

US Aid and Taiwan

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Abstract

After the outbreak of the Korean War on June 25, 1950, the US included the Republic of China on Taiwan (Taiwan hereafter) in its Asia-Pacific containment line, and restored the military and economic aid to Taiwan for the sake of regional security. The US aid to the countries along the Asia-Pacific defense line was not only in the form of supplying munitions, but also linked these countries together in an economic dimension. Taiwan is one of the 120 countries which had accepted US aid and also successfully moved from “dependence” to “independently sustained growth.”

This article will firstly review the historical background of US aid to Taiwan and related institutional development; secondly, this article will illustrate how Taiwan used US aid, and which economic sector the US aid affected; thirdly, it will trace the impact of US aid on Taiwan’s foreign trade, and finally, to make a conclusion.

Keywords

foreign aid and development, US aid, autonomy of Taiwan, economic growth of Taiwan

1. INTRODUCTION

“US aid” is an abbreviation of “US foreign assistance,” and was created by US foreign policy after World War II. “US aid,” as defined by the *American Foreign Policy Encyclopedia*, implies that “the US government established institutions to conduct military and economic aid to other governments.” The United States aid to the ROC government can be divided into four periods: the first period was from the Chinese civil war to the Korean War, the second period was from military aid to economic aid, the third period was termination of economic aid, and the last period was continuous measures after the termination.

After WWII, the United States passed the Economic Cooperation Act of 1948 in April. Based upon this law, the US organized the Economic Cooperation Administration (ECA) under the President’s direct order, and the ECA dispatched missions in recipient countries to execute and supervise the US aid. The US and ROC reached an “Economic Aid Agreement” in July 1948 in Nanjing. To assist the ROC in promoting a self-support scheme and strengthening its self-defense ability, the US government agreed to provide the ROC with a large variety of economic resources by grants and loans.¹ Then the ECA established the ECA Mission to China, and the Executive Yuan of the ROC established the Council for US Aid (CUSA) as the corresponding institution. In the China aid fund of 1948, USD [US dollar] 10 million was supplied to Taiwan for economic construction.² This first US aid to Taiwan was used for restoring the Taiwan Sugar Company, Taiwan Railway Administration, and Taiwan Power Company.³

¹ The Management Council of the Sino-America Fund for Economic and Social Development Executive Yuan (MCSAF), *Zhongmei jingji shehui fazhan jijin zhi yunyong shilu* (The Operating Record of the Sino-America Fund for Economic and Social Development) (Taipei: CEPD Executive Yuan, 2007), 2, accessed June 20, 2012, <http://www.cepd.gov.tw/m1.aspx?sNo=0000277>.

² Xinying Wen, *Jingji qiji de bei hou—Taiwan meiyuan jingyan de zhengjing fen xi* (Behind the Economic Miracle—A Political and Economic Analysis of the US Aid Experience of Taiwan) (Taipei: Zili Wanbao Press, 1990), 85.

³ Huayuan Xue, ed., *Taiwan maoyishi* (Taiwan Trade History) (Taipei: Taiwan External Trade Development Council, 2008), 249.

However, shortly after the agreement, the ROC government failed in the civil war in Mainland China, and the United States terminated the aid. The "United States Relations with China with Special Reference to the Period 1944-1949" (commonly known as the "China White Paper") was published on August 5, 1949 to indicate the reasons why the US stopped aid to China.⁴

The central government of the ROC moved to Taiwan on December 7, 1949, and the Korean War broke out on June 25, 1950. The US included Taiwan in its West Pacific containment line, and restored military and economic aid to the ROC on Taiwan.⁵ Thus, most studies on the US aid to Taiwan have discussed the period starting from 1950. This article also mainly discusses the period of US aid to Taiwan from 1950 onward. US aid to Taiwan was arranged to help the US contain the Communist expansion from the Soviet bloc. In a strict sense, it extends from 1950 to 1965. After 1965, the related US loans from US aid had constituted the Sino-US fund, and all the loans of US aid have been repaid until 2004. So, in a broad, US aid to Taiwan continued to 2004.

The US aid has influenced Taiwan in many fields, including society, politics, culture, education, and international relations, in addition to economic development and military security. In this article, we shall discuss only the economic effects. The existing research on the impact of the US aid to Taiwan after World War II, Neil H. Jacoby's study was the most important research. He discussed the programs of US aid to Taiwan and its execution and initial implementation, and evaluated the gain and loss of US aid policy quite completely. He believed that the success of US aid to Taiwan can be attributed to 12 reasons. For example, a high level of aid, concentration of public investment in infrastructure and human resources, pursuit of comparative advantage in investment, treatment of savings as an effect instead of a cause of

⁴ In the China White Paper, the US indicated that the failure of KMT in the civil war was not because the US aid was not enough, but because the KMT was corrupt and lost popular sentiment etc. (Lai Yashin, "Meiguo fabiao 'zhongguo baipishu' zhi juece guocheng (The Decision Making Process of the China White Paper)" (PhD diss., Tamkang University, 2009).

⁵ Wen, *Behind the Economic Miracle*, 89.

higher incomes, active use of US influence on Chinese economic policy, avoidance of using US aid as a lever to induce political reforms, focus on development of the private sector.⁶ Samuel P. S. Ho also pointed out US aid influenced the type of economy and society that developed in Taiwan.⁷ We basically agree with Jacoby and Ho's discussion. But because Jacoby was standing from the United States position to evaluate the economic effects of US aid to Taiwan, such as he believed an active use of US influence on Chinese economic policy, so he ignored the autonomy of Taiwan when Taiwan made economic policy and executed the project of US aid.

According to a Report of the World Bank, Taiwan achieved continuous growth with equity till the end of the 1980s.⁸ The development of Taiwan did not fall into the so-called 'underdevelopment trap' -- uneven distribution and economic stagnation. Many studies show that the US aid played a very important role for Taiwan's development. Therefore, they stated the dependent development situation of Taiwan on US. For example, Tsongmin Wu pointed out, "When the US selected some projects to aid Taiwan, the US had influenced the direction and strategy of economic development of Taiwan," and "if there were disagreement between Taiwan and the US, the US government would attempt to force Taiwan to adopt the suggestions of US by reducing or even stopping for the relief funds as a threat."⁹ However, as Xinying Wen pointed out, "the US aid consolidated the rule of the ROC government in Taiwan, and strengthened the dependency of Taiwan on the US."¹⁰

However, the US aid let the USA influence absolutely the

⁶ Neil H. Jacoby, *U.S. Aid to Taiwan: A Study of Foreign Aid, Self-Help, and Development* (New York: F.A. Praeger, 1966), 243-45.

⁷ Samuel P. S. Ho, *Economic Development of Taiwan, 1860-1970* (New Haven and London: Yale University Press, 1978), 120.

⁸ World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York; Tokyo: Oxford University Press, 1993).

⁹ Tsongmin Wu, "Meiyuan yu Taiwan de jingji fazhan (The US Aid and the Economic Development of Taiwan)," *Taiwan shehui yanjiu jikan* (Taiwan: A Radical Quarterly in Social Studies) 1, no.1 (Spring 1988): 155.

¹⁰ Wen, *Behind the Economic Miracle*, 269, 275.

sovereignty of the ROC government or not? Some recent studies promote us to rethink this issue. This article will discuss Taiwan still has the autonomy to make economic policy in US aid, but was not totally constrained by the United States. Because such the autonomy of policy formulation and implementation was in response to the environment and conditions of Taiwan, and that was the reason why Taiwan can use US aid more efficiently.

After introducing the historical background of the US aid to Taiwan and reviewing literature in the first section, this article will then illustrate how Taiwan used US aid and which economic sectors the US aid affected in the second section. This article will also study the general impact of US aid on Taiwan and the policy autonomy of Taiwan in the third section. In the end, comparisons and implications will be drawn in the conclusion.

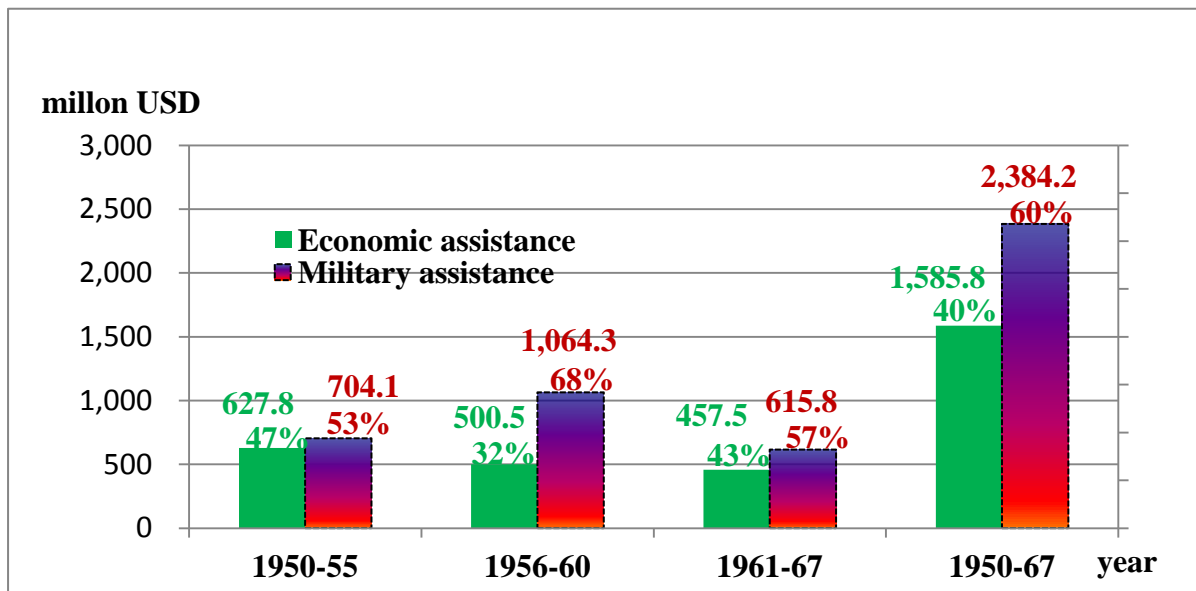
In addition, it must be noted that the reason that Taiwan has the ability to properly use US aid and maintained policy autonomy, also included the factor of heritage of Japanese colonial period. Japanese colonial heritage brought period of 1950s of Taiwan (even later period) economic development a very important foundation. It included infrastructure such as railways, port, road etc., and software such as high educated human in agriculture or industry, technology, or institutions conducive to development etc. This is another one of the important origins of postwar Taiwan's economic development and cannot be ignored. But the space is limited; this article cannot discuss this part more.

