. In fact, they could not be considered enterprises in the real sense of the term." These words were written by K.T. Li,³³ who along with his predecessor as Minister of Economic Affairs, K.Y. Yin, is considered one of the two "architects of the miracle of Taiwan." Both of these men possessed extraordinary vision and planning skills. Additionally, they were both very aware of a central problem inhibiting socio-economic innovation and progress -- social and cultural traditions that were not conducive to producing the entrepreneurs and entrepreneur spirit needed for the transition they saw the country was facing.

Minister Yin once wrote, "I have always considered entrepreneurs as more important than profitable investment opportunities (i.e. demand for

capital), because they are the ones who can identify, cultivate, and utilize investment opportunities. The lack of entrepreneurs, rather than the lack of capital, or lack of know-how or limited market, is the real bottleneck in the development of our economy." He further noted that resolution of the problem would not occur within a short time, because "emergence of an entrepreneur class involves a slow social process."³⁴

K.T. Li has struck the same note, which should indicate that successful economic planners must understand the societies they are manipulating or at least guiding. Knowledge of economics is not enough.³⁵ Li once wrote of that early period,

Similar to its economic development, the social environment of Taiwan is also in a transitional stage with forces of old and new, progress and backwardness comingled. The problem is what action should be taken in order to shorten this transitional period, whereby old and backward practices may be replaced by new and progressive forces, so as to facilitate economic development. Such a change will be dependent on better education and the leadership and demonstration from people of high standing.³⁶

He went on to cite four traits of the social and cultural tradition that tend to hamper social change and economic modernization in many developing countries:

1) Lack of enterprising spirit: Most entrepreneurs in Taiwan lack an enterprising and risk-taking spirit which is essential to pioneering a new industry. They do not have the courage to accept new things. Enveloped by an agricultural society and its culture for centuries, people in general are apt to be content with the age-old ways of living and production techniques. They have little desire to improve their material life by raising productivity.

2) Lack of cooperative spirit: In an agricultural society, cooperation in production is limited to that within the family circle. This tradition is still in existence and the organization of many enterprises is limited to sole proprietorships or partnerships within the family circle. Only a few are organized in the form of a

corporation. This is a big stumbling block on the road toward developing large-scale enterprises.

3) Unfamiliarity with modern commercial practices: Unfamiliarity with modern commercial practices has hampered the development of modern business transactions. Some of these shortcomings are the limited circulation of checks, failure to make delivery on time and irregularity of quality.

4) Consumption for social prestige: Such consumption includes extravagant festivals and construction of pompous ancestral shrines, temples, villas and tombs. It seriously curtails the accumulation of capital for productive purposes.³⁷

The planners realized that what they were doing by the divestiture would contribute in no small measure to the development of a new entrepreneurial class. It was appropriate that this new group would emerge from the former gentry of the agricultural socio-economic structure, to which the population had always looked (in Confucian fashion) for money, guidance, and management of the community's affairs.³⁸

How the landlords reacted to this change of status and their new role in the community will be covered in some detail later in this section. Here we will only note that the move was not made without resistance. Many landlords were loath to give up tangible wealth (land) for a sheet of paper (stock) of very questionable value. Also, there was the traditional Chinese distrust of large-scale privately owned business, coupled with the 2,500 year old Confucian disdain for the merchant.³⁹

Some opposition came from the bureaucracy on political grounds. Conservatives cited certain passages from the writings of the republic's founder, Dr. Sun Yat-Sen. In his "Principle of the People's Livelihood", Dr. Sun had spoken at length about the strong role the government should take in guiding and operating the economy. (More of this later.) Finally, giving up four large state corporations meant putting jobs of many of one's

colleagues in the civil service at jeopardy. In China, this is called "breaking rice bowls", and is not embarked upon without careful consideration.

Credit for the idea of the divestiture is generally given to C.K. Yen, then Commissioner of Finance of the Taiwan Provincial Government, but who later became concurrently Vice President and Premier, then President after the death of Chiang Kai-Shek. With the ascendancy of the Generalissimo's son, Chiang Ching-Kuo, to the Presidency, Mr. Yen went into a very active retirement.

While C.K. Yen saw in the divestiture a golden opportunity to further the transformation just mentioned of the economy in general and the rural elite in particular, he and his colleagues had a very specific and practical reason for including the industrial stock deal in the land reform package. It had to do with the payment schedules for both the purchase and resale of the land.

The tenants purchased the land in 20 semi-annual installments (after each of the year's two harvests) over a period of 10 years. The concern was that if the tenants were not able to make their payments, their defaults would make it difficult for the government to meet similar payment schedules to the landlords.

Remember that the Chinese decided upon a procedure whereby the government first bought the land from the landlords and then resold it to the tenants. This was a good method, because it avoided the ugly confrontations that had plagued land reform efforts in other countries where they had opted for direct negotiations between the landlord and his tenants. But

in this case, the intermediary, the Taiwan government, was short of cash and wanted to minimize its risk and a possible run on the Land Bank.

It did this in two ways. It issued 70% of the purchase price in rice and sweet potato commodity bonds, a move which in itself was a hedge against inflation.

By the way, Taiwan officials were well aware of extreme problems that had been experienced during the Japanese land reform five years earlier. There, they had paid off the landlords in one lump sum cash payment. Subsequent inflation wiped out many former landowners, and court cases against the government went on for years.⁴⁰

The commodity bonds method solved most of the inflation problem. The issuance of industrial stocks for the remaining 30% of the land value further hedged against inflation, but especially relieved the government's critical cash flow problem and helped to protect it and the Land Bank against the possibility of default.⁴¹

No one has been able to tell this writer just how the 30% safety net figure was arrived at. It appears to have been an educated guess. It was also a political football. The percentage went up and down as the Land-To-The-Tiller bill proceeded laboriously through the halls of the provincial and national legislatures and the executive branch. Here are the highlights of the progression of this particular point of the complex law:

- 1) The first draft submitted by the Provincial Land Bureau to the Provincial Assembly stipulated that the payment to the landlords would be 67% in rice and sweet potato commodity bonds, 30% in the industrial stocks of five (not four) state corporations, and 3% in cash.
- 2) The Provincial Government recommended a revised draft on July 18 that said the government should pay 75% in bonds and 25% in stocks.

3) After the landlord-dominated Provincial People's Assembly tried to block the entire program, the Central Committee of the Nationalist Party put pressure on the Provincial Assembly. The Assembly capitulated in August, recommending payment of 50% in bonds, 40% in stocks, and 10% in cash.

4) The Central Government's Executive Branch, after consideration in several departments, recommended to the Premier on October 17, a payment ratio between bonds and stocks of 50-50.

5) The bill came to the national Legislative Yuan on December 9. The four committees on Interior Affairs, Economic Affairs, Finance, and Judicial Affairs hammered out a revision during 12 meetings through January 8, 1953. When the national legislature looked like it was balking, the National Party Central committee intervened again, which got the bill back on the legislative track.

6) The final bill approved and enacted by the General Assembly of the Legislature on January 20 and signed by President Chiang Kai-Shek on January 26, 1953 set the repayment at 70% in commodity bonds and 30% in stocks. This was not too far from where it had started, but showed a lot of political infighting along the way on this among many controversial issues.⁴²

Two final points about the percentage question. First, there need not have been concern about the tenants' ability to meet payments. As it turned out, less than 1% of them defaulted, helped somewhat by mild inflation, but more by general progress and prosperity. This makes one wonder if the planners would have included the divestiture package had they known this would transpire. The assumption is that they would have done it anyway for other good and sufficient reasons. But the formula might have been different.

Finally, until the amount they thought was needed to cover the government's possible risk was finally determined, the number of state corporations considered for divestiture was five. When the value of the corporations was assessed in 1953, it was found that the needed amount could be attained with four, so the fifth company was dropped. The amount needed was less because the amount of land purchased by the government was somewhat

less than originally estimated. Therefore, the number was reduced to four by a joint resolution of the National and Provincial Governments on October 14, 1953.⁴³

B - Choosing the Four Corporations

It is also interesting to note that when the original law was promulgated on January 26, 1953, the names of the state corporations to be divested were not included. They were, however, announced in the joint resolution of October 14, and published in the Rules Governing The Transfer of Government Enterprises To Private Ownership Under The Land-To-The Tiller Act, which were published by the Ministry of Economic Affairs on December 22, 1953. The four were, as mentioned previously, Taiwan Cement Corporation, Taiwan Pulp and Paper Corporation, Taiwan Agricultural and Forestry Development Corporation, and the Taiwan Industrial and Mining Corporation. The fifth candidate (the one that was dropped from consideration) was the Taiwan Fertilizer Company.

From studying what relevant documentation is still readily available, and by talking with a number of leading personalities actually connected with or fully informed about the 1953 event, it is fairly clear that there were few specific reasons for selecting the four particular corporations finally settled upon for divestiture. In a way, part of the decision was reached through a process of elimination, meaning that state corporations which the government felt it could not release were eliminated from consideration first. This was based, as noted earlier, on questions of national security, monopoly revenues and size.

For example, there was no doubt about keeping the railway and telecommunication systems and Taiwan Power. Taiwan Sugar Corporation presented a very large "special case", as did the Chinese Petroleum Corporation. Some critics have said that they could also have been sold, at least in part. The government would not put the wine and tobacco monopoly in the hands of possible speculators; and it also wanted to keep the fat revenues from it.

It is difficult thirty years later to determine why such relatively new entities as Taiwan Aluminum, Taiwan Alkali, Taiwan Fertilizer, and some of the cluster of metal and machine manufacturing interests were not put on the block. Once the needed amount to protect the Land Bank was reached, it was not necessary to go any further at that particular time in that particular transaction. The fact that they weren't unloaded later, except in a few rather restricted instances, has been a source of controversy ever since.

There was no denying that the government had too many state corporations, that all of them were overstaffed and inefficient, and most were losing money. The four corporations whose stock was turned over to the former landowners were very large indeed. Considering the elimination process outlined above, they were prime candidates for divestiture.

Of the four, only Taiwan Cement Corporation (TCC) was truly successful. It was also the most attractive to potential stockholders, because it had been rather well run, and was in a growth industry that was certain to flourish as the economy expanded. TCC controlled over 80% of the market, but its equipment, which had been installed by the Japanese, was old and in need of modernization.

Taiwan Pulp and Paper Corporation (TPPC) produced about 20% of the island's paper and board, which made it the largest concern in an industry that planners felt could benefit from increased private investment. They foresaw considerable export potential.

The Taiwan Agricultural and Forestry Development Corporation (TAFDC) and the Taiwan Industrial and Mining Corporation (TIMC) were, in fact, clusters of a number of small companies that had been separate in Japanese times. They were, in effect, umbrella organizations or holding companies, where some of the subsidiaries were more valuable and viable than the parent company. We will come back to this matter in a later section.

Of TAFDC's four major member companies, Taiwan Pineapple Corporation and Taiwan Tea Corporation were larger and much more attractive to investors than the other two.

TIMC was made up of no less than 56 companies, including a dozen small coal mines, textiles, chemicals, printing, machine tools, etc. There were lots of opportunities for individual ventures within the complex. Mining as an industry, however, did not have a bright future.⁴⁴

The planners hoped and believed that the generally poor track record of three of the four companies would improve under private management and entrepreneurial initiative, with the assistance of appropriate government guidance and financial programs. K.T. Li told the writer that the Land-To-The-Tiller program in general, and the transfer of industrial stocks in particular was, if nothing else, a very interesting way of industrial capital formation.⁴⁵ As he well knew, it was much more. It was the first major step in the long-term program for the encouragement of private enterprise on Taiwan.

C - Mechanics of the Divestiture

Divestiture was only one part of the Land-To-The-Tiller Program, and not the major part at that. Most of the regulations and machinery set up to process the transfer dealt with land questions, especially such matters as title, boundaries, and value. The constraints on this paper necessitate that these important matters not be covered here in a detailed way. It will suffice to say that the entire program was conducted with meticulous attention to accuracy and equity. It was an enormously complicated affair, involving sales to almost 200,000 tiller families, plus what the 106,000 landlords were allowed to keep.

We cannot be concerned here with either the purchase of the land from the owners or the subsequent sale to the farmer tenants. Our sole interest is in the payoff to the landlords; and even there, the focus will be almost exclusively on the stock portion, not the commodity bonds. It should be remembered that the payment schedules differed, with the commodity bond coupons payable in 20 semi-annual installments over a period of 10 years, whereas the stocks were, for all practical purposes, issued in one fell swoop.

When the Taiwan Land Bank began to pay compensation to the landlords in August 1953, the government enterprise stock certificates were not yet printed and ready. Temporary certificates were issued, but expressed in value of commodity bonds. When the official stock certificates were finally printed and distributed on March 1, 1954, the Land Bank handed them over to the landlords in exchange for the temporary ones. This necessitated a conversion of currency values based on rice or sweet potato prices in

December 1952, which was when the value of government enterprises had been reassessed.

On November 8, 1952, the government had set up an Assessment Committee (also called the Re-evaluation Committee) composed of the following members: one each from the Ministries of Economic Affairs, Finance and Interior, a Minister Without Portfolio from the Cabinet, one each from the Board of Auditing, Taiwan Accountants' Association and the Taiwan Provincial Production Board, and five members of the Provincial Assembly. The Minister of Economic Affairs served as Chairman. In re-evaluating the fixed assets, the Committee adopted the following adopted criteria:

- 1) Re-evaluation According to the Price Indices: This was done, in respect of assets installed before June, 1949, by first taking the figures as recorded in the account books of the Corporations at the end of June, 1949, minus depreciation, or, in respect of assets installed after that date, taking the original cost minus depreciation; and then calculating their present values according to the several price indices for December, 1952.
- 2) Re-evaluation According to Cost of Replacement: This was done by taking actual assets on hand at the end of December, 1952, and calculating their present values according to the several price indices for December 1952.
- 3) Re-evaluation According to Profit Returns: This was done by capitalizing the average net profit returns for 1950 and 1951 at an interest rate of 5% per annum.

