

# PROSPERITY THROUGH FREE ECONOMY — A CASE STUDY OF TAIWAN\*

By

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Nowhere, in Taiwan, whether in the cities or the countryside, are there visible signs of dire poverty. People have enough to feed and clothe themselves well, if not luxuriously. The currency is sound and there is no inflation. Stores are filled with foodstuffs, clothing and other daily necessities. Improved living conditions, better intake of nourishment and the consequent improvement in the health of the people have lowered the death rate. The population has grown from 8 million in 1952 to nearly 12 million, or an average annual growth rate of 3.6 per cent. The island has the birth rate of a developed country and the death rate of a highly developed country (one per cent). Literacy is high, with over 96 per cent of children of school-going age in schools. Education is free and compulsory for six years. Steady economic progress has been made through a series of four-year plans and the per capita income has more than trebled (at current prices) within a decade to U.S. \$131. Salaries are not big, averaging between NT \$2,000 to \$4,000 (U.S. \$50 to \$100) a month. Government employees, however, enjoy a variety of fringe benefits like free housing, rice rations, domestic help, utilities and so on.

The secret of the steady improvement in the people's living conditions can be found in the success that has been scored over the past 15 years in the fields of agriculture and industry. As the result of a highly successful land reform programme which has reduced absentee-landlordism and placed most of the agricultural land under the ownership of farmers tilling them, the yield of rice per acre has soared and the island produces enough for the entire population and has some to spare for export. The income of the average farmer has gone up over 200 per cent in the past 15 years.

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\* This article by its Tokyo correspondent, appeared in "The Hindu" of Madras, dated May 23, 1964, and is reproduced with the kind permission of the Editor. The prosperity of Taiwan clearly indicates the benefits of a free enterprise economy.

The land reform programme was initiated in 1949 by placing a limit of 37.5 per cent on the farm rent payable by tenant-tillers to the landlords. Till then, tenants had to pay an average rent of 50 per cent and in extreme cases as much as 70 per cent of the main crop to the landlord, besides having to furnish their own fertilisers, farm equipment and farm buildings. In addition to the reduction of rent, security of tenancy rights was also provided in several ways. The farm rent reduction programme affected virtually all private tenanted land totalling 256,000 hectares and benefited 296,000 tenant families accounting for 48 per cent of all such families.

In the second stage, the Government began to sell public farm land to the tenants. There were about 180,000 hectares, or about 20 per cent of the total area of the cultivated lands, under Government ownership. The Government set the purchase price of these lands at 2.5 times the total annual yield of the land to be paid by the tenant-purchaser in 20 instalments over a period of 10 years with no interest. Up to the end of 1961 a total of 96,000 hectares of public farm land had been sold to 156,000 tenant families.

After setting the example to private landlords by offering public land for sale to their tillers, the Government undertook the final stage of land reform requiring private landowners to sell their excess tenanted land to the tenants. Each landlord was allowed to keep 7.4 acres of medium grade paddy field or its equivalent and holdings in excess of this had to be sold to the Government for resale. Under this scheme, known as land to the tiller programme, the landlords received for the holdings they had to sell 70 per cent of the price in land bonds and 30 per cent in stocks of Government industrial enterprises, which were later turned over to private ownership. These enterprises were in the sectors of agricultural development, mining, cement and paper production.

Thus, land reform not only enabled the tenants to possess the land they tilled

but contributed to private industrial enterprise. The land bonds were redeemable in unhulled rice or cash in 20 semi-annual instalments plus interest of four per cent per annum. The tenant purchasers paid the Government in a corresponding number of years at the same rate of interest. The purchasers also could apply for Government loans. As a result of the reforms, owner-cultivated lands increased from 61 per cent in 1949 to 90 per cent in 1961.

The incentive which land reform has provided is reflected in the production figures. In 1948, before the land reform was begun, for example, the average production of rice was 3,896 kilogrammes per hectare and of this the land owner took away half as rent, leaving less than 2,000 kgs. to the farmer. In 1952, three years after farm rents were reduced to 37.5 per cent, the average production had gone up to 5,218 kgs. In 1960, after the tillers had more or less completed payments to the Government for the land acquired, the average production was 6,366 kgs. In 1963, the production averaged 6,600 kgs. leaving all but a mere 300 kgs. or practically the bulk of the production to the farmers. Two to three crops of rice a year are common, especially in the southern part of the island, while in certain areas, even four crops are reaped.

Industry has kept pace with agriculture and, in fact, done better. The textile industry was virtually non-existent till the end of the war and even in 1952, the island had to import \$18 million worth of cloth. However, last year textile exports totalled \$35 million and the export target for this year is \$43 million. Textiles are Taiwan's second largest foreign exchange earner, the first being sugar.

The textile story is a dramatic illustration of the strides taken by the island's industry through several four-year plans.

Concentration in the first plan, launched in 1953, was on power, fertiliser and textiles. During the second plan, co-ordination of agriculture and industry was encouraged and emphasis placed on efficiency and higher standards in the export industries. The third four-year plan launched in 1961 is essentially a continuation of the first two plans.

As a result of these efforts, installed power production capacity has trebled and Taiwan ranks third in Asia—next only to Japan and Israel—in per capita power production. Industrial production in the private sector has expanded nearly five-fold and that in the public sector nearly doubled. (Only four categories of industries—power, fertiliser, petroleum and railways—are in the public sector.) Since 1949, about 9,000 factories, representing an increase of 90 per cent, have been established and the island produces a variety of goods ranging from motor vehicles, chemical fertilisers, industrial chemicals, cement, aluminium, building materials and glass to a wide assortment of consumer goods like electrical appliances, bicycles and sewing machines and processed foods. By next year, the island will be self-sufficient in fertilisers. The petroleum refinery in Kaohsiung is one of the most modern in Asia.

The industrial expansion is dramatically reflected in foreign trade. In 1952, Taiwan's exports totalled only \$120 million while imports amounted to \$210 million. This imbalance continued till 1962 with a chronic deficit of about \$80 million every year which was covered by U.S. aid. Last year, however, this situation was reversed and, in fact, helped by exceptionally good sugar prices, exports soared to \$358 million, while imports including U.S. economic assistance totalled \$337 million, for a clear favourable trade balance of about \$20 million. Foreign exchange reserves in 1963 totalled \$200 million.

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*The views expressed in this leaflet are not necessarily  
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