2. ITS CONTENT, AMOUNT, AND USE

The US aid to Taiwan was classified into general economic assistance and military assistance. As figures 1 & 2 show, the amount of economic and military assistance during 1950-1967 was nearly 4 billion USD; 90% was in gift, 10% was in loan, and the military assistance (60%) exceeded economic assistance (40%). The accumulated nominal GDP of Taiwan during 1951-1967 was 34.5 billion USD, and the US aid accounted for nearly 12% of nominal

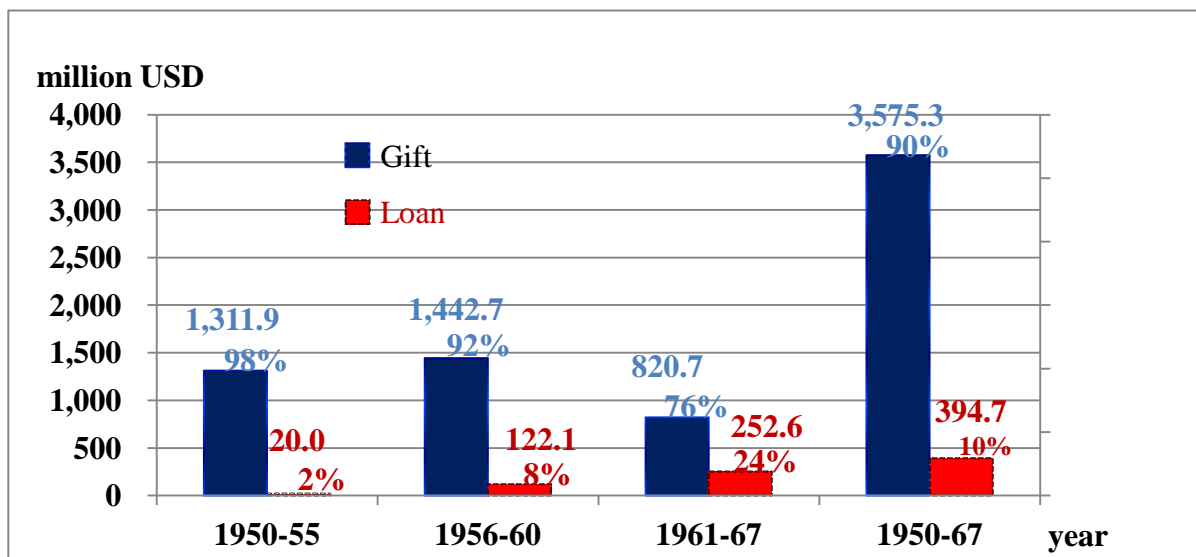
GDP at the same period. As Tsongmin Wu pointed out, military assistance helped Taiwan to maintain a stable society to pursue stable economic growth, which helped the US to maintain its ‘global defense system.’¹¹

Figure 1. Economic & Military Assistance to Taiwan (1950-1967)



Source: Wen, *Behind the Economic Miracle*, 91.

Figure 2. US Aid: Gift & Loan to Taiwan (1950-1967)



Source: Wen, *Behind the Economic Miracle*, 91.

¹¹ Wu, “The US Aid and the Economic Development of Taiwan,” 148.

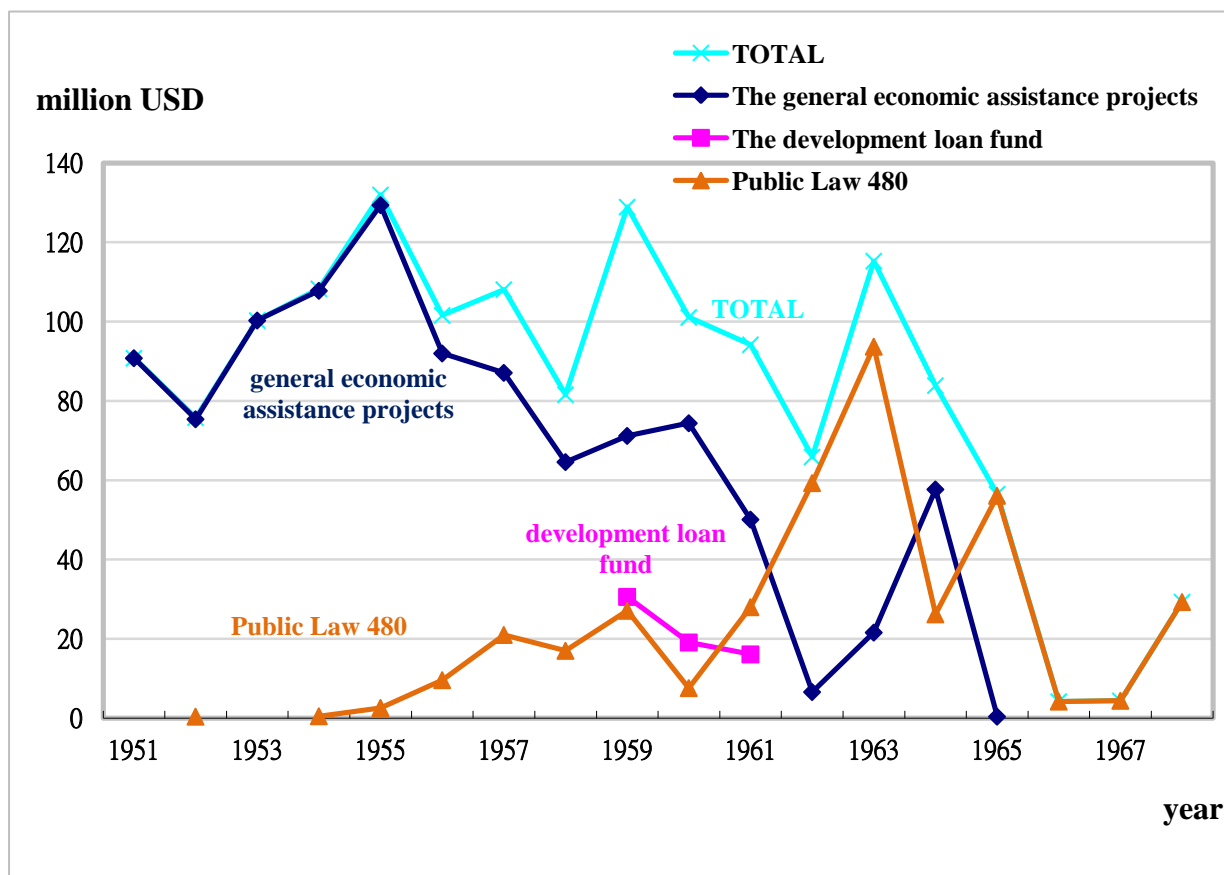
2.1 Content and Amount of Economic Assistance: Before 1965 (Last Arrival of Aid Was 1968)

US foreign economic assistance included direct grants, bilateral and multilateral development loans and technical cooperation to achieve the transfer and circulation of goods and services. The US agricultural surplus consumption in the "Food-for-Peace Program" is based on the "Public Law 480," which is also an important part of economic aid. Military assistance included providing military advisers and training, transfer and sales of weapons and equipment, and assisting with recipient countries' national defense construction.¹²

For the period of 1951-1968, the amount of US economic assistance to Taiwan is shown in Figures 3 & 4. The aid was provided by the Development Loan Fund in 1959, 1960, and 1963, with the rest from the "general economic assistance project" in the early years and from "Public Law 480" in the remaining period. Overall, the general economic assistance projects accounted for nearly 70% of the total, and Public law 480 for 26%. Before 1961, the general economic assistance accounted for 55%, and in 1962, "Public Law 480" replaced this and accounted for more than 50%. During 1966-1968, only the aid based on "Public Law 480" still operated.

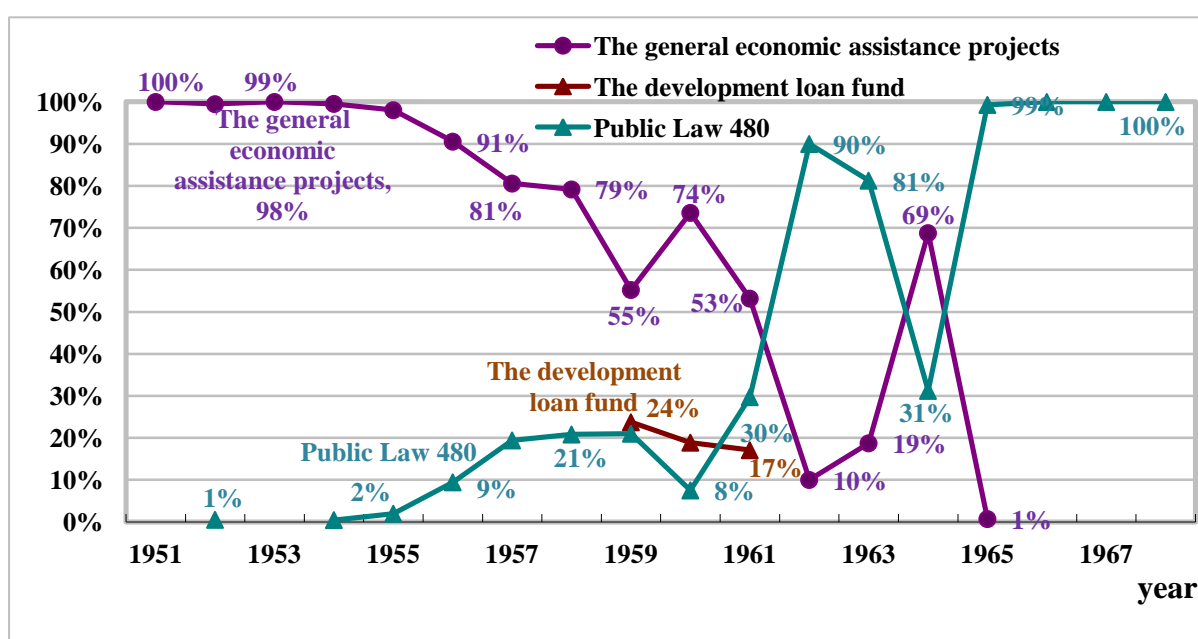
¹² Ian J. Bickerton and John W. Sewell, *The United States and World Development: Agenda 1977* (New York: Praeger Publishers, 1977), 134.

Figure 3. Amount of US Economic Assistance to Taiwan (1951-1968)



Source: Council for Economic Planning and Development, *Taiwan Statistical Data Book* (Taipei: Executive Yuan, 1977), 219.

Figure 4. The Percentage Shares of US Economic Assistance to Taiwan (1951-1968)



Source: *Taiwan Statistical Data Book*, 1977, 219.

Among the aid, the general economic assistance project consisted of three components: defense support (or development loans) which included non-project type and project type,¹³ technical cooperation, and military assistance (included non-project type and project type). The accumulative amount and share of Sino-US defense support (or development loan programs), technical cooperation and military assistance was respectively 851.6 million USD (82.73%), 30.1 million USD (2.92%), and 147.7 million USD (14.35%) from 1951 to 1968. And in sum of defense support (or development loans) and military cooperation, the non-project type and project type respectively accounted for 714.3 million USD (70%) and 285 million USD (30%).¹⁴

2.2 Heavy Investment in Public Utilities

The large-scale investments of Taiwan in 1953-1960 were almost all public utilities, such as electricity, transportation, and mining, and they were mostly funded by the US aid.¹⁵ From 1953 to 1976, there were six consecutive four-year economic plans. US aid played a substantially important role in the early two periods.¹⁶ The rehabilitation and expansion of public utilities were mainly based upon US aid as their main funding source.

As Table 1 shows, the US aid loans to Taiwan in the fiscal years 1950-1963 were divided into NT dollar loans and US dollar

¹³ To help the infrastructure and industrial development of Taiwan, the amount of US aid which provided for specific projects was called project type aid. The income that Taiwan sold out the goods which US aid provided was not use for specific project. This situation was called non-project type aid (Jichang zhao, *Meiyuan de yunyong* [The Operation of the US Aid] [Taipei: Linking Publishing, 1985], 26-27).