The re-assessments were completed in March 1953. Then the liquid and other assets were taken up. Liabilities were subtracted, and the entire task was finished by the end of May.

Each corporation called general stockholder meetings. They recomputed their capital values, taking into account capital reserves. To facilitate the compensation program to the landlords, the face value of each share was put at NT\$10.

The total value of the final four corporations was estimated at NT\$970 million in 97 million shares. This amounted to U.S. \$80 million at the prevailing exchange rate (12.5 to 1), which represented a huge sum in Taiwan in those days. The breakdown was:

	<u>State-owned Shares</u>	<u>Province- owned Shares</u>	<u>Private- owned Shares</u>	<u>Corporate- owned Shares</u>	<u>Total Number of Shares</u>
TCC	14,942,664	9,772,164	189,702	2,095,470	27,000,000
TPPC	13,301,750	8,694,850	368,050	7,635,350	30,000,000
TAFDC	0	13,882,159	784,763	333,078	15,000,000
TIMC	<u>0</u>	<u>18,408,830</u>	<u>3,354,310</u>	<u>3,236,860</u>	<u>25,000,000</u>
Total:	28,244,414	50,758,003	4,696,825	13,300,758	97,000,000

The Taiwan Provincial Government transmitted in July 1953, to the Provincial Assembly a proposal for the sale of the province-owned stocks of TAFDC and TIMC, a proposal which was duly concurred in by the Provincial Assembly. The proposal for the sale of the state-owned stocks of TCC and TPPC was submitted to the Legislative Yuan in the form of a Special Budget Bill by the Executive Yuan and was duly passed by the Legislative Yuan on June 25, 1953. As soon as all the legislative procedure had been completed, the Ministry of Economic Affairs issued in December, 1953, a set of Rules Governing the Transfer of Public Enterprises to Private Ownership under the Land-To-The-Tiller Act, which contained the following important points:

- 1) All the government stocks of the four corporations would be sold: TCC and TPPC would be sold in one single operation and managed as

integral units; TAFDC and TIMC would be sold by plants, each of which be put under a separate management.

- 2) As TCC and TPPC are more easily managed and more profitable, it was decided that, in order to encourage popular interest in making investments and facilitate management, the 30% compensation to landlords would be paid seventy percent with the government stocks of those two corporations, and thirty percent with those of the other two corporations.
- 3) Any government stocks of TAFDC and TIMC that remained in the hands of the government after the compensations to landlords had been duly paid would continue to be sold, and might be exchanged for land bonds in kind by anyone who applied for it. Any further government stocks that still remained in the hands of the government after that would be sold by tenders according to law, until all such stocks had been sold.
- 4) A Committee for the Allocation of Government Stock Shares in Payments to Landlords would be set up with a representative each from the Ministries of Economic Affairs and of the Interior, from the Taiwan Provincial Government, the Taiwan Land Bank, and the four Corporations concerned under the chairmanship of the representative from the Ministry of Economic Affairs and with the representative from the Taiwan Provincial Government as his deputy. The actual work of transferring the stock shares to landlords was to be entrusted by the Corporations to the Taiwan Land Bank.

The total value of government stocks of the four corporations to be transferred to private ownership was actually NT\$790,024,170. The 30 percent of the land value to be paid to landlords as compensation with farm crops, when converted into monetary terms according to the average market values of rice and sweet potato for December, 1952, and calculated in terms of industrial stocks, was NT\$660,292,420 or 84 percent of the total value of government stocks. But as fractions of a share were paid in cash, such cash payments accounted for NT\$517,780. Consequently, the total value of government stocks actually transferred to landlords was only NT\$659,774,640. The following table shows the figures in more detail.

	<u>Total Value of Government Stocks Transferred to Private Ownership (NT\$)</u>	<u>Percentage of Each Corp. & Stock</u>	<u>Value of Government Stocks Paid to Landlords as Compensation</u>
TCC	247,148,280	37%	243,647,610
TPPC	219,966,000	33%	217,250,150
TAFDC	138,821,590	13%	86,359,540
TIMC	<u>184,088,300</u>	<u>17%</u>	<u>112,517,340</u>
Total:	790,024,170	100%	659,774,640

The Taiwan Land Bank publicly announced that for two months beginning from March 1, holders of the temporary certificates might exchange them for regular stocks. Just as, in the case of rice bonds, both principal and interest on account of the first and second installment payments due in 1953 had been already paid immediately after the harvest seasons of that year, so all the industrial stocks now issued bore the date of January 1, 1953 as the date of issuance and all profit and loss for that year were to be credited to the new stockholders.⁴⁶

The reader will note several interesting facts from the above. First, about 5% of the total stock value of the four government enterprises was already in the hands of individuals and another 13% was owned by corporations. They, of course, kept their holdings in the reformed companies. Only in the case of TPPC and TIMC was the amount of previous private ownership substantial (about 25%). There does not seem to have been

much overlap between previous and new ownership groups; but it may have been a factor in some subsequent stock transactions, as we will see in later sections.

Through the stock deal, a landlord whose former land holdings had been of moderate size received an average of 4406 shares, of which 1639 were for TCC, 1460 for TPPC, 575 for TAFDC and 732 for TIMC. A former big landholder received an average of 39,762 shares, including 17,834 for TCC, 12,358 for TPPC, 4,423 for TAFDC and 5,347 for TIMC.⁴⁷

Second, not all of the government stocks put on the block were actually paid to landlords. The 16% left over after the 30% figure was reached was put on sale in several ways. About 1 million shares were given as additional compensation to a group of landlords who were old, widowed, orphaned, infirm, or disabled.⁴⁸ The rest was sold to individuals who applied.

TCC and TPPC, especially the former, were the most attractive stocks, and 70% of the stock was from those two firms. They were sold as single units.

TAFDC and TIMC, on the other hand, were made up of many units, and they were parcelled out that way. In other words, landlords did not get stock in the holding company. They received stock in one or more of the individual companies. This resulted in a great deal of stock trading after the original transfer, as individual priorities and interests came into play. The government tried, fairly successfully as it turned out, to get around the dilemma of unfair distribution of valuable and less valuable stocks on the one hand, and breaking up the shares of all the corporations and their subsidiaries into miniscule amounts on the other hand.

Because the performance records of TAFDC and TIMC were generally poor, it was difficult at first to get additional buyers.⁴⁹ Nevertheless, most of the stock had been transferred by mid-1954 and all of it by April 30, 1955.

The new stockholders of the four corporations held reorganization meetings in October and November of 1954 and March 1955 to complete the transfer of ownership and chart plans for the future. New Boards of Directors were elected.⁵⁰

Meanwhile, the government in October 1954 established a Committee to Assist Public Enterprises Transferred to Private Ownership. The Committee operated under the direction of the Ministry of Economic Affairs. The Committee was directed to provide guidance to the four corporations in all aspects of their operations, including management, procurement, plant modernization and expansion, marketing, and continuation of privileges for short-term loans and other services provided to state enterprises. Assistance with termination and reassignment was another function. The Committee was especially mandated to help the four to effect the separate sale of their plants and put them under separate managements. The idea was that the weaning process would be over by the end of 1957, when the four corporations would be completely on their own.

The highly esteemed Sino-American Joint Commission on Rural Reconstruction (JCRR) stated in its official evaluative study of land reform,

The Government has been prompted to do everything in its power to help the four Corporations, not only because the matter concerns the best interests of the 100,000 landlord families affected and may well influence the outcome of the land-to-the-tiller program, but also because it is intimately bound up with the future of the industrialization of Taiwan.⁵¹

D - Initial Landlord Reactions and the Short-Range Socio-Economic Effects of the Divestiture

As previously shown, most of the landlords held the commodity bonds in much higher regard than the stock. The former represented "real" value, whereas the latter was just a piece of paper.

The fact of the matter is that many of them didn't have the vaguest conception of what stock really was, that it represented ownership of a company and was a possible source of continuous income. One must bear in mind that most of the ordinary landlords were not learned men, nor were they conversant with the ways of big business. In a traditional society where what business there was usually was in family hands, the concept of the corporation was not well developed.⁵² In a similar vein, most could not see the point of having only a few shares, since you couldn't control the company.⁵³ That the value of stock should be based on the quality of management and the product escaped most of them, particularly in terms of long-term investment.

Rumors were rampant in Taiwan that the stocks of the four corporations would soon become worthless and that the best thing to do was to unload them as soon as possible. It appears that speculators were behind some of these rumors.

The period was characterized by confusion, ignorance and naivete. A large number of the landlords sold some or all of their stock, much of it at a loss. Some observers put the number of sellers at 90%,⁵⁴ but the figures are not entirely convincing because of the unscientific way the sample was conducted. There is no doubt, however, that rash selling was pervasive and that most suffered substantial losses. An official study

conducted by the JCRR in July 1959 concluded that 70% of the landlords sold all or part of their stock, while only 16% sold their bonds. Here again, however, the sample was not good enough for making more than generalizations.⁵⁵

Only the TCC stock held its value, selling at an average 10% above the NT\$10 official value. The other three sold at an average loss of about NT\$4 per share. It is impossible to determine how many landlords sold how much of their stock. It appears that the average loss was probably about a third of the value of the stock. Bearing in mind that stock was 30% of the total payment for the land, this means a loss of about 10% of the total value.

It should be noted that the loss came right at the start, when many of the landlords were short of cash. In fact, it appears that the need for cash had been a prime motivation for selling the stock.

Most of the revenue from quick sales in 1953-54 went for consumption, with only about 10-15% going for business investments. Many landlords admitted that they knew they were spending the money unwisely, but did it anyway. Many could not even remember, when queried several years later, how they spent the money during those earliest days.

Later, the stocks of the four corporations became quite valuable. The wise ones who kept the stock made money. Some, who didn't comprehend the potential value of the "paper", but didn't know what to do with it, just "stuck it in a drawer".⁵⁶ They were just plain lucky.

The government's commendable efforts to be fair were at least partly thwarted by its failure to refute the rumors or otherwise control the situation. They could have conducted more public information programs about

stocks and corporate affairs for the benefit of the landlords who were unversed in business affairs.

There is no doubt that considerable concentration of stock holdings did occur, but the exact extent is almost impossible to determine. This writer's opinion is that while there was more manipulation and concentration than there should have been, it did not reach scandalous proportions. Most reputable Chinese with whom the writer discussed the point seemed to feel that it was within ethical limits, though the government could have curbed the excesses. Incidentally, several informants said the landlords sold their stock to friends and relatives.⁵⁷

Some of the concentration and consolidation was eventually healthy for the business world; but many innocent, uninformed people were hurt financially in the process. Many landlords did not in the short run come out much better than the new owner-cultivators.⁵⁸

There were other complaints about how the program was handled. Some said that the capital value of the corporations had been over-estimated (a few said the opposite).⁵⁹ The land price ratio of 2.5 times the annual yield was criticized as too low, the feeling being that the actual value was more in the neighborhood of 4.5 or more.⁶⁰ Most seem to believe, however, that the 2.5 was not too far off the mark.

Many landlords felt the government should have given some type of guarantee for the stock. This, they stated, would have squelched the rumors and lessened the number of quick and disastrous sales. The government's position was that since it was turning the corporations over to private hands, it could not continue to guarantee the value and, hence, the corpora-

tions' performance.⁶¹ That argument is weakened when one notes that the government participated actively in the affairs of the four corporations through the guidance committees for 3-4 years. Some kind of guarantee or endorsement for perhaps five years might have served a useful purpose.

Some complained that since the commodity bonds matured in 20 installments they didn't have enough capital in one lump to invest in business ventures. But records of how they did spend their money do not indicate they would have followed that pattern anyway, at least in the first year or two. Besides, as mentioned above, the government wanted to avoid the catastrophe that occurred in Japan with lump sum payments.

One of the goals of combining the stock deal with land reform was to influence landlords to change their occupations from collecting rent to engaging in business. In the short range, this failed completely.⁶²

The long range effects show a different picture, which we will discuss in a later section. Here we will only note that many landlords who did opt for business related careers failed at first. This made them bitter when they saw tenants getting the land without, as they saw it, hardship. In those early years, they suffered confusion and uncertainty.⁶³

It is interesting to note the widespread credit given to the Farmers' Associations for providing management experience to future businessmen.⁶⁴ These internationally acclaimed multi-purpose organizations sprang from the system of single-purpose cooperatives established by the Japanese. They have served many useful purposes over the years, including providing management experience, though they do not conduct actual business management training courses.

One reason that the survey didn't show more occupational shifts in the first year or two after land reform is that some landlords had already been in the process of entering public service or teaching even before land reform. Some of these were grateful that land reform gave them added incentive and funds for the new activities they had recently taken up.⁶⁵ This is additional evidence that land reform in general and the divestiture in particular were timely. The social transition was already in motion.

III - PERFORMANCE OF THE DIVESTED CORPORATIONS - THE FIRST DECADE

A - The General Situation

This section will first discuss some of the general problems and challenges that faced the newly private firms, and how they addressed them during the first few years after divestiture. Following this will be a run-down on the performance of each corporation during roughly the first decade. No attempt has been made to compile a balanced historical analysis of the corporations' activities. Also, the absence of detailed financial information is deliberate. The intent is only to show highlights illustrative for studying divestiture and its aftermath. Once a company has had a decade of experience, it must be considered in its own right in relation to its industry, no longer as a product of divestiture.

