

# [Taiwan, it maintained taiwans preferential trade status when](https://assignbuster.com/taiwan-it-maintained-taiwans-preferential-trade-status-when/)

Taiwan, an island, is separated from the mainland of South China by the 100-mile-wideTaiwan Strait in the Pacific Ocean and is the seat of the Republic of Chinagovernment (ROC). The capital of Taiwan is Taipei and other major cities includeKaohsiung, Tainan, Taichong, and Chilung. The languages spoken are the Mandarin, Fujianese (Amoy), and Hakka dialects.

Religions on the island includeConfucianism, Taoism, Buddhism, and Christianity. THE ECONOMY OF TAIWAN The1990s have been a time of change and achievement for Taiwan. Politically, Taiwanhas undergone a dramatic transition from an authoritarian government to a truedemocracy and on the economic front, Taiwan has continued to prosper. For thepast 20 years, Taiwan has had one of the fastest growing and most dynamiceconomies in the world. With over $80 billion US in foreign capital reserves, anaverage growth rate of 7.

8 percent between 1986 and 1996, and a per capita grossdomestic product (GDP) of $15, 000, Taiwan has become a powerhouse in the globaleconomy. 1 Its remarkable success comes after five decades of hard work and soundeconomic management that have transformed Taiwan from an underdevelopedagricultural island to a leading producer of high-technology goods. Helping tospur this extraordinary growth during the last two decades were supportive U. S. policies that began with the 1979 Taiwan Relations Act (TRA). It maintainedTaiwans preferential trade status when formal diplomatic relations weresevered in favor of the Peoples Republic of China (PRC). In 1979, Taiwanseconomy was rapidly expanding and was beginning to fully integrate into the newglobal economy. It exported $5.

6 billion to the United States and had $7 billionin foreign exchange reserves. 2 Taiwan produced a variety of products, specializing in textiles, consumer goods, and petrochemicals. U. S. corporationswere beginning to invest heavily in Taiwan when the U. S. government severed theofficial diplomatic relations it had maintained with the Republic of China forthree decades.

This abrupt loss of recognition created consternation amongforeign investors and Taiwans trading partners. International contracts, which had once been secure through treaties and formal diplomatic ties, suddenlycame into question. The Taiwan Relations Act, however, calmed the fears ofinvestors by creating a framework that allowed trade and finance to continueunhindered. The TRA sent the clear message that the U. S. intended to maintain aclose relationship with Taiwan and encouraged business ties with the island. Specifically, the act mandated that all treaties and agreements remain ineffect, ensuring that contracts could still be enforced. In addition, itauthorized funding for Taiwan from the Overseas Private Investment Corporation (OPIC), which provides insurance, loans and guarantees to businesses investing abroad.

Thanks in large measure to OPICs continued programs, trade and investmenttripled over the next decade between the U. S. and the ROC, helping to maintainTaiwans economic boom. In the 1980s, Taiwans economy shifted dramaticallytoward sophisticated, capital and technology-intensive products for export andtoward developing the service sector.

A generation ago, farming accounted for 30percent of GDP and basic manufacturing represented half of the economy. Today, farming comprises only 3. 3 percent of GDP while services are almost two-thirdsof GDP.

3 Taiwan now boasts one of the fastest growing high-tech sectors in theworld and has been called “ Silicon East” by Forbes Magazine. Today, Taiwanis the fourth-largest maker of computer chips, producing 69 percent of theworlds scanners and over half of the worlds computer monitors. 4 Throughthe 1990s, Taiwans economic growth rate ranked ninth in the world accordingto the World Bank, and for the last decade, Taiwan posted an average growth rateof 6. 2 percent each year compared with the average growth rate worldwide of just2. 4 percent. 5 During that period, the U.

S. achieved growth of 3. 1 percent peryear, while Japan grew by only 1. 2 percent, as it experienced its worstrecession since World War II. 6 Inflation, too, has largely been tamed; WorldBank statistics show that Taiwans average annual inflation rate in the firstnine years of the last decade stood at just 3. 2 percent, and this figure hasdeclined since. 7 Throughout the Asian Economic Crisis, which began in late 1997, Taiwans economy showed great resilience.

Nothing, it seemed, could derailTaiwans powerful economy. When the Asian economic crisis was at its worst, Taiwan posted annual GDP growth of 4. 83 percent, while most of its Asianneighbors plunged into recession. 8 Western press reports painted a glowingpicture of the islands economic strength. The Economist noted that “ one ofAsias so-called Tigers . .

. has fared better than the rest. While Korea andSoutheast Asia are struggling,