¹⁴ Council for International Economic Cooperation and Development (CEPD), *Taiwan Statistical Data Book* (Taipei: Executive Yuan, 1977), 219.

¹⁵ Jinqing Liu, Zhaoyan Tu and Mikio Sumiya, *Taiwan zhi jingji dianxing NIES zhi chengjiu yu wenti*, trans. Huiying Lei (Taiwan as a Typical NIES Economy: Its Achievement and Problems) (Taipei: Renjian, 1993), 362.

¹⁶ Kazuhisa Itô, "jinrong tixi yu zijin choucuo (Financial System and Its Fund-Raising)," in *Guoji jiagong jidi de xingcheng* (The Formation of International Basis for Processing), ed. Takao Taniura and trans. Huiying Lei (Taipei: Renjian, 1992), 61.

loans, totaling respectively 6.4 billion NTD and 310 million USD. Public enterprises accounted for 68.08% of the NT dollar loans and 91.87% of US dollar loans, and private enterprises received a 31.92% share of the NT dollar loans and 8.13% of US dollar loans.

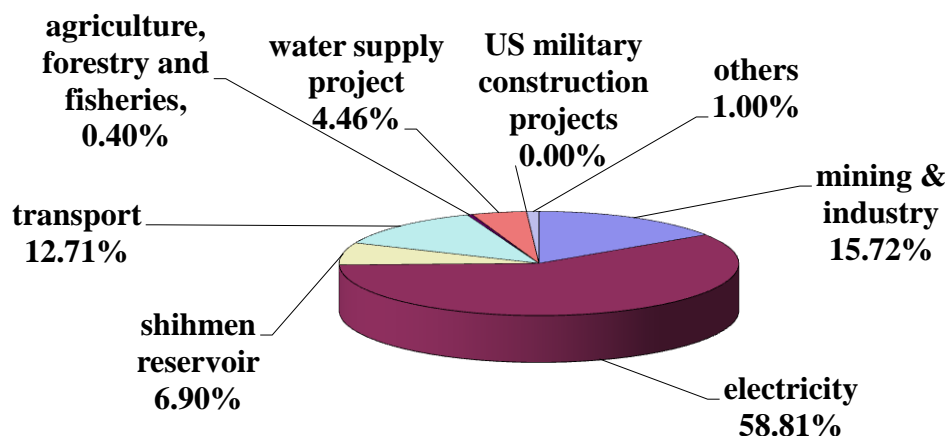
Table 1. Amounts of US Aid via NTD and USD Loans by Sector

Sectors	Fiscal Years			
	1952-1963		1950-1963	
	NTD loans (million NTD)	%	USD loans (million USD)	%
Public	4,406.33	68.08%	284.77	91.87%
Private	2,065.89	31.92%	25.20	8.13%
Total	6,472.22	100.00%	309.97	100.00%

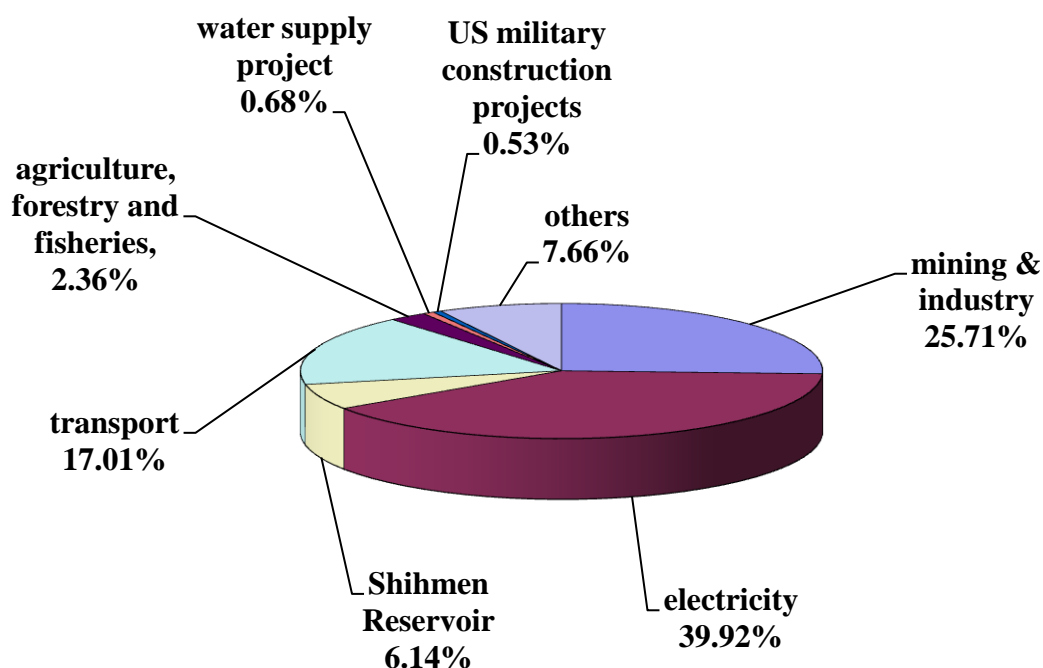
Source: Council for International Economic Cooperation and Development, *Mei yuan dai kuan gai kuang* (An Outline of the Loans of the US Aid) (Taipei: Executive Yuan, 1964)

As shown in Figures 5 and 6, in the public utilities, for electricity, mining and industry, transport, and the Shihmen Reservoir, US aid NTD loans accounted respectively for 58.81%, 15.72%, 12.71%, and 6.90%, and for electricity, mining and industry, transport, and Shihmen Reservoir US aid US dollar loans accounted respectively for 39.92%, 25.71%, 17.01%, and 6.14%.

Figure 5. US Aid in NTD Loans for Various Public Sectors by Industry (1950-1963)



Source: Council for International Economic Cooperation and Development, *Mei yuan dai kuan gai kuang*, 1964.

Figure 6. US Aid in USD Loans for Various Public Sectors by Industry (1950-1963)

Source: Council for International Economic Cooperation and Development, *Mei yuan dai kuan gai kuang*, 1964.

Fertilizer, sugar, aluminum, and coal, respectively accounted for 33.93%, 27.94%, 10.39%, and 7.48% of the US aid in NTD loans to public utilities in mining and industry; and fertilizer, sugar, oil, and sulfuric acid respectively accounted for 53.07%, 19.98%, 6.45%, and 5.97% of US aid in USD loans to public utilities in mining and industry.¹⁷ That is, in mining and industry, fertilizer and sugar industries were the main recipients.

Obviously, the logic of distribution of US aid implies government's attitude to which the economical department was expected to restore and develop in urgent or not, namely, to restore and develop agricultural department was primary. However, development of agricultural department is for the sake of developing industrial department. Electricity is basic power to produce fertilizer and sugar and etc., so got most share of US aid.

¹⁷ Council for International Economic Cooperation and Development, *Mei yuan dai kuan gai kuang*, 1964.

The second big share of US aid distribution was mining and industry. In mining and industry, fertilizer is the essential material to produce rice and sugar (for planting sugar cane). Both sugar and rice were the most important export items of Taiwan from the period of Japanese colonial rule until 1950s. So fertilizer and sugar also got big share of US aid. During the period of US aid, the export amount of sugar and rice was annual average 100 million USD.¹⁸ This was a great contribution to earn foreign exchange currency.

2.3 Fostering Private Enterprises and the Ideological Shift

While the lion's share of the US aid helped maintain Taiwan's security, a smaller percentage of US aid for the private sector still helped the rise of the private economy. As shown in figures 7 and 8, US aid in NTD loans to private enterprises included agriculture, forestry and fisheries (57.25%), small and medium-sized business (23.67%), mining and industry (8.31%), and private industrial bills discounted loans (6.78%). US aid in USD loans was given to private enterprises including mining and industry (58.01%), small and medium-sized business (30.05%), and industrial agriculture, forestry and fishery (11.82%).

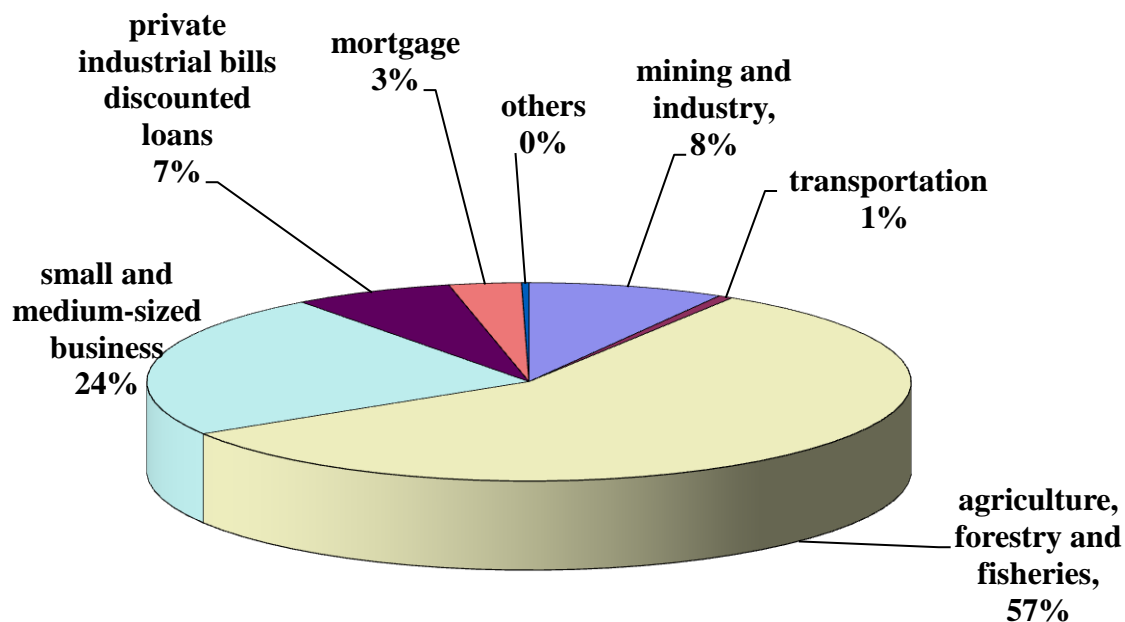
The major private enterprises receiving US aid in NTD loans accounted for up to 57.25% in agriculture, forestry and fisheries. And the Rural Reconstruction committee obtained 90.94 percent of the loans. In other words, for the part of the US aid in NTD loans to private enterprises, the Rural Reconstruction committee had a 52.06% (57.25% * 90.94%) share.

The private industries which obtained USD loans and their share of the total US aid for private industries were the mining and industry (58.01%), cement industry (25.75%), pulp and paper industry (19.16%), wood and plywood industry (12.33%), iron and steel industry (10.98%), and coal industry (10.68%).¹⁹

¹⁸ Liu, Tu and Sumiya, *Taiwan as a Typical NIES Economy*, 80.