There is remarkably little information available on the reorganization activities and problems of the four firms immediately after divestiture. Most sources state that stockholder meetings were held in late 1954 and early 1955 for purposes of re-organization; but seldom do these sources indicate what went on at those meetings and soon afterward. For example, the chart below⁶⁶ does indicate that meetings were held and Boards of Directors elected, but it was not accompanied by substantive material:

	<u>Date</u>	<u>Owners Present</u>	<u>Shares Represented</u>	<u>Elections</u>
TCC	Oct. 23, 1954	1,833	18,930,031 out of 27,000,000	A 19-man Board of Directors
TPPC	Nov. 15, 1954	1,530	20,575,854 out of 30,000,000	A 27-man Board of Directors
TAFDC	March 16, 1955	11,659	12,595,814 out of 15,000,000	A 27-man Board of Directors
TIMC	March 10, 1955	2,281	19,874,568 out of 25,000,000	A 21-man Board of Directors

We do know that there were constant sales and resales of the stocks, particularly in the two "cluster" corporations, TAFDC and TIMC. Consolidation and concentration of shares continued for several years. A relatively small number of big landlords became large stockholders and are now regarded as successful businessmen and industrialists.⁶⁷

Shrewd operators also traded for stocks of subsidiaries they wanted.⁶⁸ Several subsidiaries, like Taiwan Pineapple Corporation within TAFDC, soon became more important than the parent holding company. The pineapple company spun off almost immediately to operate independently.

This writer was surprised that several of the informed persons he interviewed thought that either TAFDC or TIMC or both had, over the years, "sunk out of sight" or had gone out of business. Both still exist, but the holding companies are quite small. The value of the corporations is largely in the land they have, not the few enterprises they still run. This led former President Yen to remark that all four had made money one way or another.⁶⁹ The holding companies had served their purpose, and the divestiture could be considered successful.

The fate of particular companies depended to a great extent on how their respective industries fared. For example, when the coal industry ran into a decline, TIMC and its mining subsidiaries suffered. This was true of all industrial or commercial concerns, not just the four divested corporations.

Some of the companies did not prosper, because they sold off land and equipment unwisely, often to friends and relatives at low prices, leaving little or nothing. An astute observer of the local scene, former Mayor of

Taipei Henry Kao, has said that such people did not have the talent or the intention to build big companies. They were only "sniffing around for dollars" and a quick return.⁷⁰

At the start of their private status, all four corporations were short of money and burdened with obsolete plants and worn out equipment. The biggest lack, however, was experienced management. Staffing was also a problem, but of a different nature.

As has been mentioned several times previously, the lack of capable, experienced business managers was a major obstacle to industrial development in the fifties and even on into the sixties. There were few people with the true entrepreneurial spirit. Professional and academic training programs were virtually non-existent thirty years ago on Taiwan. The Taiwanese had little experience at upper management levels; and the mainlanders' skills were more in public administration or, at best, the running of state enterprises than in guiding private businesses.

Most of the top-level management employed in the four corporations when they were operated by the government were retained by the private owners. As a matter of fact, the chief executive officers of three of the four (except TCC) were appointed (by the Assistance Committee that guided the transition through 1957) because of past experience with the government and the party. One was a former Speaker of the Provincial Assembly. Another was a former Taipei Mayor. When TAFDC did not perform up to expectations, the head man was fired and a Vice Minister of Economic Affairs was appointed Chairman. This is not to suggest that these men were all political or bureaucratic hacks. It is only meant to indicate that authorities kept a

tight rein and appointed persons (Taiwanese or mainlanders) with whom they were used to working.

Most of the staff, particularly at technical levels, stayed on; although the Assistance Committees were also occupied with establishing termination and reassignment procedures. Except as will be noted below in the case of TIMC,, major staff changes of mainlander officers or local technicians were handled gradually. Almost all stayed on at TCC and TPPC, and the replacements at TAFDC were not excessive. Other government officers or enterprises did not have to absorb too many who were let loose.⁷¹ The concern over loss of civil service jobs has continued to hover in the background when divestiture is contemplated, even to the present.

Despite the managerial shortcomings just mentioned, the private sector in Taiwan did turn out over the years an amazing group of talented entrepreneurs and company directors. The huge success of the economy attests to that. They learned on the job.⁷² Few of the industrial leaders of Taiwan received formal management training in terms we are used to. In fact, a goodly proportion had rather meager education of any type.⁷³ They learned business by trial and error, developing through the system. It has worked rather well so far, although some express doubts that managers learning by on-the-job training will be adequate for meeting the more sophisticated challenges facing today's economy.

In the fifties and early sixties the four corporations in which we are interested shared the uncertainties and vicissitudes of other private enterprises in an economy that was just beginning to get underway. Like the stock the government turned over, there were no guarantees.

Let us now turn our attention to the four firms to see how they performed and fared in their first decade of existence in the private sector.

B - Taiwan Cement Corporation

From the start, TCC had been the best run and most respected of the four divested corporations. When the Chinese took over Japanese holdings after the war, they combined three companies into TCC. The Kaohsiung plant in the south was originally constructed by Nihon Portland Cement Company of Japan in 1915-17. It was expanded in 1930 and again in 1942. In 1944, it produced 240,000 metric tons. A postwar rehabilitation brought that to almost 400,000 in 1958.

The east plant at Suao was run as the Kasei Cement Company, Ltd. of Japan. Started in 1939, it was not finished until 1944. Its 1944 production maximum of 70,000 metric tons was raised to 218,000 by postwar rehabilitation.

The Nannon Cement Company of Japan started the Chutung plant in 1942. It was only 60% complete at the end of the war. By 1958, it was turning out 200,000 metric tons.

Despite the relative newness of the plants, the equipment was in poor shape when the then government-run TCC took over. Production in 1945 was 78,620 metric tons. By the time TCC became private in 1954, that had been raised to 536,416. In 1958, the total was 793,000 metric tons. That was 80% of Taiwan's total production. Sales in 1958 were NT\$566 million (US\$38

million at the official exchange rate), which was a considerable sum in Taiwan 25 years ago.

In 1958, TCC obtained a US\$3 million loan from USAID's Development Loan Fund for expansion of the Kaohsiung Plant. In addition, TCC was then planning a new, small plant to be financed by its own resources on the east coast at Hualien.

Cement was tied to a growth industry (construction) which reflected and benefited from the overall healthy state of the burgeoning economy. Cement consumption in Taiwan grew steadily, and the 1958 per capita use of 78 kg was one of the highest in Asia. Some exporting was also done, with back orders piling up.

Domestically, TCC dominated the market. Aside from a number of small operations (who cumulatively produced 65,000 MT in 1958), the Chia Hsin Cement Company, built in 1956 with a capacity of 50,000 MT, was the only other large producer.

TCC had the in-house capability to design the AID-financed plant expansion. The AID evaluation said that TCC was well run and financially sound. It also noted that while expansion had been continuous, it had been planned and implemented efficiently. It further stated that this "would not have been possible without the capable management and engineering staff of the Corporation."⁷⁴

It might be noted that TCC's management was Taiwanese from the start, many of them trained by the Japanese.⁷⁵ Most of the major stockholders and top management were former large landowners.⁷⁶ It was the only stock of the four corporations that was selling above par when landlords

were considering unloading their shares of the four companies. Fewer TCC shares were traded than any of the other three.

C - Taiwan Pulp and Paper Corporation

The Japanese established a paper industry on Taiwan because of its ample supply of wood, bamboo, bagasse (sugar cane residue), and other cellulose or fibrous plants. In the early fifties, there were only two paper mills of consequence, both run by the government. One was TPPC, the other Chung Hsin Paper Company, which is still operated by the Taiwan Provincial Government.

The two factories were rebuilt in 1946. In the early fifties, efforts were being made to replace the old worn out equipment. The future looked bright for exports, but not until product quality and production efficiency were increased.⁷⁷

Shortly after going private, TPPC received approval for US\$1,000,000 in foreign exchange from AID. The new management, finding itself short of cash and with prospects dim for raising local capital, scaled down the request and the proposed rehabilitation to \$820,000. They got the money from AID; but the more limited modernization program that was implemented turned out to be inadequate for their long term development needs.

The management had more financial woes than the debt of the modernization program. The government had preempted most of the working capital for payment of back taxes, presumably so the record would show that TPPC started out with a clean slate. What happened was that the government got its own books in order. TPPC was financially strapped at birth.⁷⁸

At the time, the Hsin Ying mill was the only one on Taiwan producing pulp for sale. It was running at 1/3 capacity before the renovation; and the entire industry was adversely affected by that. The mill also made paper bags for fertilizer, cement, and sugar companies.⁷⁹

In 1958, TPPC spun off a large part of its operations, including the fairly large Shihlin Paper Company. The three spun off parts then ran as independent entities. TPPC retained only the two largest plants, at Hsin Ying and Tatu, as well as the corporate office.

Taiwan's entire paper industry was facing problems. By the mid-sixties, there were 72 mills, plus 30 more hand-made paper mills, which was far too many for the small, glutted domestic market. Poorly designed, financed, and managed plants had sprung up in the late fifties. Industry-wide overproduction caused prices to drop in 1959.⁸⁰

The biggest problems were, besides inadequate facilities, poor quality and inept marketing. Lumbering costs were also very high because of Taiwan's rugged mountainous terrain.⁸¹ In an attempt to go beyond the relatively limited domestic market, the pulp and paper industry in 1958 started developing exports.⁸²

TPPC took a leadership role in creating several industry-wide professional organizations dealing mainly with research and marketing, and credit.⁸³

A 1962 consultant report to K.T. Li, at that time head of the Chinese government's Council for U.S. Aid (CUSA), gave TPPC a mixed evaluation.⁸⁴ It commented that the Hsin Ying mill, despite modernization,

had lost money for five years; but the report also noted that manufacturing costs had been reduced in 1961 because of careful attention by management.

The report showed encouraging data on increases in export sales to Southeast Asia, with the United Kingdom listed as another potential customer. It said that from a standpoint of technology and engineering, TPPC was competent; but that from the viewpoints of management, labor productivity, market research and sales promotion, the performance was generally poor. Most of the study's recommendations dealt with ways to improve market research and sales.

Financially, TPPC still faced in 1962 a formidable working capital problem, made more extreme by a recurring tendency to "roll over" short-term debts. AID's consultant felt that proposed expansion would only aggravate the problem. TPPC's financial position was covered thusly --

It seems evident that while continuation of operations on the current basis is possible, it is wholly dependent upon the good will of short-term creditors, and what amounts to a moratorium on long-term obligations. If some means cannot be found to radically increase business, without commensurately increasing costs -- it seems evident Hsin Ying (or all of TPPC) cannot be expected to continue in business indefinitely.⁸⁵

The entire paper industry, not only its largest firm (TPPC), was experiencing difficulties a decade after divestiture.

There were also areas where TPPC was encountering difficulties with the government. The country's second largest mill, Chung Hsin, was run by provincial government (it still is, though no one knows why). Chung Hsin was the only company producing newsprint. TPPC's plan in 1964 to enter that field ran into problems of an unexplained nature.⁸⁶

Also, the report on Hsin Ying cited above felt that TPPC was paying far above the current price for bagasse used in pulp production, and recommended that the matter be investigated.⁸⁷ Almost the sole supplier was the government-run Taiwan Sugar Corporation, which not too much later established its own pulp plant, despite the government's stated policy against new ventures in fields where private industry was already performing adequately. This factor has assumed greater proportions in recent years.

D - Taiwan Agricultural and Forestry Development Corporation

Tracing the history and destinies of TAFDC and its various parts is a vastly different task from TCC and TPPC, for a variety of reasons. TAFDC at the time of divestiture was made up of four principal divisions, some with several parts. They were combined from a large number of private Japanese companies. The various entities have gone in all directions over the years. What is left of TAFDC is hardly recognizable.

The four original divisions were Taiwan Pineapple Corporation, Taiwan Tea Corporation, Taiwan Animal Husbandry Company, and the Taiwan Fisheries Corporation.

As pointed out earlier, TAFDC stock was not popular with the landlords. Many of the units within TAFDC were not viable. Landlords sold their stock at a loss. Speculators bought TAFDC shares from landlords and also through the government's subsequent auction of excess shares (that is, the shares left over after the landlords had been paid off). The price at auction was sometimes as low as NT\$1 (par was, as you recall, NT\$10). Even then, some

of the units didn't sell and went back to the government to die a quiet death.

It should be mentioned that some Taiwanese had invested in several of the TAFDC sub-units when they had been independent companies in Japanese days. Those companies were taken over by the Chinese government as alien property after the war. As soon as the Taiwanese stockholders got back their Chinese citizenship, they also got back their shares, which they retained when TAFDC went private in the divestiture deal. A few of the more entrepreneurial types took advantage of the opportunity to buy more shares, ending up with more shares and control than they had enjoyed in Japanese times.

Some of the government's management people in TAFDC stayed on, but many were replaced fairly soon after divestiture (exact schedules of replacement are impossible to find). Most of the various operations were small and the new owners felt capable of running them.⁸⁸ When the tea company later made a deal to return some mountainous land to the Forestry Bureau of the provincial government, the arrangement included the government taking back some of the employees, even though this caused considerable budgetary strain.⁸⁹

Along with growing and processing tea, the Taiwan Tea Corporation owned a great deal of land which, as it turned out, was the most valuable asset of the parent company, TAFDC. Some small lumbering and lumber processing operations were run by the tea company.

Development of forest reserves had always been hampered by high costs, due to Taiwan's rugged terrain and also by bureaucratic interference through

a multitude of agricultural agencies with some measure of control over timber lands.⁹⁰ Because of this, and because of the mercurial fluctuations of the tea market, the Tea Corporation's fortunes have gone up and down.

