

# Taiwan's paradigm of integrated industrialization with optimum macroeconomic parameters

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## Abstract

The world happily welcomed the US–China Shanghai Communique of 1972, which was anchored to One China Policy. Taiwan's status as a sovereign nation state became a sub-optimal issue. However, USA offered Taiwan a special diplomatic status under its Defense Umbrella and offered an open economic engagement, albeit an official Free Trade Area (FTA) continued to remain not on the road map. The People's Republic of China, considered Taiwan a province of China, albeit renegade, but offered robust economic engagement, welcoming massive inflow of investment from Taiwan. Indeed, PRC did not treat Taiwan's investments in the mainland as foreign investment. Taiwan used its economic participations in China and in the USA and successfully maximized its economic gains. In the process, the peoples of China, USA and the rest of the world optimized their economic prosperity. Taiwan has become a mature industrialized economy. © 2006 Elsevier Inc. All rights reserved.

*Keywords:* Shanghai Communique; Free Trade Area; Paradigm of integrated industrialization; A matured industrialized economy; Sectoral shares of GDP; Asian Economic Community

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## 1. Introduction

With a population of 22.45 million in 36,000 sq. km in area, Taiwan has now earned the rank of a mature industrialized economy with a per capita income of US\$ 12,916 in 2004.

Two important years in the process of progression of Taiwan's industrialization and economic development warrant attention. They are 1949 and 1972.

One can begin their assessment of the Taiwanese economy with the successful Communist Revolution in China in 1945 and the consequent exodus of China's free enterprise capitalist regime to Taiwan in 1949. The US role in this exodus has been a subject of research for political

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scientists. Under historical circumstances, Taiwan became a political entity in 1949. United States and the coalition it led proclaimed China did not exist. Taiwan became a proxy for China. Japan and Taiwan redefined their erstwhile political relationship which also led to substantive economic cooperation between the two island economies.

In 1972 the world received the Shanghai Communiqué, signed by China and the USA, when the USA rediscovered China. The One China policy became the core of this historic agreement between the communist government of China and the government of the USA, the leader of the capitalist free market economies. The world was ready to receive the Sino-American proclamation with acclamation. Taiwan ceased to be a member of the post-WWII international organizations, inclusive of the United Nations, International Monetary Fund, and The World Bank. The recognition of Taiwan as a sovereign national state became an issue of debate. Taiwan elected to accept the challenge and made its economic existence appreciated by the world. Indeed, Taiwan's economic presence in the mainland of China, given its share of foreign investment in China, has been a subject of study. China considers Taiwan as one of its provinces, albeit renegade, and does not recognize Taiwanese investment in the mainland as foreign investment. To be rich together, instead of remaining poor together, is a corollary of the now famous proclamation: TO BE RICH IS GLORIOUS. I have argued that Taiwan and China will continue to maintain a mutually beneficial economic relationship (Dutta, 1999).

Be it noted that the United States government made a special arrangement of communications with Taiwan, setting up a sub-optimal diplomatic channel, as per the Taiwan Relations Act of 1979. The USA also provides observable military protection to Taiwan by way of maintaining a Naval Fleet in the Strait of Taiwan, between the island economy of Taiwan and Mainland China.

Taiwan continues to be a full member of the Asian Development Bank (ADB). In 1992, along with China and Hong Kong, Taiwan became a full member of the Asia Pacific Economic Cooperation (APEC), which now has 21 members inclusive of the USA, Russia, Korea, Japan, Canada, Mexico, Chile, Australia, and New Zealand. Taiwan's membership to the Central American Bank for Economic Integration (CABEI), and the Conference of Governors of South East Asian Central Banks (SEACEN) is to be noted. In addition, with its economic resources and foreign exchange reserves, Taiwan plays an active role in three international financial organizations: the Inter-American Development Bank (IDB), the European Bank for Reconstruction and Development (EBRD) and the Bank for International Settlements (BIS). On January 1, 2002, Taiwan became a member of the World Trade Organization (WTO), just a few weeks after the People's Republic of China (PRC) was admitted as a WTO member on December 20, 2001.

The United States also has a substantive economic engagement with Taiwan. As a member economy under the US defense umbrella, Taiwan enjoys a close economic relationship with the United States though there is no formal Free Trade Area (FTA) agreement between the two. An official US–Taiwan FTA is not on the road map. As of August 2005, the USA has signed bilateral FTAs with Israel (1985), Jordan (2000), Singapore (2003), Chile (2003), Australia (2004), Morocco (2004), Bahrain (2004), and Central America (2005), and negotiations with many others continue. The USA also has several regional trade agreements: Free Trade Area of the Americas (FTAA), North American Free Trade Area (NAFTA), Middle East Free Trade Area (MEFTA), Asia Pacific Economic Cooperation (APEC) (see: [United States Trade Representative, \*http://www.ustr.gov/Trade/Agreements/Section-Index.html\*](http://www.ustr.gov/Trade/Agreements/Section-Index.html)).

Bilateral and region-specific FTAs must be open to critical review. I have argued that they are strategic economic arrangements of convenience, often with extra-economic considerations. The preferred model will be the FTA of the European Union (EU) based on unity in diversity of

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