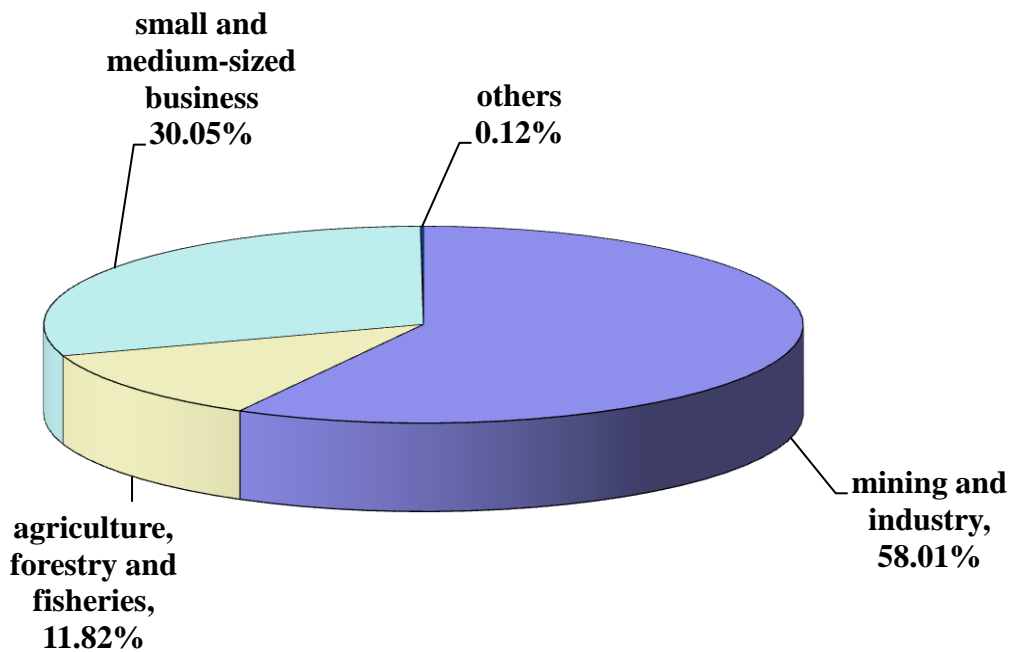
¹⁹ Xue, *Taiwan Trade History*, 266.

Figure 7. US Aid in NTD Loans for Various Private Sectors by Industry (1950-1963)



Source: Council for International Economic Cooperation and Development, *Mei yuan dai kuan gai kuang* (1964).

Figure 8. US Aid in USD Loans for Various Private Sectors by Industry (1950-1963)



Source: Council for International Economic Cooperation and Development, *Mei yuan dai kuan gai kuang*(1964).

3. ECONOMIC IMPACT

3.1 Structural Change of Trade and the Balance of Trade

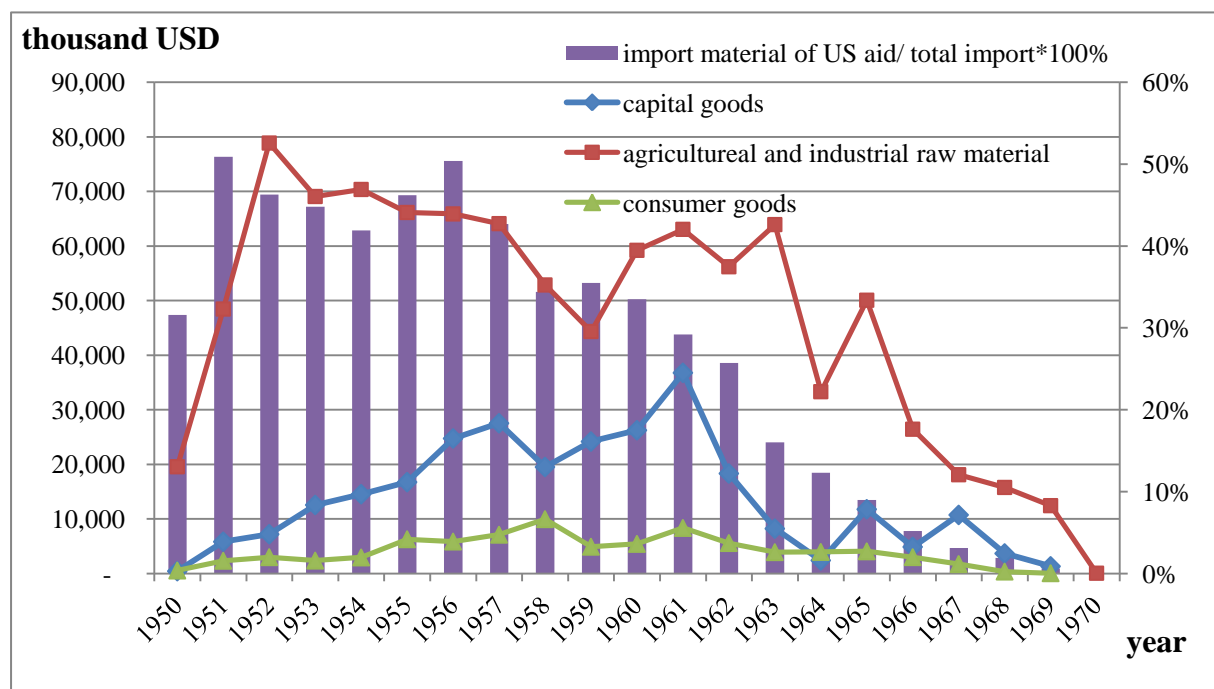
As shown in figure 9, in 1950s, the import of US aid material accounted for total import of Taiwan was the highest. Among imported goods category of US aid material, agriculture and industrial raw material was in the majority, capital goods was the next, and the share of consumer goods was not high during all the US aid period. As the accumulated amount of 1950-1965, of US aid goods, consumer goods as a percentage were 6.2% in 1951-1965, raw materials were 73.1%, and capital goods were 20.7%.

Moreover, as shown figure 10, we can see the trend of industrialization of Taiwan by total amount of imported goods category substitution. For general imports, imported consumer goods accounted for total import was 46% in 1950, and plummeted to 12.6% in 1954, and subsequently, on average, were less than 10%, except for being 10.1% in 1961. Imported agricultural and industrial raw materials were 40.7% of total import amount in 1950, and increased to 65.9% in 1952, followed by an annual average maintained at between 60-70%. The proportion of imported capital goods was 13.3% in 1950, and afterward rose precipitously to 29.3% in 1965, due to industrial development over the period, and resultant increase in demand for imported machinery and equipment. More production and less consumption would help ease the inflation.

Figure 11 shows the trend of export structure of Taiwan in 1950-1965. Agricultural and processed agricultural products accounted for total export was near 90% in the early 1950s and near 85% even in the late 1950s, however it showed a decreasing trend in 1950s. On the other hand, export of industrial products account for total export amount showed a rapid growth after 1958. For export, industrial products have exceeded processed agricultural products in 1962.

Taiwan's trade deficit from 1950 to 1970 totaled USD 1.7 billion, and imports financed by the US aid accumulated to USD 1.3 billion. In other words, US aid compensated for 78.5% the trade deficit of the 21 years from 1950 to 1970.²⁰ The US aid had compensated for the lack of foreign exchange in Taiwan.²¹

Figure 9. Trend of the US Aid Material Imports, 1950-1965

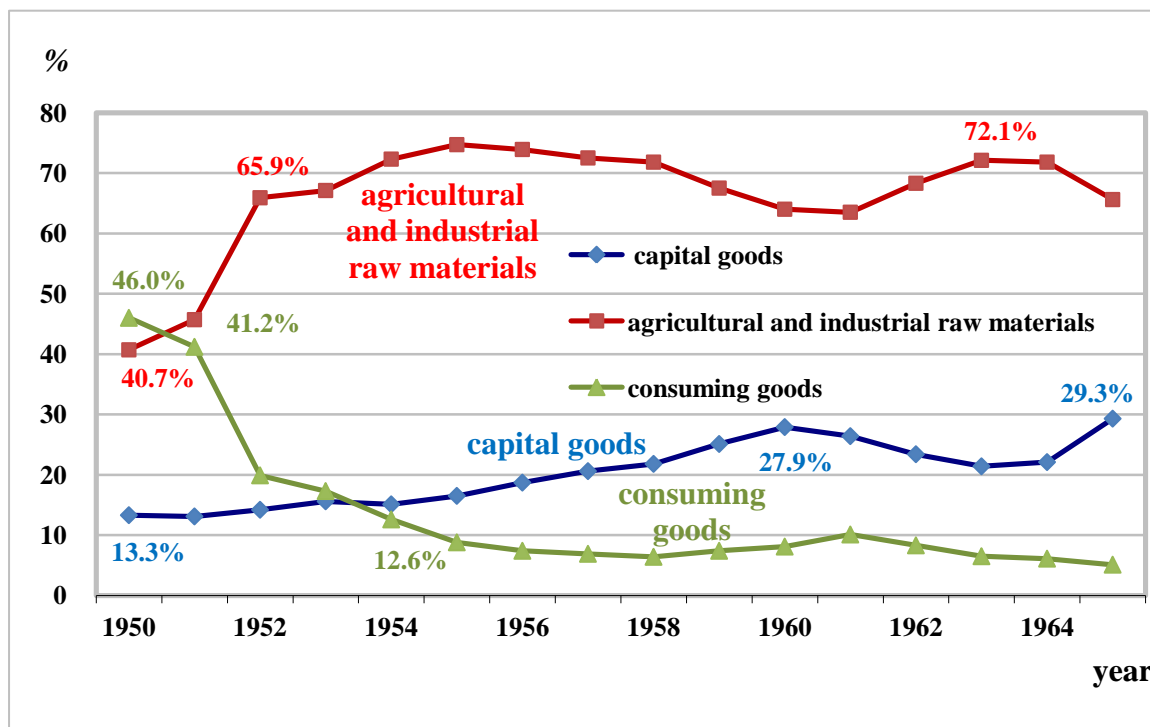


Source: Council for Economic Planning and Development (CEPD), *Taiwan Statistical Data Book*, 1981.

²⁰ Xue, *Taiwan Trade History*, 275.

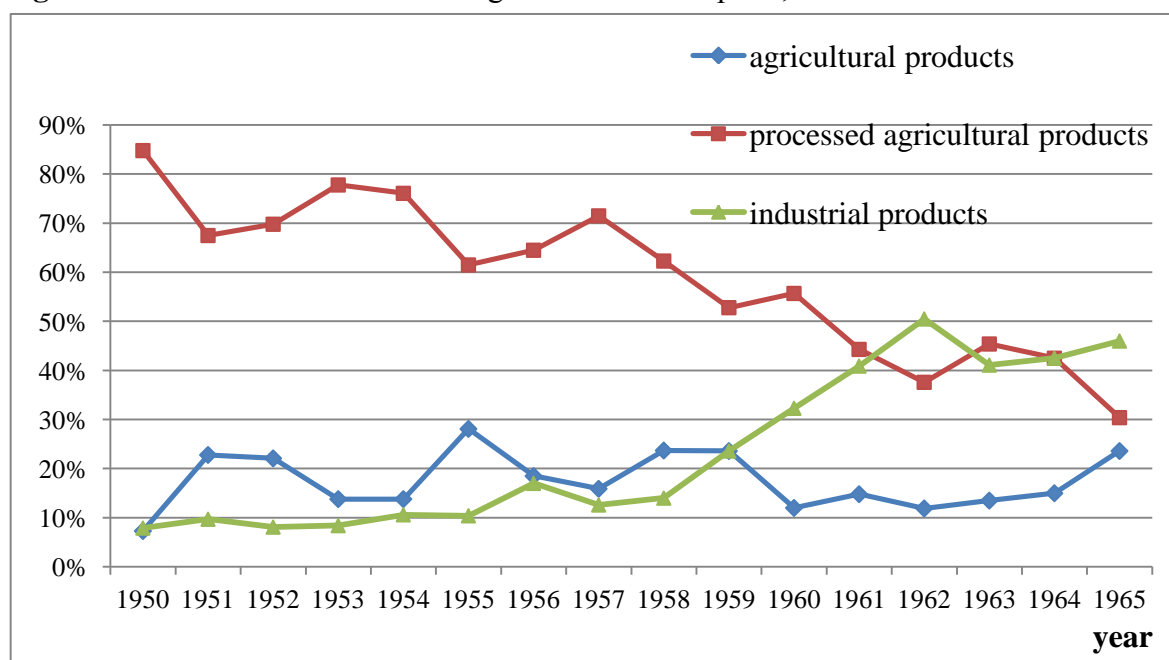
²¹ Weizhen Yu, "1945-1952 Taiwan zhanhou chuqi exing tonghuo pengzhang zhi tantao (An Analysis of Hyperinflation in Taiwan, 1945-1952)," (PhD diss., Chinese Culture University, 2006).