The Taiwan Animal Husbandry Company had several animal stations. They raised and sold pigs, cattle and, especially, chickens. The backbone of the company, however, was a highly successful flour mill that almost made up for the losses of the other units.

The fisheries enterprise included units involved in fishing out of Keelung in the north and Kaohsiung in the south. It also engaged in processing and canning of seafood products in both places, but on a relatively modest scale. It did own and operate a lucrative ice factory in the north.

The Taiwan Pineapple Corporation (TPC) was the largest unit within the TAFDC complex. It split off almost immediately after the holding company passed into private hands.

In 1954, TPC handled 90% of Taiwan's pineapple exports, which were considerable. Its financial position was, however, precarious. TPC had never regained pre-war production levels, when sugar and pineapple had accounted for 70% of the island's industrial production.⁹¹ Under the government, it did not approach those levels; and it lost money every year. There were prospects for improvement, but AID recommended that financial assistance not be given unless the company came forward with a sound plan for future development.⁹²

Production and sales figures increased as Taiwan's pineapple exports expanded enormously during the next few years. The industry grew because of drive, government support, and scientific improvements in growing and canning techniques.

The pineapple company continued to experience some administrative and financial problems, but generally prospered during the "golden years" when Taiwan was the largest exporter of pineapple in the world. By 1964, TPC was, along with Taiwan Sugar Corp., one of the two largest canners on the island.

Aggressive merchandising boosted sales. The peak year was 1971 with 4.5 million cases, up from 125,000 in 1950, and one-half million in 1954 at the time the company became private.⁹³ When exports began to decline in the early seventies due to foreign competition, so did the fortunes of the Taiwan Pineapple Corporation.

By the end of the first decade of private management, many of TAFDC's units had already spun off; but it is impossible to reconstruct the Corporation's exact composition at that time.

E - Taiwan Industrial and Mining Corporation

If Taiwan Cement Corporation was the most highly regarded of the four companies in 1953, Taiwan Industrial and Mining Corporation (TIMC) was the least respected and valued. Many of the features associated with the sale, resale, and auction of TAFDC shares also took place in the case of TIMC. The more aggressive landlord-entrepreneurs, plus a sprinkling of speculators, gathered the stocks they wanted. They made out on some, but not others.

If anything, the situation was even more chaotic at TIMC than at TAFDC, because TIMC was made up of no less than 56 entities of various types and sizes, a good number of which were not viable.

There were, however, some eventual money makers within the TIMC extended family. Almost all of them split off, most sooner than later, leaving TIMC with the "junk", as the first TIMC Chairman noted wryly during a recent interview with the writer.⁹⁴ Some of the worst units were returned to the government.

TIMC contained twelve coal mines. Five of those were among the ten largest in the country. Several were later successful spin-offs, even though the coal industry in Taiwan has experienced a gradual decline. There are many reasons for the decline, but one of the principal ones is the generally low quality of Taiwan's coal.

The coal industry did try to expand and modernize. It is interesting to note that one of the major hindrances to those efforts was the government itself. The Provincial Coal Control Commission intruded directly into mine development, operations and management. AID studies in 1953 and 1957⁹⁵ strongly recommended easing regulations and counselled the bureaucracy to restrict its activities to helping in exploration, encouraging private development, and in improving working conditions. The government also continued to run several mines itself, including the island's most lucrative mining concerns dealing in copper, gold, silver and pyrite.

TIMC also included textile making, tool manufacturing, chemical production, printing operations, a tire company and electrical machine manufacturing. That list is illustrative, not inclusive. There was little

or no reason for such disparate activities being under one corporate roof. They had just been thrown together. Few, if any, had made money under government supervision.

The two best subsidiaries, Nankang Tire and Shihlin Electric, are still profitable independent firms. For several years, TIMC made money making jute gunny sacks for the sugar and rice industries and for the military services. Development by others of synthetic and paper substitutes for jute made that venture decline.⁹⁶

After several spin-offs, plus internal consolidations, TIMC's management was faced with the task of having to reduce the central payroll from 700 to 100. It took two years to accomplish the tasks of termination, retraining and finding jobs for the ones let loose. Quite a few were retired, some early. TIMC's first Chairman stressed the point that under the Japanese quite a few Taiwanese had gained experience as middle level managers. A Taiwanese himself, he promoted them into even more responsible positions, where they reportedly worked out quite well. The Chairman, who guided TIMC through very troubled times, and who became a leading entrepreneur-businessman, believes there was more managerial talent and experience available than most observers realized.⁹⁷

IV - GENERAL ECONOMIC DEVELOPMENT TO 1983

A - Government Policy Toward Private Enterprise

The remarkable economic development of Taiwan has been well documented and universally heralded as a model for all to study.

Not only does the Taiwan experience demonstrate how one of the world's most conservative traditional societies can make the transition from an agricultural base to an industrial base; it shows how this can be done in a gradual, well-planned way that benefits all segments of the society. Income distribution on Taiwan has been less uneven than in any other developing country, and most developed ones as well.

Forsaking the temptation of showpiece industrial projects before they needed them, the Taiwan authorities opted for a more unspectacular, step-by-step approach. They did not build an integrated steel mill until the late seventies. Instead, they started with currency stabilization and general rehabilitation. Next came building up infrastructure and improving agriculture. In Taiwan, agriculture pushed industry along. It is the less glamorous way, but more effective. Land reform and the Land-To-The-Tiller Program represented an important phase of the overall process.

The 1953 divestiture was the first major step in the initial phase of a general industrialization effort. That effort was conducted in a step-by-step progression that included light industry, a consumer-oriented economy, and import substitution. This approach did not place overly heavy requirements on capital formation and technical know-how.

After that first critical decade, the emphasis shifted to exports and more sophisticated industry. Foreign investment was also encouraged. Major projects in transportation, nuclear power, steel, port construction and shipbuilding were undertaken in the seventies. The economy has continued to expand and evolve to the present time.

Successes have spawned new and more sophisticated development problems; but so far, the government and the business community have been up to the challenges at each stage.

According to one long-time observer of the Asian scene, the Taiwan government "has achieved its economic success through a combination of tight political control and basic economic freedom, with enough guidance and planning to maintain stability and growth."⁹⁸ The whole approach has been pragmatic and empirical rather than theoretical.

A constant thread running through the blanket of economic planning has been encouragement of private enterprise. Over the years, practically every government pronouncement on economic policy has spoken to this point in one way or another.

Aside from the three areas reserved for direct government activity -- security, monopolies, and ventures requiring enormous sums of capital -- spokesmen have stated that the rest of the field is open, even reserved for the private sector. The role of the government and its public enterprises is described as stimulator, financial helper, counselor, coordinator, and long-range planner. A Statute for Encouragement of Investment was issued in 1960 and has been revised about every five years to reflect changing conditions.

The government backed up its fine words with a series of measures to assist the private sector to grow. Tax breaks and tax holidays were given. Low interest loans were made available through Chinese and American official channels. A series of agencies were set up to assist private industries and investors. The regulations of both public and commercial banks were modified to favor private enterprises.⁹⁹ Special programs were set up to assist small and medium sized businesses, which account for 80-90% of Taiwan's private enterprises. A special banking law for them was written in 1972.¹⁰⁰

Both government and business leaders point with pride to the fact that whereas in the early fifties government operations had been responsible for 80% of the industrial output and the private sector only 20%, by the eighties the ratio was exactly the opposite (i.e. 20-80), with the trend showing no signs of abatement.

Everyone seemed to recognize that private companies could operate more aggressively, efficiently and profitably than government enterprises. Taiwan built its thriving economy on that premise. The private sector has grown several times faster than the public sector and has been immeasurably more profitable.

The record of the government in encouraging and assisting the private sector is unquestioned. Its performance in the oft-stated parallel goal of restraining state enterprises is not as uniformly positive. The much-heralded "19-Point Financial and Economic Reform Program" released in 1960 (with AID support and involvement) repeated in strong terms that

... the government will continue to transfer enterprises to private ownership and will no longer make investment in enterprises other than public utilities and innovative or demonstrative projects, which may be operated by the private sector.¹⁰¹

The fact is that additional government enterprises have not been transferred to private ownership since the 1953 divestiture. The failure to follow through on a commitment for further divestitures has been a matter of considerable debate ever since. Every few years, one hears that the government is "on the verge" of unloading Taiwan Aluminum Corporation or Taiwan Fertilizer Corporation or some other entity. But they remain in the government stable -- and continue to lose money.

During K.T. Li's period as Minister of Economic Affairs, three state corporations were sold off. Actually, two of them were dissolved. China Textiles was shut down and the equipment and plant sold off. An aluminum venture was sold and shipped overseas. A fisheries company was sold to the semi-official veterans organization. That is about it.¹⁰²

One official was prompted to say that "even K.T. Li had to back away from that issue." K.T. Li likes to point out, however, that during his stewardship, the state enterprises were consistently in the black.¹⁰³

What are the reasons that there have not been more divestitures, when economic logic would seem to indicate that such a course was warranted?

One reason often cited for the lack of more divestitures is the problem of putting large numbers of civil servants' jobs in jeopardy. State corporations are now much larger than the four in 1953 and, now, there are many capable people in the business world that could take over. This has always been a loaded political issue. Most informed observers believe it

is, however, a problem that could be overcome by various types of personnel plans.

Many believe that the major problem will be finding buyers when the companies are losing money and the prices the government has traditionally asked are high.

There is also a political-philosophical base to the debate. Both sides quote the writings of the "Father of the Republic", Dr. Sun Yat-Sen, particularly his "Three People's Principles" (nationalism, democracy, and the people's livelihood). As in the case of any "bible", one can find in his dictum anything one wants that can justify one's position.

One must remember that when the republicans overthrew the imperial dynasty and established a new form of government, a strong trace of socialism ran through their pronouncements. There was a rich tradition in China of exploitation of the poor by monied interests, as is true in most underdeveloped countries.

We previously mentioned a traditional Chinese distrust of large privately owned businesses. The government (including its enterprises) has been viewed as a protector of the people.¹⁰⁴ Some older, more conservative members of the various legislative bodies are still imbued with this philosophy. Some members also view the question as an attractive election issue. There is even a little pork barrel mentality involved in supporting a large government enterprise in one's district. Another fact of bureaucratic life is that once the government has a hold on something it does not like to let go.

The question of divestiture is a hot issue again in 1983. This re-emergence will be discussed in the next section, which deals with current and future issues.

A parallel though different phenomenon has been a discernible trend in recent years toward expansion of the activities of government enterprises, contrary to oft-stated official policies that they would not enter new fields on a permanent basis and that the government would restrain or limit its activities so as to not have competition with the private sector.

Many observers are more concerned by this subtle but well documented trend than by the lack of actual divestitures. They feel this reflects government's instinctive tendency for expansion. It is hard to combat, because it takes place gradually, bit by bit.

There are several examples of the trend. China Steel Corporation and Taiwan Shipbuilding Company, both created in the seventies, are both almost entirely government owned; although the original plan was that they would be largely private. The reason for the shift, according to official spokesmen, is that initial efforts to find private capital were not successful in raising enough to finance such enormous projects. Others state that this does not tell the complete story.

The government started an auto factory despite the presence of six private companies already in the business. Also, Taiwan Sugar Corporation now operates a bagasse process pulp paper plant that has seriously endangered the health of TPPC; and the high price TSC has been charging TPPC for the bagasse it uses has been seriously questioned.

Tang Eng Iron and Steel Company in Kaohsiung has had a stormy financial history. One of the oldest Taiwanese firms (dating back to Japanese days), it received a large government loan in 1949. When it was again in dire financial straits in 1959, the government had to take over management as temporary trustee. After another stint of unsuccessful private management, the government took over again a few years ago. While this is an embarrassing situation, the government evidently has no intention of returning it this time.

Conversely, Lee Yuan Chemical Works was taken over briefly by the Central Trust of China a few years ago. It was turned back to its private owner a year later with no strings attached. It has subsequently done well. There have been other examples in recent years where the government either entered new fields or did not exercise the restraint on existing enterprises that it had promised. This trend has not reached alarming proportions; but many feel it warrants careful watching. They also believe this is hampering growth. Not only does it usurp private business opportunities; but also, government enterprises don't run their activities efficiently or profitably.

One reason mentioned by several informed sources for the subtle trend was that after K.T. Li, two of the Ministers of Economic Affairs and some of the economic planners were themselves products of the government corporation system. They evidently feel more comfortable operating within that general atmosphere and, therefore, have tended to support policies that favor more direct government involvement in business activity. This attitude on the

part of the government appears to be changing under the present dynamic Minister of Economic Affairs, Chao Yao-Tung, who is the first businessman to head MOEA. He favors policies that severely limit government activity in business.

It would be inaccurate and unfair to leave the impression that the government's actions have generally been intrusive or favored its own enterprises. Actually, in the far greater number of cases, the government has restrained public corporations, has left the field to the private sector, and has generally provided private ventures with assistance.

Before discussing current and future issues facing Taiwan's economy, we must bring the divestiture story up to date by touching on three matters: the recent history of TCC, TPPC, TAFDC and TIMC; American influence and aid; and the long-range effects of the Land-To-The-Tiller Program and the divestiture on the landlord group and the community at large.

B - American Influence

United States aid to Taiwan totalled \$1.5 billion from 1950 to 1965.¹⁰⁵ Taiwan was the first aid "graduate" country. The program was terminated because of its success. The goals and programs set up by the Americans were well designed; and the implementation by both Chinese and Americans was, by and large, exemplary.

One of the outstanding features of the U.S. aid program in Taiwan was the high degree of mutual respect and cooperation displayed by the two parties. For example, the character and success of the Chinese-American Joint Commission on Rural Reconstruction (JCRR), which was largely

responsible for land reform and agricultural improvement, have never been matched elsewhere.

Central to our concerns here is the consensus from both public and private figures in Taiwan that American influence was enormous in regard to the Chinese government's policy of encouraging and assisting private enterprise, even though only 6% of aid funds over the years went strictly to private enterprises.¹⁰⁶

AID's contributions were providing loans and, perhaps as importantly, exerting friendly but firm pressure in certain directions. This helped the Chinese government to create a climate favorable to private investment and development.¹⁰⁷ This cooperation and persuasion strengthened the hand of progressives within the Chinese government.¹⁰⁸

Neil Jacoby summed it up well in his landmark evaluation of the U.S. aid program in Taiwan, saying, "By far the most important consequence of U.S. influence was the creation in Taiwan of a booming private enterprise system." He went on to say that it would have grown without American aid, but not to the extent it did. He notes that by the end of the foreign assistance program in 1965, private industry was "the mainspring of the economy." Jacoby commented that Taiwan authorities wanted to build an essentially free economy; and they developed wise policies to do just that. But he added that they "lacked knowledge and experience to kindle the fires of individual enterprise," a thought shared by Y.T. Yin and K.T. Li.¹⁰⁹

Interestingly, several influential Chinese likened American influence in Taiwan, and the beneficial results that flowed from it, to the pressure exerted by MacArthur and his staff on the government of Premier Yoshida in

Japan in the first few years after World War II. Two persons made the additional comment that because that influence was present in Taiwan for fifteen years, while only five in Japan, the benefits in Taiwan have been both greater and longer lasting. The pressure was not particularly liked in either place but, fortunately, the advice was, for the most part, sound.

Jacoby wrote that AID "failed to persuade the Government of the Republic of China to privatize public enterprises."¹¹⁰ He and others have stated that the Americans had relatively little to do with the decision in 1953 about divestiture. He also believes the Chinese government "was reluctant to transfer the remaining enterprises to private ownership for political reasons -- they offered too many attractive jobs for loyal politicians!"¹¹¹

AID consistently argued that the government should divest itself of holdings in fertilizer, sugar, aluminum, iron and steel, banking and other industries that were not "natural monopolies." Besides noting the usual problems of inefficiency and lack of profitability, AID recommended that government corporations eliminate favoritism in dealing with private corporations.¹¹²

Professor Jacoby felt that internal economic forces and factors would gradually force the government toward offering shares in public enterprises or to outright divestiture in some cases.¹¹³

C - Status of the Four Divested Corporations in 1983

After the first decade, it didn't make much difference that the four companies had at one time been government entities. If the parent companies

or their spin-offs lasted that long, the divestiture experiment had been successful, even if the record was uneven. The umbrellas had served their purpose.

Beyond ten or so years, how a company fares must be judged like that of any other firm, in relation to the performance of its peers as their particular industry evolves. Thirty years is a long time in a fast moving, rapidly changing economy like Taiwan's.

The Taiwan Cement Corporation is now the eighth largest industrial concern on Taiwan, with sales of NT\$10.7 billion (US\$261 million) in 1982. It is widely recognized as one of the best run corporations on Taiwan.

Koo Chen-Fu, TCC's Chairman, is regarded as one of Taiwan's most successful industrialists. He serves on the boards of a staggering number of business and civic organizations. Mr. Koo says he is not an entrepreneur; he is a salaried manager. His modern management practices make his point; but he does come from a prominent landlord family. He handled his stock purchases with his customary skill and vision. Koo's company flourished in a growth industry.

The Taiwan Pulp and Paper Corporation is considering dissolution. TPPC has had its ups and downs over the years; but it has maintained its position as a leader in a chaotic industry that still doesn't have its collective act together.

TPPC's way of doing business has become obsolete along with much of its equipment and processes; and it seems unable or unwilling to modernize. For one thing, TPPC has found out that pollution costs are high in the paper industry.

One TPPC spin-off, Shihlin Paper Company, has assumed a prominent position in the industry.

It is not clear whether TPPC's joint venture with Scott Paper, which was negotiated to turn out Kleenex and toilet paper, would continue if TPPC decides to go out of business.

The only part of the original Taiwan Agricultural and Forestry Development Corporation that remains in the fold as an operational entity is the Taiwan Tea Company.

The first major spin-off, Taiwan Pineapple Corporation, is in serious trouble. Taiwan's pineapple industry has virtually collapsed because of foreign competition. From a peak of 4.5 million cases exported in 1971, Taiwan slipped to 115,000 cases in 1982. The Philippines and Thailand have jumped to the front in the international pineapple market. They have been aided by cheap labor, larger plantations and more suitable soil. Also, canning does not require particularly high technology. Other countries can catch up more easily in such an industry. This has happened in several other industries which had once been prominent in building Taiwan's economy, but which are no longer considered high priority as Taiwan is forced into more advanced fields.

TAFDC is still a wealthy company, however. Its value is in the land it owns in the heart of Taipei.

The stock of Taiwan Industrial and Mining Corporation is very valuable for the same reason -- land. TIMC controls a large portion of the property on the east side of Taipei that is fast becoming a major shopping and business district.

Almost nothing remains of TIMC's complex structure of subsidiaries. Quite a few of the spin-off companies have become successful on their own, like Nankang Tire, Shihlin Electric, and a couple of the coal mines.

It is ironic in a way that two conglomerates that got their start as products of a land reform ended up as major landholders. It is doubly ironic when one notes that in the agricultural sector some consolidation is now necessary because of fragmentation. The government is addressing the problem through increased use of cooperatives, not through combining of landholdings. In one sense, Taiwan has come full cycle.

D - Long-Range Socio-Economic Effects of Land Reform and the 1953
Divestiture on the Landlord Group

While confusion and frustration may have characterized the first few years of the landlords' lives after land reform, the long-range benefits have been substantial. During those early years, it was true that land reform benefited the tenants in more tangible terms and appeared somewhat unfair to the landlords.¹¹⁴

Even when recalcitrant landlords finally realized that they had to make a living outside of farming, the initial results were not satisfying. The switch to business (or other) activities was gradual and difficult. Many failed two or even three times before they met with success.¹¹⁵

The main reasons for failure were lack of managerial experience, lack of capital, bad use of capital (too much on plant and not enough on operations), overstaffing (often with friends and relatives), and inability to counter competition. An overpreoccupation with hierarchy also contributed. This last was a vestige of the landlord syndrome, whereby

people in high positions seldom took part in work that required physical labor.

The absence, in the beginning, of governmental technical assistance programs for business (which had been available for agriculture) also figured in the failures of the fledgling businessmen.¹¹⁶ They were learning new trades and new management skills. They were experiencing a whole new way of life. They needed help.

Landlords who lived close to urban areas fared better than those in more remote regions, because there were more opportunities, better transportation, and greater access to financial resources and information. These folks were also more liable to have better education, wider acquaintanceships, and some prior business-related experience. A large number of former landlords eventually moved to urban areas, because they knew they would have a better chance for success there.¹¹⁷

According to surveys, many former landlords gradually came to the conclusion that risks in business were not much more prevalent than they had been in agriculture. Martin Yang's illuminating study showed that 83% saw greater opportunity in business for making more money with less risk. They also saw that required funds were easier to find, and that the work was lighter.¹¹⁸

Many came to realize that the old way of life was decaying anyway. They found becoming members of a more modern society exhilarating for themselves, and saw increased educational and professional opportunities for their children.¹¹⁹

The advantages to the children had a strong pull on Chinese parents, whose willingness to sacrifice to ensure their children's future is well known. When the children turn out well, the parents are both proud and well cared for in their own retirement. This writer was told about the head of a large paper company (a former landlord), whose four sons were later educated in Tokyo, National Taiwan University and MIT. One of them eventually took over the company.¹²⁰

All of these factors combined, after five years, to create a bandwagon effect. Most former landlords did not harbor their original complaints beyond that point. Many even demonstrated a willingness to forego more Taiwanese political power in the mainlander dominated regime for the sake of continued economic benefits. The Taiwanese control the economy, and land reform was largely responsible for getting them started. Land reform and industrialization dovetailed to promote growth and disarm socio-political unrest.¹²¹

The businesses in which they initially engaged were modest. Some activities were similar to what they had done, though less professionally, in the past. This included buying and selling in various segments of the agricultural market economy. They also began to operate small general stores, cold drink parlors, restaurants, and western style drugstores. Wholesale businesses and appliance stores were prime areas of interest. Textile shops, trade agencies, and moving and trucking companies were popular. Many started ventures in agriculture-related technical fields, such as chemicals, farm implements, and processing of farm products. Service businesses and small machine shops attracted a fair number in the

first few years. Gradually, the enterprises and investments increased in size and sophistication.¹²²

A by-product of the emergence of the landlords as leaders in the commercial world was their changed status and involvement in community affairs. As landlords, they had been accorded respect, sometimes begrudgingly, as persons of consequence. Their prominence in the community was automatically acknowledged.

As businessmen, their participation became more active and yet more egalitarian. If they performed well, they also retained some of their old aura as gentry. The respect they were accorded depended more on performance in terms of community service. Many became active in educational affairs and politics. In the sixties and seventies Rotary Clubs and other service organizations sprang up everywhere on Taiwan. Former tenants, now owner-cultivators, also became much more active in community affairs. The two groups met and cooperated on a different basis than before. New leadership patterns were emerging.¹²³

A few never made the adjustment. As one industrialist said, "Some of the gentry just sat there."¹²⁴ Only a small percentage of the bigger landlords wanted to continue the old life style. The incidence of this old fashioned attitude was somewhat higher among the small landlords, particularly among those in more remote rural areas. The more they cherished memories of "the good old days" (that is, the easy days of living on farm rentals), the angrier they became at the government and land reform, which they blamed for all their miseries.¹²⁵

Martin Yang summarized this group well, stating that only those landlords "who made neither a plan for change, nor a decision to remain in farming or to start actual farming, said harsh words and bore hard feelings toward land reform from the very beginning up to the present."¹²⁶

In the stressful, perplexing process of social change and modernization, not everyone can make the adjustment. It is astonishing that so many made the transition in one of the most traditional of all societies, especially since the pace of change on Taiwan has been so intense.

Often, those who are unwilling to bear the burdens and pay the price of progress hide behind a cultural shield, saying that they don't want westernization, which is what they say industrialization and its different patterns bring. Actually, the measuring stick should not be the degree of "westernization", but rather the capacity of a society to accept and absorb change. The pressures for modernization are mainly internal, not external.¹²⁷

It is a mark of the strength, not weakness, of Chinese society and its cultural traditions that it could absorb these traumatic changes so well so fast. Progress has been made in Taiwan, and the bulk of the people have benefited from it. Forces and factors were at work on Taiwan in the early fifties that made the timing of land reform perfect.¹²⁸ The divestiture and transfer of stock provided a stimulus at the right time to the transition from a traditional agricultural base to the industrial base we see today.

V - DIVESTITURE IN 1983 AND THE FUTURE OF TAIWAN'S ECONOMY

A - Divestiture in 1983

Suggestions for divestiture of additional government enterprises have been made periodically ever since 1953. The debate over the issue has recently reached significant proportions, in large part because the principal advocate for divestiture is the current Minister of Economic Affairs, Chao Yao-Tung.

Mr. Chao was the dynamic businessman contracted by the government to launch China Steel Corporation in the mid-seventies. As originally designed by Chao, China Steel was to be primarily private. When difficulty was experienced raising sufficient private funds for the gigantic venture, the government assumed complete control. However, China Steel's structure is still more like that of a private firm than a normal state corporation. It is also acknowledged to be the best run moneymaker in the government stable. There is, incidentally, some private financing in China Steel. Most informed observers believe there should and could be more, if the government would make a stock offering.

Chao speaks often and forcefully about turning over more government enterprises to private investors. He firmly believes they would be better run and more profitable under private management. Of the many top officials and industrialists the writer talked with during his May 1983 visit, virtually all agreed that further divestitures are desirable and warranted.

Despite widespread support in powerful places, however, such a move is not assured. Opposition remains strong among conservative legislators and in the bureaucracy. Arguments -- pro and con -- are essentially the same as

before. There are, however, certain contemporary conditions that are having a significant effect on the question.

To provide some idea of the dimensions of the situation, immediately below is a list of public enterprises.

The Ministry of Economic Affairs is responsible for 15 state enterprises. They are:

- Taiwan Sugar Corporation
- Taiwan Power Company
- Taiwan Salt Works
- Taiwan Shipbuilding Corporation
- Taiwan Alkali Company
- Taiwan Fertilizer Company
- Taiwan Aluminum Corporation
- Taiwan Metal Mining Corporation
- Taiwan Machine Manufacturing Corporation
- BES Engineering Corporation
- Chung Tai Chemical Industries Corporation
- China Steel Corporation
- China Phosphate Industries Corporation
- Chinese Petroleum Corporation
- Chinese Petrochemical Development Corporation

In addition, the Ministry of Communications operates the telecommunications system; and the Ministry of Defense runs the arsenals.

The major financial institutions are run by the government, as are several of the specialized banks dealing in agricultural and commercial loans and transactions.

There is also the semi-official Retired Servicemen's Organization, which operates manufacturing and sales divisions, plus an engineering consulting firm.

The Taiwan Provincial Government operates the railways, local water and rural irrigation companies (including the large Shihmen Dam), Chung Hsin

Pulp and Paper Company, and the Tang Eng Iron and Steel Company that has been mentioned previously.