Figure 10. Trend and Structural Change in Taiwan’s Imports, 1950-1965



Source: Council for Economic Planning and Development (CEPD), *Taiwan Statistical Data Book*, 1981.

Figure 11. Trend and Structural Change in Taiwan’s Exports, 1950-1965



Source: Council for Economic Planning and Development (CEPD), *Taiwan Statistical Data Book*, 1981.

3.2 To Help Curb Inflation

Because of WWII, Taiwan faced the pressure of inflation, as did most countries. The most important reason for the outbreak of hyper-inflation in Taiwan in 1948-9 was the civil war between the Kuomintang and Chinese Communist Party, and the economic chaos in Mainland China. Taiwan's resources were drawn to the mainland for the war; the under-valued Taiwan dollars relative to the legal dollar used in the mainland increased the demand for Taiwan dollars.

In order to restrain the hyper-inflation, Taiwan's provincial government carried out a Currency Reform policy and issued New Taiwan Dollars on June 15, 1949. The exchange rate between the New Taiwan Dollar (NTD) and Old Taiwan Dollar (OTD) was set at 1NTD= 40,000 OTD. In order to rebuild people's confidence in the NTD, the government established the NTD system very cautiously, including a 100% reserve system, an issue limit set at 200 million NTD, severing the connection with Legal Currency in Mainland China, and pegging the evaluation of NTD to US dollar, as well as other measures.²² The monthly average of the wholesale price index rose 57.25% from January to June 1949. After the Currency Reform, the monthly average index dropped 9.03% from July to December 1949. Although the price index was drastically reduced, the hyper-inflation was still not completely controlled.

In August, a month and a half after the NTD was issued, the US published the China White Paper, and the ROC moved its central government to Taiwan at the end of 1949. The financial deficit of 1950 was 409.6 million NTD, which was 31.6% of the central government's expenditures (1,296.25 million NTD).²³ At the beginning of the government's move to Taiwan, the budget

²² Wei-chen Lee, "New Taiwan Dollar," Encyclopedia of Taiwan, accessed June 20, 2012, <http://taiwanpedia.culture.tw/web/content?ID=3913&Keyword=%E5%B9%A3%E5%88%B6%E6%94%B9%E9%9D%A9>.

²³ Tsongmin Wu, "Taiwan zhanhou de exing wujia pengzhang (Taiwan's Hyperinflation: 1945-1950)," *Bulletin of Academia Historica*, no.10 (December 2006): 150-51.

deficit caused by huge defense spending was still the unresolved origin of inflation. In addition, the US took a ‘hands off’ policy on both sides of the Taiwan Strait; Taiwan’s international situation was extremely isolated.²⁴ Many recent studies have pointed out that currency reform was not enough to ease the hyper-inflation; the recovery of production and the arrival of the US aid after the 1950s were more important.

Tsongmin Wu pointed out that the ‘Counterpart Fund’ of the US aid helped to restrain inflation. As the government could withdraw an amount of NTD from the market by selling the US aid materials, the Counterpart Funds diverted consumption into production.²⁵ With the support of the US aid and the counterpart Fund, and the compensation for the trade deficit by the US aid in the early 1950s, even though the government’s fiscal deficit was high, it still did not need to over-issue the currency.²⁶

3.3 Helping Taiwan’s Macro-economic Management

When the central government of the Republic of China was moved to Taiwan in 1949, economic institutions such as the Ministry of Finance, the Ministry of Economic Affairs, the Directorate General of Budget, Accounting and Statistics of the Executive Yuan (DGBAS), and the Central Bank were all weak. To take the Central Bank for example, the personnel had been reduced from more than 5,000 to 140, the subsections within the bank had decreased from 16 to 6, and most of its documents and facilities had sunk in the Taiwan Strait. On the Chinese mainland, the Central Bank had 71 branches in various places, while in Taiwan, it had no branches at all.²⁷

²⁴ Wen, *Behind the Economic Miracle*, 86-87.

²⁵ Wu, “US Aid and the Economic Development of Taiwan,” 148-49.

²⁶ Wu, “Taiwan’s Hyperinflation: 1945-1950,” 153-54.

²⁷ Siyu Chen, “Lengzhan, guojia jianzao yu zhilijishu de yanbian: zhanhou Taiwan hongguan jingji zhili tizhi de xingcheng (Cold War, State Building, and Governmentality: The Making of Macroeconomic Governance System in Post-War Taiwan, 1949-1973)” (PhD diss., National Taiwan University, 2011), 155-56.

Before the central government was moved to Taiwan, Taiwan had been a province of the Republic of China since October 25, 1945. The Bank of Taiwan had been set up in 1897 in the Japanese colonial period with branches in various places in Taiwan and abroad, and upon the KMT takeover of Taiwan, the Bank of Taiwan assumed the function of the central bank for currency issuance, and treasury and foreign exchange management. The office of finance under the provincial government took charge of taxation and expenditure.

The US aid helped the central government reinforce its economic institutions for macro-economic management. At the first stage, the US aid supported some ad hoc liaison commissions for all central and local leading economic institutions to make economic policies. At the second stage, the US aid helped the legal central economic institutions such as the Ministry of Finance, the Ministry of Economic Affairs, and DGBAS to reinforce their capacity. In the World War II period, the US took a Keynesian approach for macro-economic management. This approach was introduced to Taiwan through the US aid. As the US aid was part of the annual budget of the US government passed by the US Congress, the US asked Taiwan to provide precise figures on its aggregate demand and supply, national income, treasury accounting, and annual budget each year. Personnel for these purposes were trained inside and outside of Taiwan with US aid, and facilities were also equipped with this money. With the strengthened capacity, these legal central institutions gradually replaced the ad hoc commissions in the 1960s.²⁸

The restoration of the central bank functions is another development along this track. When the important central bank functions were mandated to the Bank of Taiwan, it caused many problems. The power conflict between the central government and local government was one of them. Also, the Bank of Taiwan did not have open market operations to adjust the currency supply to fit the need of the rising economy.

²⁸ Chen, *Cold War, State Building, and Governmentality*, 96-122.

When the ideology of US aid shifted in the late 1950s from aid to investment, the US government wanted to improve Taiwan's investment environment for US private enterprises. The chairman of the International Cooperation Administration (ICA), Mutual Security Mission to China, Wesley C. Haraldson, suggested Taiwan implement eight financial and economical measures in June 1959, in order to utilize US aid more efficiently and achieve self-help. Based on this suggestion, CUSA completed and announced 19 financial and economical improvement measures at the end of 1959. Among the 19 items, the 15th to 17th points were concerned with the establishment of a central banking regime, to adjust interest rates and credit, and distinguishing the business of the central bank from that of commercial banks such as the Bank of Taiwan.²⁹

The ROC government began to actively plan the resumption of functions of the Central Bank. Under interaction between the US consultants and Taiwan's related authorities, the plan for resuming the business of Central Bank was completed. After approval by President Chiang Kai-shek, Vice President and Premier Chen Cheng, Minister of Finance Yen Chia-kan, and Chairman of Bank of Taiwan Yin Zhongrong, the Central Bank resumed business on July 1, 1961 and the Bank of Taiwan gradually turned into a business agent of the Central Bank.³⁰ The US aid program not only provided suggestions and advice for the restoration of the Central Bank, it also helped its operation. In December 1964, the counterpart funds which came from the selling of goods provided by the US aid program constituted 72.1% of the total deposits at the Central Bank.³¹

²⁹ Wei-chen Lee, "Sengō Taiwan kinyū sisutemu no kindaika ni kansuru kenkyū (A Study on Modernization of the Postwar Financial System in Taiwan)" (PhD diss., Kyoto University, 2007), 57.

³⁰ Jiayao Su, "Cong 'difan huobi' dao 'guobi': taibi diwei xiangguan zhengyi ji qi yingxiang, 1945-2000 (From Local Currency to National Currency: Related Debates about the Status of Taiwan Dollar and Its Influence, 1945-2000)" (master's thesis, National Taiwan Normal University, 2013), 42.

³¹ Jinqing Liu, *Taiwan zhanhou jingji fenxi* (An Analysis of Postwar Taiwan's Economy) (Taipei: Renjian, June 1992), 291.

3.4 Catalyst for Industries

Tsuihua Yang discussed how the US aid influenced Taiwan's technology transfer. The technical assistance of the United States to Taiwan can be divided into three types: the first was to engage the service of American experts to work in Taiwan, the second was to send technical and management staffs to the United States for training, and the third was that other countries sent their staffs to Taiwan for training. The United States planned to train Taiwan's technical staffs and managers on a large scale, which was the catalyst for transferring American technology, and turned Taiwan from using Japanese-type techniques to American types in industrialization. When US aid was terminated in June 1965, although US experts no longer played a leading role, there was further assistance in the form of cooperation.³²

Boxun Wu pointed out that the US aid helped Taiwan rebuilds its fishing Industry and develop an offshore tuna fishing industry. The US aid authority suggested that Taiwan's government distribute its aid funds to private fishing enterprises. But offshore fishing is so expensive that private enterprises could not take it up. Taiwan's government thus set up a 350-ton tuna fishing vessel plan. This plan asked China Fishery Ltd. Company to build and operate one such vessel as an example to attract private fishing enterprises to participate in the plan in the initial stage. In the end, this plan attracted not only domestic private enterprises but also Japanese enterprises to invest in Taiwan's offshore fishing industry.³³

³² Tsuihua Yang, "Meiyuan jishu xiezhu: zhanhou Taiwan gongyehua kaiduan de yige cemian (Technology Assistance in American Aid: An Aspect in the Beginning of Taiwan's Postwar Industrialization), in *Parting Ways: Politics and Economics across the Taiwan Straits Since 1949*, ed. Yung-fa Chen (Taipei: Institute of Modern History, Academia Sinica, 2006), 261-92.

³³ Boxun Wu, "Meiyuan yu Taiwan yuanyang yuye zhi fazhan (1951-1965) (US Aid and the Development of Offshore Fishing in Taiwan [1951-1965])" (master's thesis, National Central University, 2011).