Finally, there is a scattering of smaller enterprises operated at municipal, provincial and central government levels. While the list appears long, the reader should bear in mind that the government's share of the economy is less than 20%, and most of that rests in a few of its largest public enterprises.

The purposes of this paper would not be furthered by an exhaustive coverage of the innumerable recommendations that have been offered periodically about divestitures. It will suffice to provide a summary of the more significant arguments and recommendations.

The two biggest complaints about the state enterprises are that as a group they are inefficient and are losing money. Only China Steel and Tai Power make money on a consistent basis; and Tai Power is helped by having its rates set by law. The rest lose money. Their generally poor performance has, in the opinion of critics, an adverse effect of the entire economy, both domestically and internationally.

Most industrialists, and a majority of planning officials, hold the opinion that the government should sell all but a few of them. They exclude from that those enterprises that relate directly to national security, to monopolies, and the utilities and transportation network. Some, however, do include in the list to be turned over some of the "commercial" banking institutions.

Special cases like Taiwan Sugar Corporation and Chinese Petroleum Corporation are recognized. They are too large to be sold completely; and

Tai Sugar's landholdings are too valuable. The refinery operations of the petroleum company are not only too large, they are closely tied to security interests. Advocates for divestiture do believe, however, that the processing operations of Tai Sugar and the sales and distribution arms of both companies are quite suitable for private investment and management. There is considerable sentiment for turning over a large number of the many branches of the machine manufacturing and petrochemical companies.

Recommendations that the aluminum, fertilizer and shipbuilding companies be sold have been circulating for years. The problem is finding buyers for firms that have been losing money consistently. In fact, the matter of profitability is to some observers the major obstacle to further divestitures. Even though most believe that the companies' profit pictures would improve markedly under private direction, the red ink does make potential investors hesitate, particularly when it is thought that the government's asking prices are too high.

Alcoa and a French firm are currently considering bidding on the fabrication portion of Taiwan Aluminum Corporation. This is the only part considered to have profit potential in today's market.

Incidentally, neither public officials nor local businessmen appear to fear foreign investment. They cite evidence that the entry of foreign companies has not jeopardized local firms in the same industry. Quite to the contrary, they say that the overall effect has been salutary. Anything appears to be better in their eyes than the government running these large enterprises.

Taiwan authorities have handled multi-nationals with great skill, gaining maximum benefits without losing control of their economy. They have known what they wanted to get out of them and, by and large, they got it. Free export processing zones is an example of one way they did this.

The private sector is concerned at the increasing tendency of the government in recent years to expand the operations of its public corporations, often in direct competition with the private sector. Several instances have already been mentioned in this paper. It should also be noted that the government took over the previously private Taiwan Salt Works in 1982.¹²⁹ This was partially offset by the announcement in early 1983 that the smelting operation of the Taiwan Metal Mining Corporation was being sold to private interests.¹³⁰

Advocates of further divestitures point out that the private sector has grown several times faster than the public sector in the past thirty years, and that the pattern will continue, not abate. They say that this success story demonstrates clearly that the best interests of the nation's economy would be better served if the important industries and organizations now represented by government corporations were in private hands. They say that the government is a good planner, stimulator and financier, but a poor businessman.

Opponents of turning them over to the private sector use those same arguments of size and importance to argue that the government should retain the enterprises. They believe that the government should continue to act as the protector of the public interest against the over aggrandizement of private monopoly capital.

Only two years ago, the then Vice Minister of Economic Affairs took this traditional position as one of three "practical reasons" that the government must consider regarding divestiture. The other two were the problems of the jobs of the present civil service employees, coupled with the shaky piece of logic that the government should be cautious about selling enterprises that are losing money, because they would have to be sold cheaply.¹³¹

Both sides continue to hide behind the ambiguities of Dr. Sun's Principle of the People's Livelihood to justify their positions. Reaching a decision on this pressing problem will ultimately depend on the government's willingness to face the issues head-on and to pay the political price of a decision that is bound to make some influential forces unhappy.

The general trend of economic events and pressures seem to be working in Minister Chao's favor. Perhaps, like land reform in 1953, divestiture's time has finally arrived. Several senior persons recently expressed to this writer their confidence in Minister Chao's ability to pull it off, saying that "if he can't do it, no one can."

The situation in 1983 is vastly different from the one thirty years ago in two significant and closely related ways. First, there is no longer a set of dispossessed landlords to turn the companies over to. Today the government must locate and attract investors.

Second, the sums of money involved today are vast. Even though the economy is booming, Taiwan is a small geographic area with only 18 million people. In relation to a country like the United States, financial resources are much more limited. The government must come up with attractive long-term financing packages to make turnovers ultimately possible.

Joint public-private ownership, with government participation gradually reduced, is often advocated as a transitional measure.

This approach involves selling stock in the government enterprises. Professor Jacoby foresaw in the sixties that pressures would steadily mount that would eventually force the government to release its industrial activities. He wrote, "Probably this shift would come gradually, as a result of successive stock offerings of shares in public enterprises to private investors to finance their expansion. At some point, the government would hold only minor interest in these firms."¹³²

The problems are formidable, but not insurmountable. The gradual method of stock issues may offer a practical way out of the dilemma. The public saw government enterprises transferred through stock before, in 1953. The traditional fear of sale to large private interests may be lessened by the gradual approach of successive stock offerings.

This method of divestiture would apply more to some of the larger public corporations. Some of the smaller ones, which have no compelling reason for being in the government stable anyway, could be sold outright.

The problem of putting the jobs of civil servants on the block is a sensitive one; but, according to most observers, it could be solved through a system of gradual terminations, severance pay and retraining and relocating. In their view, it would be worth the expense.

The urgency of the situation as it has developed to 1983 may finally force action, even though the solutions will not satisfy all parties on all issues. Taiwan is in the throes of another transformation, but one of a different developmental level and nature than in 1953. Taiwan is today in

the process of making the transition from an LDC to an RDC, that is from a "less developed country" to a "recently developed country." As before, divestiture has significant ramifications for the country's future during a period of social change and modernization.

B - The Future for Taiwan's Economy

Taiwan has been blessed with planners of competence and vision and entrepreneurs with drive and sharpness. One group created an environment within which the other could take advantage of opportunities. The combination of the two has been remarkably productive. All those skills, and a few new ones, will be needed to deal effectively with a new and more sophisticated set of development challenges spawned by those past successes.

Taiwan's planners and industrialists have been able, so far, to surmount each set of obstacles at each level in its steady, carefully guided rise. The approach has been practical rather than theoretical. The approach has also been cautious.

Taiwan is not facing just another measured step on the industrial development ladder. It is facing a giant leap. Taiwan is now on the verge of moving into the ranks of the more advanced industrial economies. To compete effectively at this level, Taiwan's planners and businessmen must develop new strategies, new technical capabilities, new management skills, new markets, new industries and new types of corporations.

The challenge is not only "newness"; it is also a challenge of a different nature and scale. What is involved is not just a quantitative

adjustment. What is involved is a fundamental change in the way Taiwan's planners and industrialists conduct their affairs.

The constraints on this paper make it necessary that commentary and analysis on this crucial subject be restricted to the barest of outlines. Therefore, here we will mention only those points that bear most directly on the subject and purpose of this paper, leaving more in-depth scrutiny for other studies.

The companies required for the future economy must be larger, more organizationally sophisticated, and better managed. They must also possess more advanced technological capabilities, but that is the easiest of the problems for Taiwan to master. The other requirements will give Taiwan much more trouble.

The concept of the corporation is not well developed in Taiwan, even among business leaders. This was the opinion freely offered recently by several senior persons, including former President Yen.

Parallel to this is the lack of understanding of what stock represents and how the stock market functions in an advanced industrial setting. Taiwan may have progressed beyond the ignorance displayed in 1953 about stock; but the Taipei stock market is still a primitive affair.

In the popular perception, a corporation is little more than a large family business, with personal gain for the clan as the raison d'etre. This is one reason why there is still a fear of putting too much power in the hands of private business.

Even among business leaders the concept of separating management and ownership is not understood, much less endorsed. But such separation and

depersonalization are the essence of the modern corporate structure. C.F. Koo of Taiwan Cement Corporation comprehends what this means for industrial development,¹³³ but few of his peers do.

Most Taiwanese "corporations", even the largest ones, are still mostly overblown modifications of the family business structure. It is difficult for outsiders, no matter how gifted, to break into the inner management circle. This is in stark contrast to Japanese corporations that actively search for the finest managerial talent among university graduates.

What we are confronted with is an ethical-philosophical problem of significant proportions. It involves self-analysis on such basic questions as human relations, societal values, and the social responsibility of corporations.

The fact is that conducting affairs in the ways of a family business -- some unkindly, and a bit unfairly, call it the "shopkeeper mentality" -- is not good enough to compete in today's international business world. It has too many limitations.

Management is the biggest problem, not financing or technology. Management practices need a thorough overhauling; but there is little evidence that a coordinated, well thought-out national plan is being developed. As one senior planning official put it, "No one rejects the idea. They just don't practice it."

A second generation of "modern managers" is not being developed to replace the self-made diamonds in the rough who have carried Taiwan this far. The same gaps are showing in government planning circles and in government enterprises, where one does not see new K.T. Lis or K.Y. Yins or

Chao Yao-Tung in the wings. The bureaucracy is aging. For example, Tai Power will be retiring 80% of the personnel in its five top managerial levels within the next five years.¹³⁴

For the national economy to sustain growth today and, especially, in the future, companies will have to be bigger and better run. This especially applies to the need for large international trading companies with modern marketing approaches.¹³⁵ Taiwan is especially vulnerable in this area, because 54% of its total industrial output is in exports, whereas the figure is just 30% for Korea and only 15% for Japan.

Economic leaders, both public and private, express concern that Korea may not only be catching up, but may soon leapfrog over Taiwan. The Koreans' enterprising ways are given grudging respect, though their less democratic approaches to marshalling resources and getting what they want are not.

The difference in approach was exemplified by the way the Koreans handled one of their few divestitures. Evidently, the private industrialist buying the government entity said that while he would buy the plant and the equipment, he would not "buy the employees". This meant that he would not guarantee jobs. The government accepted his terms. As it turned out, he did retain most of the former civil servants, but he did not want to be under any obligation to do so. The Taiwan official telling the story said that the Chinese government would never have agreed. He also noted that the Korean entrepreneur turned a money loser into a money winner in one year.¹³⁶

While most would not advocate using some of the Koreans' more "aggressive" tactics, many feel that the challenges facing Taiwan right now

dictate a little less Chinese caution and a little more Korean aggressiveness and risk taking. This is frequently heard in connection with the large Korean government-financed trading companies that are threatening Chinese markets.

It is acknowledged that what is needed is close collaboration between public and private sectors. The aim is to combine the planning and financial resources of the government with the drive, flexibility and risk capital of the private sector.

The government is being advised by its own economic planners that it should resist the temptation to do it on its own just because the stakes are so high. Government approaches to product development and marketing are too ponderous and inflexible; and its operating methods too inefficient. The competition cannot be met that way. The record of government enterprises so far bears that out.

The realization is there that the spark must come from the private sector. The entrepreneurs must, however, demonstrate a capacity to operate on a grander scale, with modernized approaches to marketing and management.

China Steel Corporation combines elements of this duality and these complementary attributes. Its success is evidence that modern management concepts can be carried out in a Chinese cultural setting.¹³⁷ It is also an encouragement to those who are suggesting that the government seek more opportunities for cooperative efforts with the private sector.

Over the years, the government has compiled a remarkable record in national economic planning, including a generally commendable record of encouraging private enterprise. What is now being asked of the government

is to show a willingness to face these tough issues squarely and to display again its common sense approaches in new and imaginative ways.

Most advocates for the sale of government enterprises see divestiture as a positive good in and of itself. The divested entities would most probably operate better under private direction.

More careful analysts would say there is more to it than that. They believe outright sale of all or specific parts of several government corporations would be taken as a sign of confidence in the private sector. This could spark a new investment boom, especially if, at the same time, the government would announce new incentive and financing programs.

Further, if the government were to show willingness to issue large blocks of shares in some of the larger enterprises, these people see opportunity for imaginative public-private cooperation. This would be particularly true if the government states a clear intention to gradually reduce its role in all but a very few of the most strategically important entities.

To be truly effective, a policy of turning over state enterprises would have to be coupled with reform and expansion of the stock market system, a comprehensive plan for management development, and a thorough study of modern corporate structure. Progressive planners see such a coordinated plan of action as the best, perhaps only, way to provide Taiwan with the variety of forces it needs in its arsenal to move into the next stage of its industrial development.

Therefore, divestiture again can be an important first step for Taiwan in making another socio-economic transition, just as it was thirty years

ago. Because of the altered circumstances and higher levels of finance and greter sophistication involved, the second round may be just as instructive to observe as the first round was.

VI - CONCLUSIONS

The Taiwan experience can be useful as a guide for developing countries that are contemplating divestiture of state enterprises or changes in their state planning system as it bears on the relationships between the public and private sectors.

The fact that Taiwan has attained the status of a more developed country does not detract from the applicability of it as a model, if there is careful adaptation to different circumstances, aspirations, and capabilities. In fact, it is Taiwan's very success that makes it worth studying. How did they do it and why were they so successful?

While some aspects of Taiwan's situation were unique and the country did have certain specific things going for it, one can say that about almost any country. On the other hand, Taiwan was burdened thirty years ago with a shattered economy, a colonial history, and a traditional society of extreme conservatism.

As a way to demonstrate the commonality of development problems, let us look at excerpts from a 1981 AID-sponsored study of private enterprise development in Africa, which states:

The failure of many state run economies to operate in a cost-effective manner has only underscored the need for greater private sector participation. Many African governments are beginning to realize that government activities alone cannot develop their countries and that if more rapid and equitable growth is to be achieved they must share the development burden with the private sector. In effect, there is now a greater realization that private enterprise is not only an indispensable resource for achieving economic development, but that it can also be a means for accomplishing many social and economic goals.¹³⁸

The report goes on to state that in many countries the largest firms are either state controlled or foreign. It recommends that state enterprises "which don't promote growth should be scheduled for gradual privatization or elimination. Only ones vital to the national economy should be excepted, and even the extent and duration of exception be justified."¹³⁹ There is also mention of bloated bureaucracies, rigid personnel systems, and a lack of managerial skills. The report concludes that reform of state enterprise systems requires "a strong commitment from the highest level of government."¹⁴⁰

The general thrust of those excerpts sounds strikingly similar to the situation analyzed in this paper. Conditions may vary from place to place, and there may be disparities in scale, but the themes are essentially the same. The nature of development problems makes them transcend cultural patterns. Of course, there are caution flags to be raised as well as lessons to be learned when applying any model.

Let us now briefly summarize what can be drawn from this study, bearing in mind the six analytical questions and six introspective questions posed in the Introduction, the purpose of which was to transform this from a paper to be read to a tool to be used.

Despite sincere attempts to keep material in this paper to a minimum, at certain points more data or discussion was included than was absolutely necessary to tell just the story of divestiture alone. This was done deliberately, in order to provide a better understanding of the setting within which specific events took place. This, hopefully, has provided greater opportunity for spotting similarities

(or differences) between what was happening in Taiwan and the situation in another country of interest. That is, after all, a basic purpose of this exercise.

The Taiwan government's performance can be evaluated at three levels:

- | | |
|-------------------------------------|------------------------------------|
| Economic planning | - excellent |
| Encouragement of private enterprise | - good |
| Divestiture policy | - fair (with missed opportunities) |

The timing of the 1953 divestiture was excellent. Combining it with land reform was practical and ultimately productive. The divestiture was planned as a catalyst in launching the industrialization program, and it worked out that way.

Sound planning has characterized Taiwan's economic development from the start. Goals have been established in gradual stages and bulwarked by well designed support programs. This practical, comprehensive approach has paid huge dividends.

An unaccustomed lack of preparation in not educating the landlords in advance about stocks and business practices caused undue hardship and blunted the effectiveness of the divestiture effort.

So did lack of consistency. The government had proved its point. The divestiture experiment, despite some rough spots, was essentially successful. Private industry was stimulated and became the mainspring of a vigorous economy. The government's failure to follow up with

further divestitures -- and there have been ample opportunities -- lessened the effect of the first shot, missed chances to provide further impetus, and even cast doubt on the government's commitment to the basic idea.

Recent trends toward expansion of government enterprise activity have increased those doubts. This course has also run counter to the obvious lessons of the economy's successful pattern, which has shown that private enterprise in Taiwan produces better results. The best course appears to be for the government to restrain its activities and to cooperate, not compete, with the private sector. It should provide guidance and assistance. It should also be prepared to curb abuses, while assuring that benefits are distributed as widely and as evenly as possible throughout the society. Taiwan has been more sensitive to this issue than most countries, and the society and the government have benefited from the vigilance.

More care might have been taken by the government when choosing the companies for divestiture in 1953. No one can argue with the selection of Taiwan Cement Corporation or even Taiwan Pulp and Paper Corporation. Actually, even the other two worked out well in the long run. Nevertheless, care must be taken not to unload enterprises just because they are there. Cumbersome umbrella organizations are, in the final analysis, not good choices, even if some subsidiaries have potential. Overall, such enterprises are not attractive to investors, especially if some parts are obviously not viable.

The circumstances of 1953 made the choice of TAFDC and TIMC inevitable. The umbrellas served their temporary purpose. Today's circumstances are different. Investors must be courted. Marginal organizations can perhaps be put on the market, but only if terms are attractive enough and if there is a reasonable prospect for profit under sharp private management. The government should not sell a loser just to get rid of it. The results will be counterproductive. Such entities should be dissolved.

The government is not taking advantage of certain aspects of the current economic situation as they relate to the divestiture question. Its instinctive conservatism has kept it from developing imaginative strategies to cope with the complexities of an advanced economy with heavy international involvement.

Partnership, not competition, with the private sector will provide the best way to lead the economy in the transition to the next phase of its development. Turning over existing state enterprises and coming up with new cooperative ventures could be a key even more important than the 1953 divestitures were to the needs of that time.

Facing these contemporary issues squarely seems to be the government's biggest problem at the present time. It is in a position where it must come to grips with present and future realities and, as it has done so well in the past, come up with a balanced plan of action that will realign the government's role, advance the understanding and substance of the stock market, modernize corporate structures, design

new marketing strategies, and develop a new generation of modern corporate managers.

That is quite a package, but nothing less will suffice. The prospect of having to put together such a program must make planners wince and wish wistfully for more pastoral times. Every country has its problems, no matter what the stage of development. Success brings with it new and more sophisticated developmental problems. The level may be different, but it is still development, none the less.

How Taiwan's pragmatists handle these problems can have international as well as domestic repercussions. Taiwan's economic development is an example for others to emulate. Its policies and actions with regard to divestiture of state corporations and the promotion of private enterprise can also be instructive to planners in countries becoming involved in those issues.

With a well documented history of thirty years to draw upon, there is something in the Taiwan experience for every stage of development. Some lessons can be applied to present problems; others used to prepare for challenges that will be encountered in the future.

This duality is certainly true of the two sequences of the divestiture question covered in this paper. Separated by thirty years, they involve different sets of conditions, but some of the problems are the same. By the same token, countries studying the Taiwan experience will see both similarities and differences with their own situations.

In the final analysis, the utility of the Taiwan model will depend on the willingness of other countries to face issues and engage in self-analysis as they go through their own particular transition periods.

PERSONS CONSULTED OR INTERVIEWED

(Note: The listing below of positions was deliberately done on a selective basis to show only the current positions held and the previous ones most relevant to the material in this paper.)

In the United States

- Chien, Fu (Fredrick) - Representative, Coordinating Council for North American Affairs (CCNAA), Office in U.S.A., Washington, D.C.; former Vice Minister of Foreign Affairs; former Director, Bureau of North American Affairs, Ministry of Foreign Affairs, Taipei.
- Lu, Benjamin C. - Director, Economic Division, CCNAA, Washington, D.C.
- Wang, Martin - Special Advisor, Economic Division, CCNAA; former Commercial Counselor, Republic of China Embassy, Washington, D.C.
- Dean, David - Director, American Institute in Taiwan (AIT), Washington, D.C.; former Counselor for Political Affairs, American Embassy, Taipei.
- Kyle, Joseph B. - Chief, Economic Section, AIT, Washington, D.C.; former Counselor for Economic Affairs, American Embassy, Taipei; former Commissioner, Chinese-American Joint Commission on Rural Reconstruction (JCRR).
- Clough, Ralph N. - former Deputy Chief of Mission, American Embassy, Taipei; author of Island China.
- Gleysteen, William H. - Director, Asia Society, Washington, D.C.; former U.S. Ambassador to Korea; former Deputy Chief of Mission, American Embassy, Taipei.
- Yeager, Joseph - former Deputy Chief of Mission, American Embassy, Taipei; currently writing a book on JCRR.
- Cheng, Hang-Sheng (Hansen) - Assistant Vice President, Federal Reserve Bank of San Francisco; former Chief, Economic Analysis Division, Commission on Taxation Reform, Executive Yuan, Taipei.
- Tsai, Stephen - former Controller, JCRR.
- Pan, H.C. - former Operations Manager, Taiwan Agricultural and Forestry Development Corporation; former Chief, First Division, Council for U.S. Aid (CUSA) and Council for International Economic Development and Cooperation (CIECD), Ministry of Economic Affairs, Taipei.
- Scheinman, Stanley B. - Senior Executive Officer, Offices of Policy and Investment, Bureau for Private Enterprise, USAID, Washington, D.C.
- Bouchard, Bruce E. - Bureau for Private Enterprise, USAID, Washington, D.C.
- Boissevain, Ellen - Librarian, Development Information Utility Service, USAID, Washington, D.C.
- Choate, Allen - Representative, The Asia Foundation, Washington, D.C.; former Asia Foundation Representative, Taipei.

PERSONS CONSULTED OR INTERVIEWED (Cont'd)

In Taipei

Yen, Chia-Kan - former President, Republic of China; former Commissioner of Finance, Taiwan Provincial Government (in 1953).

Tsiang, Yen-Si - Secretary-General of the Central Committee of the Kuomintang; former Commissioner, JCRR.

Li, Kuo-Ting - Chairman, Science and Technology Advisory Group, Executive Yuan; former Minister of Economic Affairs, and Minister of Finance, and Chairman of CUSA and CIECD.

Chang, Chi-Cheng (Phillip) - Chairman of the Board, Central Trust of China; former Minister of Communications, Vice Minister of Economic Affairs, and Secretary-General of CIECD.

Kao, Yu-Shu (Henry) - former Mayor of Taipei; former Minister of Communications.

Wu, M.T. - Vice Minister of Economic Affairs; former Director, China Trade Office, New York.

Tsui, T.K. - Secretary-General, Council for Economic Planning and Development (CEPD).

Shieh, Samuel C. - Vice Chairman, CEPD.

Eu, Hunter (You Han-Ting) - Senior Specialist, Environmental Protection, CEPD.

Moore, Joseph H. - Project Manager, Engineering Consulting Group, Ministry of Economic Affairs; formerly with J.G. White Engineering Co., MOEA.

Chien, Chwun (Robert) - Deputy Governor, Central Bank of China.

Kuò, W.Y. (Shirley) - Deputy Governor, Central Bank of China

Pei, Margaret - Special Secretary to the Governor, Central Bank of China.

Chang, Hsien-Tsiu - Chairman, Council for Agricultural Planning and Development (CAPD). (Note: CAPD is the successor to JCRR).

Ma, C.H. (Thomas) - Librarian, CAPD.

Hwang, Chien-Hou - Dean, College of Education, National Taiwan Normal University.

Ma, Han-Pao (Herbert) - Grand Justice, Judicial Yuan.

Lilly, James - Director, AIT, Taipei.

Britton, Harry P. - Chief, Cultural and Information Section, AIT, Taipei.

Billings, Bruce H. - Chairman of the Board, International Technology Associates; former Commissioner, JCRR.

Lin Ting-Shen - Chairman, Tatung Industries.

Hsu, Fung-Heh (Henry) - President, Formosan Rubber Company.

Hsu, Chin-Teh - Chairman, Ambassador Hotel; former Chairman, Taiwan Industrial and Mining Corporation.

Su, J.C. - President, Swang Ning Corporation.

Lin, Wen-Jen (Ian) - Chairman, Tekkee Sulfur Mining Company.

Hao, Paul - Director, Industrial Research Institute, Hsinchu.

Severinghaus, Sheldon R. - Representative, The Asia Foundation, Taipei.

Wang, Rex - Program Officer, The Asia Foundation, Taipei.

Irick, Robert - President, Chinese Language Materials Center, Taipei.

FOOTNOTES

(Explanatory Note: Because of the nature of this study, the lack of published material on its subject, and the short time available for preparation, much of the material was obtained through interviews and conversations with informed persons in the United States and Taiwan. The names and relevant positions of those persons are listed in the attachment immediately preceding this footnote section. Therefore, for reasons of simplicity, when footnoting material stemming from those conversations, a shortened notation will be used. For example, a footnote for material stemming from a conversation with K.T. Li, former Minister of Economic Affairs, will appear as Conversation - Li. References to printed materials will be handled in the normal fashion.)

Footnote #

- 1 - Jacoby, Neil H.: Evaluation of Foreign Economic Aid: United States Aid to Free China (1965), Chapter VI, p.1. (The original typed manuscript of the AID-sponsored study was used, not the book Dr. Jacoby published.)
- 2 - Ho, Samuel P.S.: Economic Development of Taiwan, 1860-1970 (New Haven, Yale University Press, 1978), p.71.
- 3 - ibid.
- 4 - ibid.
- 5 - ibid.
- 6 - Conversation - Yen.
- 7 - Ho, op. cit., p. 83.
- 8 - Conversation - Moore.
- 9 - Conversation - Hsu Chin-Teh.
- 10 - Ho, op. cit., p.101.
- 11 - Shirley W.Y. Kuo, Gustav Ranis, and John C.H. Fei: The Taiwan Success Story: Rapid Growth with Improved Distribution in the Republic of China, 1952-1979 (Boulder, Colo., Westview Press, 1981), p.43, 62.
- 12 - Jacoby, op. cit., VI - pp.18-19.
- 13 - J.G. White Engineering Corp.: The Industrial Development of Taiwan (Oct. 1952). A report prepared for the U.S. Mutual Security Agency, the name of the U.S. aid program at the time. The J.G. White Engineering Corp. was a New York consulting group resident in Taipei. It prepared a large number of studies for the U.S. aid mission and Taiwan's economic planning agency until 1964.
- 14 - Li, Kuo-Ting: The Growth of Private Industry in Free China (Taipei, Council for U.S. Aid, July 1960) p.1, 10. This study has been reprinted with only minor changes in wording as a chapter in K.T. Li's book The Experience of Dynamic Economic Growth on Taiwan (Taipei, Mei Ya Publications, 1976). The citations in the present paper will refer to the original publication. The material for this footnote also appeared in ICA, Mutual Security Mission to China: Economic Development on Taiwan, 1951-1955. (Taipei, Jan. 1956) p.10.

FOOTNOTES (Cont'd.)