3.5 Total Economic Help

Other than security and a low inflation rate, the US aid helped with Taiwan's economic development in general. Economist Guoshu Liang has calculated the pure contribution rate of US aid for Taiwan's economic growth rate in the period of 1953-1969 as 20% by applying the Harrod-Domar model and focusing on its making up the insufficient savings to investment and offsetting the trade deficit.³⁴

On the other hand, the US President Johnson's Special Message to Congress on Foreign Aid for Fiscal Year 1966 mentioned that in the decade from 1956 to 1965, Taiwan's economy had the following outcomes:

- Per capita GNP increased 45%;
- 1/5 of GNP had been used for savings;
- Exports had been doubled;
- Industrial output had been doubled;
- The share of the private sector in economy had been doubled; and the private sector constituted 2/3 of Taiwan's total industrial output in 1966.
- Agricultural productivity had increased 50%.
- These developments had achieved by the US aid to Taiwan.³⁵

3.6 Independence or Autonomy

In this part, this article will survey and discuss the policy autonomy of Taiwan on US aid. Yongzhi Chen used a case study on forest conservation to demonstrate that when there existed differences, such as economic interests priority on the Taiwan side

³⁴ Kuo-shu Liang, "Taiwan jinji fazhan guocheng shang de xianzhi yinsu (The Constraint Element in the Process of Economic Development of Taiwan)," *Economic Essays*, no.2 (November 1971): 139-66.

³⁵ Kakuten Hara, *keizai enjo no kenkyū* (A Study of Economic Aid) (Tokyo: Ajia keizai kenkyūjo [Asia IDE-JETORO], 1966), 99.

vis-à-vis forest conservation priority on US side, between the ROC government and the US government, Taiwan was able to selectively accept the techniques and concepts provided by the US aid based on its own conditions.³⁶ Jinman Chen demonstrated that the US aid played a 'facilitator' rather than 'dominator' role in the fertilizer industry of Taiwan. The public-owned Taiwan Fertilizer Company got the second largest US aid among the enterprises which received the US aid (Taiwan power company got the largest aid). The ROC government indeed made some concessions to the US, such as raising the fertilizer price. But on the issues such as privatization of the Taiwan Fertilizer Company and abolition of the fertilizer-rice barter system, it can be seen that the ROC government refused the US's request and continued its own basic policy. In other words, Taiwan was able to defend its own sovereignty when a US request conflicted with Taiwan's basic national policies.³⁷

R. Wade enumerated the importance of the US aid to Taiwan, as the US aid facilitated the land reform policy, four-year economic construction program and transformation to export-oriented development strategy in the early 1960s. However, he also pointed out that the US aid can hardly be taken as a sufficient condition for Taiwan's superior economic performance. He would rather deem that the ROC government used the US aid efficiently.³⁸

Hitoshi Hirakawa pointed out that the governments in the Asia NIEs had more self-supporting ability and were more able to adapt to the domestic and foreign situations for industrialization. This is the reason why the Latin American NIEs hardly transformed the industry policy from import-substitution to ex-

³⁶ Yongzhi Chen, *Meiyuan yu Taiwan zhi senlin baoyu, 1950-1965: Meiquo yu Zhonghua minguo zhengfu guanxi zhi ge'an yanjiu* (The US Aid and Taiwan's Forestry Protection, 1950-1966) (Taipei: Daoxiang Press, 2000).

³⁷ Jinman Chen, *Taiwan Feiliao de Zhengfu Guanli yu Peixiao, 1945-1953: Guojia yu Shehui Guanxi zhi yi Tantao* (The Government Management and Distribution of Fertilizer: A Case Study of State-Society Relations, 1945-1953) (Taipei: Daoxiang Press, 2000).

³⁸ Robert Wade, *Economic Theory and the Role of Government in East Asian Industrialization* (New Jersey: Princeton University Press, 1990), 82-84.

port-orientation, but the Asia NIEs could.³⁹ By comparing Taiwan with South Korea, Guoshu Liang pointed out that the supply of steadier and better governmental management and Taiwanese's flexibility were crucial factors for the success of US aid in Taiwan.⁴⁰ Japan's Ministry of Foreign affairs pointed out that in 1965-1968, only 9% of Taiwan's financial sources for further development plans came from foreign money, which was much less than that of other Asian countries. Among the reasons for Taiwan's outstanding performance which originated from US aid, good management of the government and the high educational level of Taiwanese were important reasons.⁴¹

When making policies, Taiwan has kept the autonomy to choose policies beneficial to herself. The reason is that the US-Taiwan ties are not only important for Taiwan, but also important for the US government. Taiwan has not only connections to the US but also good connections to Japan, which was the largest and the fastest-growing market in the world at this time.⁴² Zhaoyan Tu asserted that the successful link of Taiwan with the "growing triangle" of "US-Japan-NIEs" was crucial for the continuous growth of Taiwan after the 1960s.⁴³ The continuity of Taiwan's prewar and postwar position in the Asia-Pacific world has actually made possible the particular success of US aid in Taiwan.

³⁹ Hirakawa Hitoshi, *NIEs—Seikai sistemu to kaihatsu—*(NIEs—World System and Development—) (Tokyo: Dōbunkan, 1992), 206.

⁴⁰ Kuo-shu Liang, "Aid, Trade and Economic Development," in *Liang Kuo-shu xiansheng lunwen ji* (Symposium of Professor Kuo-shu Liang: Economic Development II), ed. Yunpeng Chu, Jiadong Shea, Pochih Chen and Chi Schive (Taipei: National Taiwan University Press, 2002), 698.

⁴¹ Gaimushō keizai kyōryokukyoku (Economic Cooperation Bureau Ministry of Foreign Affairs of Japan), *Tai chūka minkoku keizai kyōryok chōsa hōkoku* (Report of Investigating Economic Cooperation with ROC) (Tokyo: Ōkurashō yinsazu kyoku, 1971), 7.

⁴² Wade, *Economic Theory and the Role of Government*, 84.

⁴³ Jinqing Liu, Zhaoyan Tu, and Mikio Sumitani, *Taiwan no Keizai—Tenkei NIEs no Hikari to Kage—*(Economic of Taiwan—Light and Shadow of Typical NIEs—) (Tokyo: Tokyo University Press, 1992), 269.

3.7 Economic Impact after 1965

One of very important U.S. Aid operation design was the counterpart fund. The counterpart fund was derived from the experience of US aid to Greece and Turkey after WWII. Greek currency in an amount equivalent to the outlay of relief materials sold was to be saved in a special deposit account to be used for the revival plan. The US then set up similar accounts with local currencies in Austria, Italy, France, ROC and others as a revolving fund. Based upon Article 5, item 2 of the Economic Aid Agreement of 1948, the ROC government was to provide local currency equal to the amount of the US aid and save it in the counterpart fund. But with hyperinflation and a fiscal deficit, it ended with liability of 100 million USD before the ROC government moved to Taiwan.

When the US aid to the ROC was resumed because of the Korean War, as the Taiwan dollar turned more stabilized, the US government asked the ROC government to reopen the counterpart fund account on June 25, 1951. This counterpart fund used for economic development of Taiwan was mutually managed and operated by the US and the ROC governments.⁴⁴ In the early 1950s, because of the fiscal difficulties of the ROC government, the counterpart account came mainly from selling the US aid goods. And with the improvement of the fiscal situation, it turned into come from setting out in the government budget. Of the NTD[New Taiwan dollar] 32,963 million in this fund for the period 1951-65, NTD 11,375 million (about 34.5%) came from selling the surplus US aid agricultural products.⁴⁵

After termination of the US aid, both the ROC and US governments concluded an "Exchange of Notes between the Republic of China and the United States of America concerning the Establishment of the Sino-American Fund for Economic and Social

⁴⁴ Terutarō Nichino, *Beikoku enjo mikaeri shikin tokubetsu kanjō: sono keisei katei ni kansuru shiryō* (The Special Account of the "Counterpart Fund" of the US Aid: Its Formatting Process) (Tokyo: kokuritsu kokkai toshokan chōsa rippō kōsakyoku, 1949), 2-3.

⁴⁵ Jichang Zhao, *Meiyuan de yunyong* (The Operation of the US Aid) (Taipei: Linking Publishing, 1985), 42.

Development” on April 9, 1965. This Sino-American Fund was set up on July 1 the same year. The financial resources of the Fund included the surplus of the Counterpart fund and a reclaimable amount in the future. At the beginning, the total financial resources of the Fund were 16.44 billion NTD (about US\$409.98 million), which included 7.41 billion NTD (45.1%) for the loan of the US aid (principal) and 9.03 billion NTD (54.9%) for the net value of Fund. The aim of the Fund was to continue to assist Taiwan to engage in various economic and social development plans.⁴⁶

As for the use of the Sino-American Funds, according to the agreement between the ROC and the US, it was to support programs of economic and social development with “loans and investment” and “subsidies.” Figures 12(a), (b), and (c) show the uses of the Sino-American Fund from 1966 to 2005; the accumulated amount was about 95.2 billion NTD (about \$2,972 million).⁴⁷ Within this, the loan and investment share was 78.45% and the subsidies share was 21.55%. (Figure 13)⁴⁸ The amount which was transacted by the Council for Economic Planning and Development (CEPD), Executive Yuan, was 80.2 billion NTD (84%) and that by the Council of Agriculture, Executive Yuan (COA) was 15 billion NTD (16%).⁴⁹

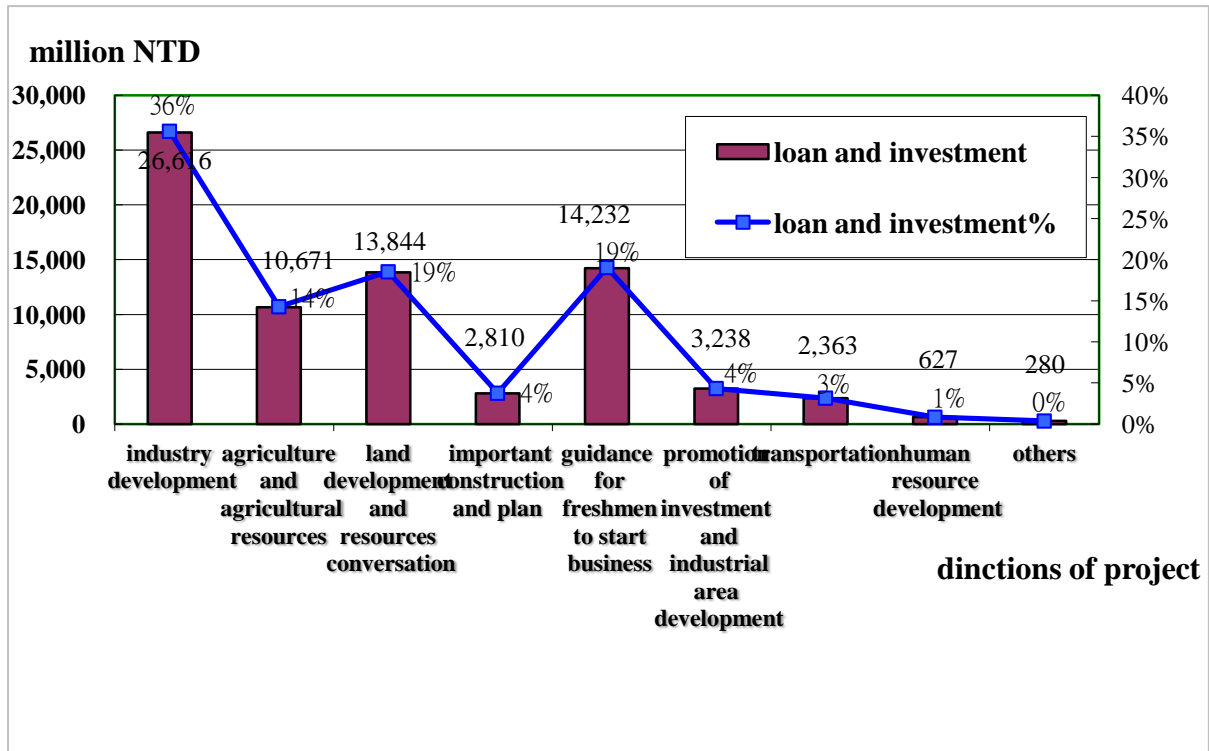
⁴⁶ The exchange rate of NTD per Dollar in 1966 was about 40:1 (Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC, *Statistical Yearbook of the Republic of China 1993*[Taipei: Executive Yuan, 1993], 280).