Footnote #

- 15 - Conversation - Li; Tang, Hui-Sun: Land Reform in Free China (Taipei, Chinese-American Joint Commission on Rural Reconstruction, Oct. 1954), p.164. Note: JCRR has been reorganized as the Council of Agricultural Planning and Development (CAPD).
- 16 - Tang, op. cit., p.164; Li, op. cit., p.1, 10.
- 17 - Conversation - Yen.
- 18 - Jacoby, op. cit., VIII-p.8.
- 19 - Conversation - Li.
- 20 - Kuo, op. cit., p.61; Jacoby, op. cit., XIII-p.34; Watkins, Ralph J.: Economic Development Planning in Taiwan (A report prepared for AID and CUSA, Dec. 1961) p.21. The Council for U.S. Aid (CUSA), which also acted as Taiwan's economic planning body, was replaced by the Council for International Economic Cooperation and Development (CIECD) and later by the present Council for Economic Planning and Development (CEPD). MSA's transmutations have been to ICA, ECA, and AID. For sake of convenience, the acronym AID will be used in this paper even when, technically, it may be out of chronological sequence.
- 21 - Conversation - Tsiang.
- 22 - *ibid.*
- 23 - Details and commentary on this extraordinarily complex (and successful) program can be found in a number of publications and documents. The reader is particularly referred to Tang, op. cit.; Chen Cheng: Land Reform in Taiwan (Taipei, China Publishing Co., 1961); and JCRR General Report IV for the year ending 6/30/53 (Taipei, 1954).
- 24 - Rice bonds for wet paddy and sweet potato bonds for dry paddy land.
- 25 - Conversations - Cheng and Shieh.
- 26 - Tang, op. cit., p.174; Conversations - Yen, Tsiang, and H.T. Chang.
- 27 - Clough, Ralph N.: Island China (Cambridge, Harvard University Press, 1978), p.34. Clough was formerly Deputy Chief of Mission in the American Embassy in Taipei and is cited elsewhere through conversations with the present writer. Also cited Tang, op. cit., p.174; Ho, op. cit., p.251.
- 28 - Li, op. cit., p.12; Yin, K.Y.: Economic Development in Taiwan, 1950-60: Record and Prospects (Taipei, CUSA, Jan. 1962), p.17.
- 29 - Yin, op. cit., p.33; Clough, op. cit., pp.77-78.
- 30 - Tang, op. cit., p.154; Chang, Yen-Tien: Land Reform in Taiwan (Mimeographed) - A Publication of the Department of Agricultural Economics, Taiwan Provincial College of Agriculture, Sept. 1954, p.78.
- 31 - Chen, op. cit., p.ix.
- 32 - *ibid.*, p.xii.
- 33 - Li, op. cit., p.10.
- 34 - Yin, op. cit., p.53.
- 35 - It is interesting to note that until very recent years almost none of Taiwan's senior economic planners (including Li and Yin) have been economists.
- 36 - Li, op. cit., p.8.
- 37 - *ibid.*, p.9.

FOOTNOTES (Cont'd.)

Footnote #

- 38 - Conversations - Yen, Yeager, and H.T. Chang.
- 39 - Mutual Security Agency Mission to China: Economic Development on Formosa, 1951-1952 (Taipei/Washington, D.C. 1952), p.41, Conversation - Lin.
- 40 - Conversations - Yen, Tsiang, and T.H. Chang; Chen, op. cit., p.75.
- 41 - Conversations - Yen, Tsiang, Yeager, Chien, Li, Henry Hsu, and Phillip Chang.
- 42 - JCRR General Report IV, op. cit., pp.124-30.
- 43 - JCRR General Report V, for year ending 6/30/54 (Taipei, 1955), p.153; Tang, op. cit., p.164.
- 44 - Most of the general economic data cited in this section was drawn from J.G. White Engineering Corp.: The Industrial Development of Taiwan (Taipei, 1952).
- 45 - Conversation - Li.
- 46 - Tang, op. cit., pp.164-68. NT\$ = New Taiwan\$, reflecting a currency change in 1949. Official exchanges fluctuated during 1952-55 from NT\$12.5 to US\$1 to NT\$15.5 to US\$1.
- 47 - Yang, Martin (Mou-Chun): Socio-Economic Results of Land Reform in Taiwan (Honolulu, University of Hawaii Press, 1970), p.232.
- 48 - JCRR General Report V, op. cit., p.154; JCRR General Report VI for year ending 6/30/55 (Taipei, 1956), p.52.
- 49 - Kuo, op. cit., p.62; Chang, op. cit., p.79.
- 50 - JCRR General Report VI, op. cit., pp.53-54.
- 51 - Tang, op. cit., pp.168-69. Most of the data on the regulations and mechanics of the divestiture cited in this section have been taken almost verbatim from Tang's landmark study and the documents he cited.
- 52 - Conversation - Yen; Yang, op. cit., p.231. As we will see in a later section, the concept of the corporation still isn't well understood in Taiwan, even among business leaders.
- 53 - Yang, op. cit., p.247.
- 54 - ibid, p.232.
- 55 - Steele, John T.: Compensation for Expropriated Land and the Degree of Protection Against Inflation - Taiwan, Japan, and Korea (Madison, Wisconsin, Land Tenure Center, College of Agriculture, University of Wisconsin, Feb. 1964), p.9.
- 56 - Yang, op. cit., p.233; Conversations - Phillip Chang and Hsu Chin-Teh.
- 57 - Conversations - Henry Hsu, Phillip Chang, Kao, Hsu Chin-Teh.
- 58 - Kuo, op. cit., p.58; Yang, op. cit., p.237.
- 59 - Chang, op. cit., p.79; Yang, op. cit., p.234.
- 60 - Ho, op. cit., pp.166.
- 61 - Yang, op. cit., pp.157, 235-6.
- 62 - ibid, p.231-33, 239.
- 63 - ibid, p.242, 245; Conversation - Phillip Chang.
- 64 - Conversations - Yen, Tsiang, H.T. Chang, and Shieh.
- 65 - Yang, op. cit., p. 241.
- 66 - JCRR General Report VI, op. cit., p.53.

FOOTNOTES (Cont'd.)

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- 67 - Yang, op. cit., p.235, 239.
- 68 - Conversations - Yen , Hsu Chin-Teh, and Phillip Chang.
- 69 - Conversation - Yen.
- 70 - Conversation - Kao.
- 71 - Conversations - Lin, Li, Tsiang; JCRR General Report VI, op. cit., p.53.
- 72 - Conversations - Chien and Li.
- 73 - Conversations - Tsui, Chien, Li, Henry Hsu, and Hsu Chin-Teh.
- 74 - Most of the material on TCC is drawn from J.G. White Engineering Corp.: Taiwan Cement Corporation, Kaohsiung Plant Expansion (Report #V-48 to CUSA, undated). While the report was undated, the dates of the data indicate it must have been written in 1959 or 1960 at the latest.
- 75 - Conversation - Kao.
- 76 - Yang, op. cit., p.233.
- 77 - All of the above material was taken from the J.G. White 1952 survey of industrial development in Taiwan.
- 78 - J.G. White Engineering Corp: Taiwan Pulp and Paper Corporation Hsin Ying Mill - Proposed Integration Program (A Report to CUSA, Taipei, 2/21/62), pp.3-4.
- 79 - J.G. White Engineering Corp.: Taiwan Pulp and Paper Corporation, Conversion of Hsin Ying Pulp Mill to Kraft Process, FY 54 (Report III-22 to CUSA, Taipei, Jan. 54), p.5.
- 80 - Wakeman, A.G. and Stevens, John: Preliminary Report on the Pulp and Paper Industry of Taiwan (A report to AID/China in Taipei, Nov. 1963), p.3.
- 81 - Wakeman, A.G., Stevens, John and Larson, L.K.: Report on the Pulp and Paper Industry of Taiwan, Republic of China (Final report to AID/China, 1964), p.3.
- 82 - ibid, p.13.
- 83 - ibid, p.129, 131.
- 84 - J.G. White, Hsin Ying Mill integration, op. cit., passim.
- 85 - ibid, p.59.
- 86 - Wakeman et al, TPPC Final report, op. cit., p.125.
- 87 - J.G. White, Hsin Ying Mill integration, op. cit., p.8.
- 88 - Much of this data on TAFDC came from a lengthy telephone conversation with H.C. Pan, who was Operations Manager of TAFDC, 1950-54. Mr. Pan now lives in retirement in the United States.
- 89 - Conversation - Eu.
- 90 - J.G. White, Hsin Ying Mill integration, op. cit., p.48.
- 91 - Sih, Paul K.L. (ed.): Taiwan in Modern Times; Asia in the Modern World Series, No. 13 (New York, St. Johns University Press, 1973), p.329.
- 92 - J.G. White Engineering Corp.: Survey of the Operations and Needs of the Taiwan Pineapple Corporation (Report III-45 to CUSA, Taipei, May 1954), p.3.

FOOTNOTES (Cont'd.)

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- 93 - ibid, p.4; Godston, John: Agricultural Utilization and Processing Research Can Improve and Expand the Pineapple Industry (Report to CIECD, Taipei, 6/2/64), passim. The 1982 statistic was provided by CEPD.
- 94 - Conversation - Hsu Chin-Teh.
- 95 - J.G. White Engineering Corp.: Operations Survey Report, Coal Mining Industry - Taiwan, China (Report III-9 to CUSA, Taipei, Aug. 1953), p.9; J.G. White Engineering Corp.: Summary of Mining Consultancies, Jan. 1954 to Jan. 1957 (Report IV-39 to CUSA, Taipei, Jan. 1957), pp.4-12.
- 96 - Conversation - H.T. Chang.
- 97 - Conversation - Hsu Chin-Teh.
- 98 - Shaplen, Robert: "Letter from Taiwan," The New Yorker, 6/13/77, p.78.
- 99 - See Li, op. cit., pp. 18-20; Kuo, op. cit., p.80.
- 100 - Li, K.T., Dynamic Economy, op. cit., pp.366-67.
- 101 - ibid, p.364.
- 102 - Conversation - Li. The writer was unable to confirm a report that a government travel agency was sold to private investors circa 1960. One official also remembered that a demonstration by civil servants from a fertilizer plant in Hualien stopped a divestiture deal there some years ago.
- 103 - Conversation - Li.
- 104 - Conversation - Cheng.
- 105 - Council for Economic Planning and Development: Taiwan Statistical Data Book - 1982 (Taipei, Government of the Republic of China, 1982), p.221. This figure includes relatively small amounts of pipeline money that continued through FY 1968. Another \$2.4 billion was given in military assistance.
- 106 - Jacoby, op. cit., IV-p.18. Another 27% went to mixed public and private ventures, and 67% to public enterprises and programs, especially for agriculture and infrastructure.
- 107 - ibid, IV-p.8, VII-p.10, X-p.3, XIII-p.31; Li, op. cit., pp.22-24; Conversation - Li.
- 108 - Clough, op. cit., p.34; Conversations - Lin and Henry Hsu.
- 109 - Jacoby, op. cit.; X-p.13; Li, op. cit., pp.22-24; Yin, op. cit. p.53, 57.
- 110 - Jacoby, op. cit., X-p.31.
- 111 - ibid.
- 112 - Pryor, Millard H.: End of TDY at US AID/CH - Recommendations (Washington, D.C., USAID, 4/25/63), pp.8-9, 33-34, 39. Pryor was a Private Enterprise Specialist. Some of the same things were cited in Jacoby, op. cit., X-p.29.
- 113 - Jacoby, op. cit., p. X-p.31.
- 114 - Yang, op. cit., p.237, 242.
- 115 - ibid, p.242; Conversation - Phillip Chang.

FOOTNOTES (Cont'd.)

Footnote #

- 116 - *ibid*, p.248, 253; Shaplen, *op. cit.*, p. 84; Conversation - Phillip Chang.
- 117 - Yang, *op. cit.*, pp.242-43; Shaplen, *op. cit.*, p.84.
- 118 - Yang, *op. cit.*, pp.251-53, 503.
- 119 - *ibid*, pp.158-59.
- 120 - Conversation - Chien.
- 121 - Plummer, Mark A.: "Taiwan: The Other China," Current History, Sept. 1966, p.169; Jacoby, *op. cit.*, XIII-p.9; Li, *op. cit.*, p.84; Conversations - Li, Yen, Tsiang, Tsui, and Moore.
- 122 - Yang, *op. cit.*, p.250. This list is illustrative, not inclusive.
- 123 - Chen, *op. cit.*, p.89.
- 124 - Conversation - Hsu Chin-Teh.
- 125 - Yang, *op. cit.*, pp.157-58.
- 126 - *ibid*, p.257.
- 127 - *ibid*, pp.512-15. The present writer has taken the same position for years as the result of his own work in social change and modernization.
- 128 - Conversation - Shieh.
- 129 - China Post, 6/4/81.
- 130 - China News, 1/13/83.
- 131 - China News, 6/11/81; China Post, 6/11/81.
- 132 - Jacoby, *op. cit.*, X-p.31.
- 133 - Conversation - Phillip Chang.
- 134 - Conversation - Moore.
- 135 - Conversation - Kuo, Wu, Wang and Phillip Chang. These were wide-ranging conversations on management and the challenges Taiwan must deal with today and in the future. Other officials expressed considerable interest in these questions as well.
- 136 - Conversation - Tsui.
- 137 - Conversation - Moore.
- 138 - Wentling, Mark G.: The Development of African Private Enterprise - A Discussion Paper (Washington, D.C., Office of Regional Affairs, Africa Bureau, U.S. AID, Oct. 1981), pp.1-2.
- 139 - *ibid*, p.40.
- 140 - *ibid*, p.41.