⁴⁷ Here NTD are converted to Dollars by the yearly exchange rate. The exchange rate data of 1966-1978 are from DGBAS, *Statistical Yearbook of the Republic of China 1993*, 280; data of 1979-2005 are from the Central Bank of the Republic of China (Taiwan), accessed January 20, 2012, <http://www.cbc.gov.tw/content.asp?CuItem=27029>.

⁴⁸ MCSAF, *Operating Record of the Sino-America Fund*, 29.

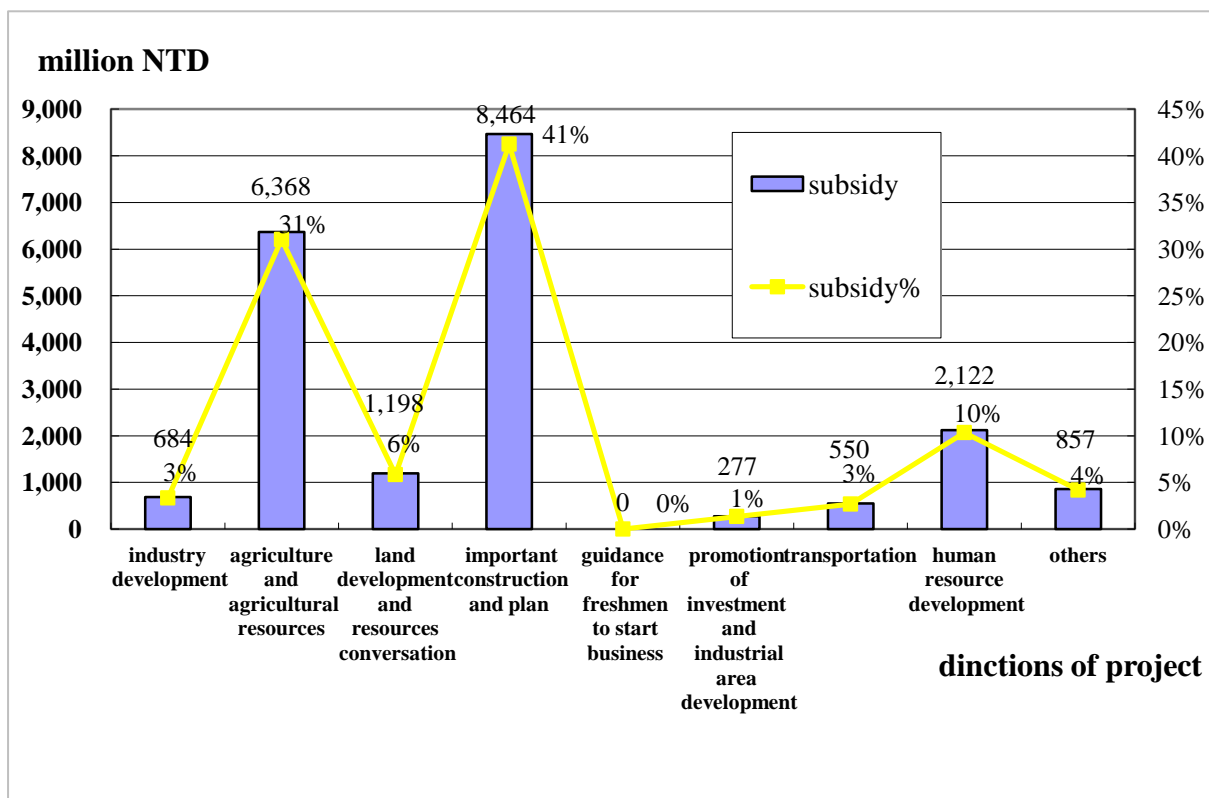
⁴⁹ *Ibid.*, 28.

Figure 12(a). The Sino-American Fund—Amounts and Weight by Project Type (1966-2005)



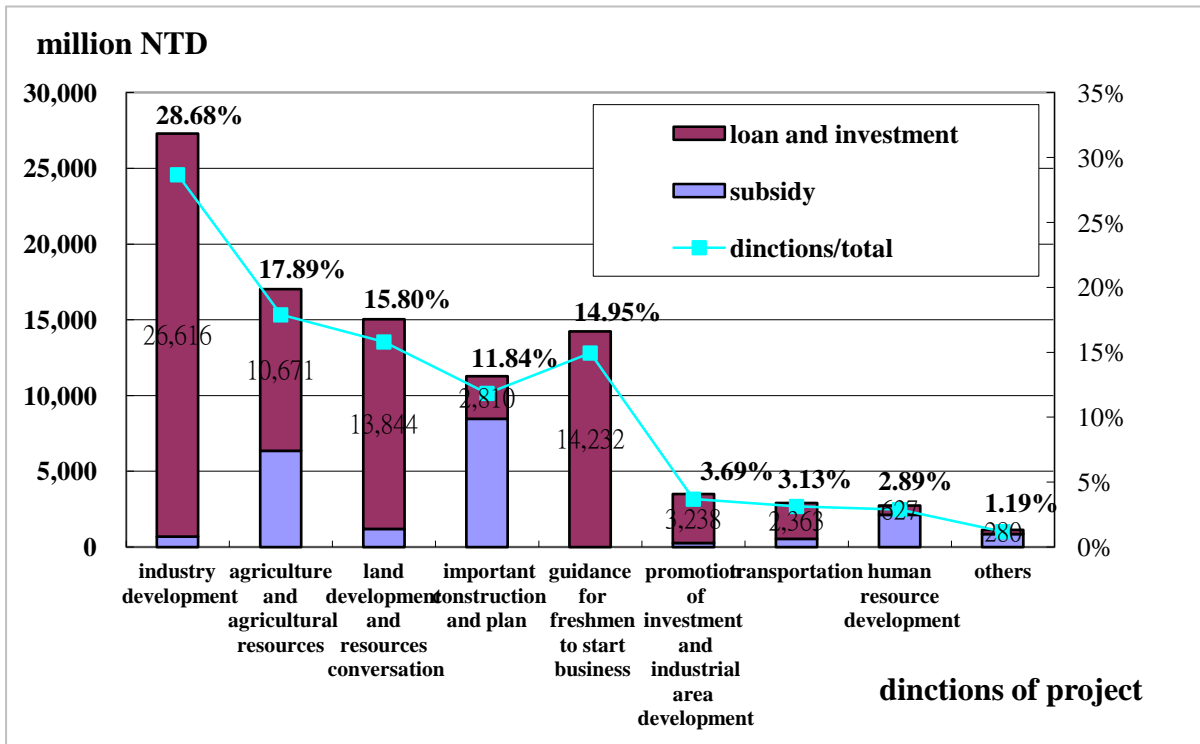
Sources: Management Council of the Sino-American Fund for Economic and Social Development, *The Operating Record of the Sino-American Fund for Economic and Social Development* (Taipei: CEPD, 2007), 31.

Figure 12(b). The Sino-American Fund— Amounts and Weight by Project Type (1966-2005)



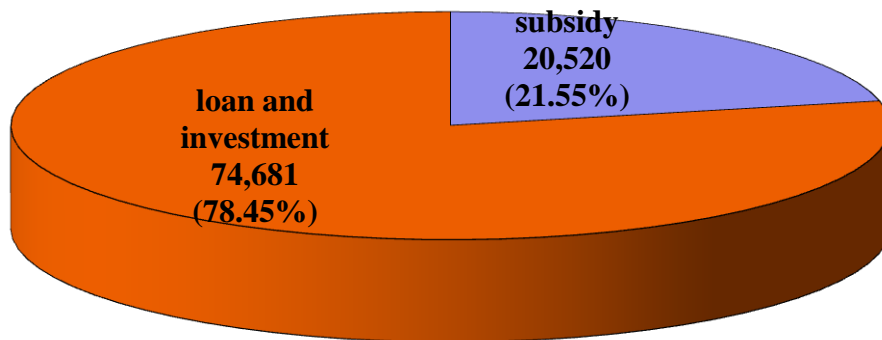
Sources: The same as Figure 12(a)

Figure 12(c). The Sino-American Fund— Amounts and Weight by Project Type (1966-2005)



Sources: The same as Figure 12(a)

Figure 13. The Sino-American Fund— Amount of Use and Its Weight (1966-2005)



Unit : NTD million, %

Source: The Management Council of the Sino-American Fund for Economic and Social Development, *The Operating Record of the Sino-American Fund for Economic and Social Development* (Taipei: CEPD, 2007), 31.

The main purpose of the Sino-American Fund was to assist strategic industries or finance institutions to establish pioneering programs, and to support urgent projects for the overall national economic construction and social development. The Sino-American Fund financed the initial capital demand of the government in programs such as the nine-year compulsory education, family birth control plan, acquisition of medical equipment, updating equipment for practical training in factories, and promoting tap water systems construction and others.⁵⁰

The top five funded projects in order of grant size, from big to small, are shown as follows with, respectively, their ratio of total fund; ratio of loan and investment, and ratio of subsidy: industry development (28.68%, 97.49%, 2.51%), agriculture and agricultural resources (17.89%, 62.63%, 37.37%), land development and resource conservation (15.80%, 87.39%, 7.56%), guidance for new entrepreneurs (14.95%, 100%, 0%), and important construction and plans (11.84%, 24.93%, 75.1%). Some of the granted examples include:

Industrial development: Investment in China Steel Cooperation, integrated iron and steel plant, nuclear power plants belonging to the "Ten Major Construction" project, 'hydroelectric power plants,' thermal power plants and others.

Agriculture and agricultural resources: Zengwen Reservoir, pelagic fishery ship, mechanization of agriculture, tourism and leisure fishery, guidance for peasants or fishermen to change jobs, and others.

Land development and resource conservation: Construction or improvement of waterworks, garbage cremation planning, water supply planning and others.

⁵⁰ MCSAF, *Operating Record of the Sino-America Fund*, 25.

Guidance for new entrepreneurs to start businesses: Business planning assistance, assisting SME, and others.

Important construction and plans: Research and plans for economic policies on privatization of public enterprises, and others.⁵¹

The proportion of ‘human resource development’ was the smallest, and the Sino-American Fund mainly provided subsidies, such as promoting 9-year compulsory education, guiding junior college graduates to get jobs, and others.

The amount for the public finance assisted by the Sino-American fund was more important in the early period than in the later period. The ratio of the Sino-American fund to the central government annual expense was over 10% by 1968. Due to the economic development, the ratio had shrunk with the expansion of the budget, and became under 2% in the late 1970s (Figure 14).⁵² This is because the Sino-American Fund was not as enormous as the US aid in the past, and the form of use was mainly to supply the “seed capital” or mid-term capital to the projects mentioned above, and the government prepared formal budgets to continue the projects which had good performance.⁵³ However, because of its flexibility and mobility in use, relative to the rigid government budget, the Sino-American Fund provided a risk-diversified fund without affecting the budget.

The principal and interest of the U.S aid loan were fully paid by the Sino-American Fund by January 2004. This indicates that the Sino-American Fund had accomplished its tasks. The Fund was then incorporated into the National Development Fund of the Executive Yuan in 2005. Thus, the case of the US aid to Taiwan witnessed a complete course, from receiving the aid to

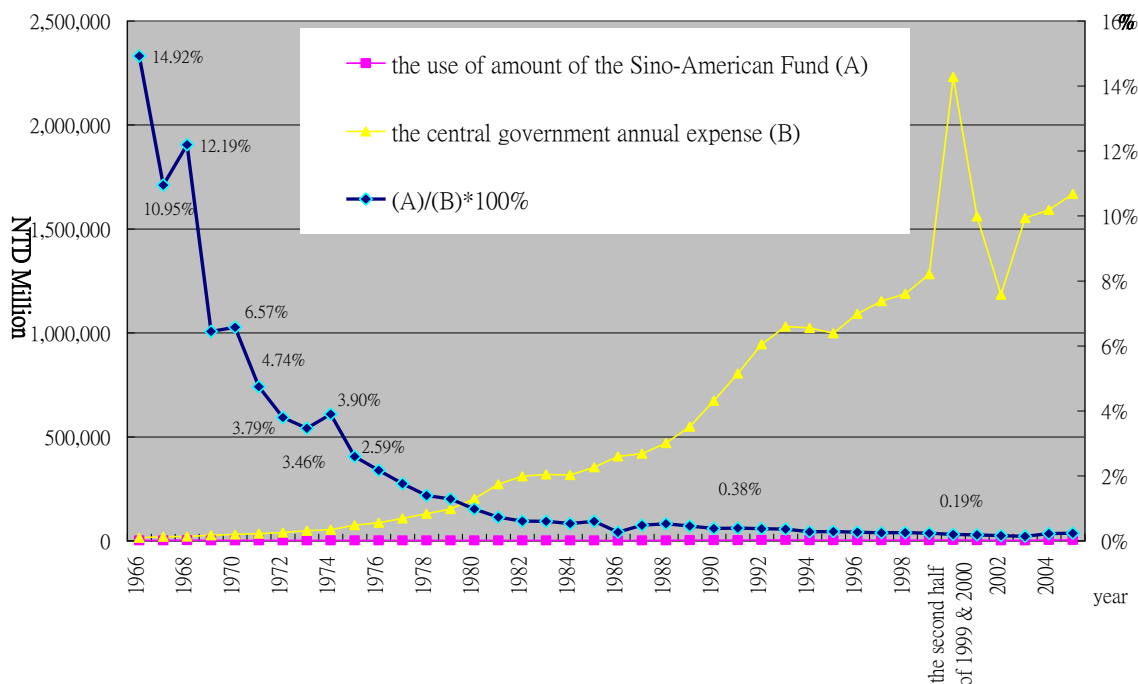
⁵¹ Hongwen Lai, “Zhong-Mei Jijin zhi yunyong yu chengguo (The Operation and Performance of the Sino-American Fund),” *Taiwan Economic Forum* 6, no.2 (February 2008): 7-10.

⁵² MCSAF, *Operating Record of the Sino-America Fund*, 27.

⁵³ *Ibid.*, 25.

achieving self-support development, and then to repaying the US aid loan.

Figure 14. The Sino-American Fund and Central Government Budget, Amount and Ratio (1966-2005)



Sources: The Management Council of the Sino-American Fund for Economic and Social Development, *The Operating Record of the Sino-American Fund for Economic and Social Development* (Taipei: CEPD, 2007), 27.

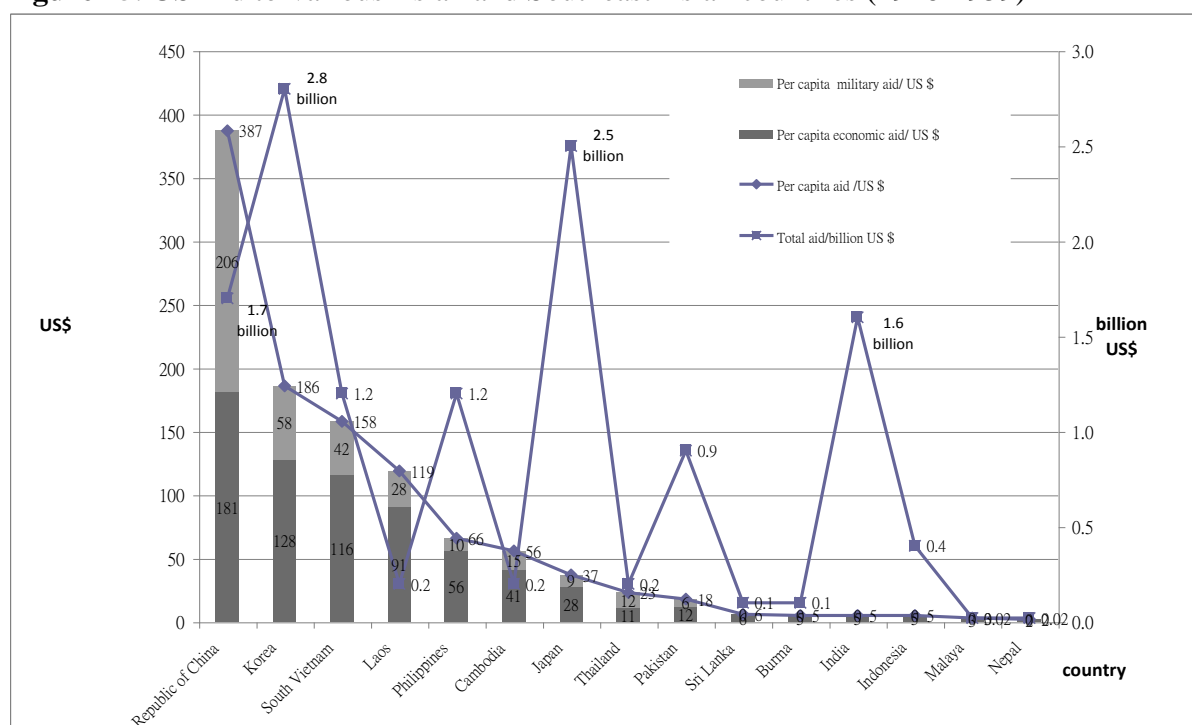
4. CONCLUSION: IMPLICATIONS

4.1 Comparison with Other Countries

In comparison with other Asian and Southeast Asian countries in 1946-1959, Taiwan received the most US aid on a per capita basis. As Figure 15 shows, the per capita US economic aid or US military aid for Taiwan was the highest within 15 Asian countries, including Taiwan, South Korea, South Vietnam, Laos, Philippines, Cambodia, Japan, Thailand, Pakistan, Sri Lanka, Burma, India, Indonesia, Malaya, and Nepal. On a total aid basis, Taiwan (1.7 billion USD) was below Korea (2.8 billion USD) and Japan (2.5 billion USD), but above India (1.6 billion USD) and all the other

Asian countries. In terms of total aid, Taiwan's aid was 68% of that of Japan's, and 61% of South Korea's, 1.06 times that of India's, and more than other countries.' But its per capita aid was about twice that of South Korea, about six times that of the Philippines, and about 10 times that of Japan. Within Taiwan's US aid in this period, per capita military aid was 206 USD, which was higher than the 181 USD economic aid.

Figure 15. US Aid to Various Asian and Southeast Asian countries (1946-1959)



Sources: Figure made from Sanseido henshujo, *Sekaishi Nenpyo* (Tokyo: Kabushikikaisha Sanseido, first printed in 1962, 14th print published in 1989), 173, informed by Mr. Zhao Youzhi.

4.2 From Aid to Direct Investment in Taiwan: US and Japan

The importance of the US and Japan for Taiwan is like their importance for South Korea in the 1960s. The percentage of import trade with the US and Japan in the country's total import trade in 1961-1966 was 34.2% and 36.4% respectively for Taiwan, and 44.8% and 31.7% for South Korea. That for exports was 20.9% and 28.7% for Taiwan, and 32.7% and 29.8% for South Korea.⁵⁴

When US aid stopped in 1965 (except PL480 aid), Japan be-

⁵⁴ Liang, "Aid, Trade and Economic Development," 701.

came the major donor country which helped Taiwan to import the machinery and equipment required for economic development. The first aid plan was signed by the Japanese government and the ROC government on April 26, 1965, which was a Yen loan agreement equivalent to 150 million USD. Yen loans were mainly used for the fourth four-year (1965-68) economic development plan and the subsequent economic development.⁵⁵

Before or after the termination of US aid, the US provided capital and a market for Taiwan, and purchased a large number of products from Taiwan.⁵⁶ The Yen loan was linked with the Japanese investment in Taiwan. Before the mid 1960s, as Taiwan restricted imports and Taiwan provided an overseas market, Japanese pharmacy and electric appliance merchants invested in Taiwan. In 1965, Taiwan opened an export processing zone to encourage foreign investment in Taiwan by exempting export taxes, and Japan witnessed a labor shortage, more Japanese enterprises moved their labor-intensive sectors to Taiwan and brought the intermediate goods back to Japan.⁵⁷

From 1953 to 1971, Japanese and American companies respectively owned 64.02% and 27.41% of foreign-controlled companies in Taiwan, and their investment capital represented 19.45% and 54.84% of total foreign investment capital. The percentage of Japanese capital in total foreign investment was particularly high in the electronic and electric appliance industries (14.2%), the chemical product industry (20.57%), and the textile industry (85.6%). US companies tended to cooperate with Taiwanese entrepreneurs who had emigrated from the Chinese mainland, while the Japanese companies generally collaborated with the indigenous Taiwanese.⁵⁸

⁵⁵ *Report of Investigating Economic Cooperation with ROC*, 55.

⁵⁶ Wen, *Behind the Economic Miracle*, 275.

⁵⁷ *Report of Investigating Economic Cooperation with ROC*, 7.

⁵⁸ Foreign Affairs Archives of the Republic of China, Yadong Taipingyangsi (Department of East Asian and Pacific Affairs) 032.4 89001 Rishang zaiTai danwei (Units of Japanese Companies in Taiwan), 19, 20, 26.

4.3 Implication

The experience of the US aid to Taiwan provides a positive example to understand the role of international economic development assistance to recipient countries, and the process for the recipient countries to turn from dependence on aid toward self-supporting growth. The success of US aid in Taiwan has paved a historical basis for the recent Asian resurgence in the world economy. This study reviews the influence of U.S. aid on Taiwan, and the measures Taiwan taken under the termination of U.S. aid and explains the reasons why Taiwanese can exert U.S. aid well. Taiwan has her own well-development in infrastructures in Japanese colonial period. Additionally, it is more important that Taiwan has her own policy-making autonomy suitable for Taiwanese environments. In other words, Taiwanese economic development after WWII is mainly based upon the interaction with the experiences in Japanese colonial period and KMT-governing mainland. In the 1950s, Taiwan has also been influenced by U.S. in the U.S. aid period, and the cultural contexts, interfered with and united in these backgrounds, making Taiwan as a national autonomous developed economy.