

SECRET

Economic Stabilization Board
Executive Yuan

ESB-D-111

M E M O R A N D U M

July 27, 1955.

To : Mr. Martin Wong
Secretary General, CUSA

From : C. T. Chien
Executive Secretary, ESB

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Subject : Status of Implementation of EAG Report

Reference is made to Mr. Brent's letter, MC-2655, dated June 14, 1955 requesting some knowledgeable group such as the Secretariat of the ESB, to prepare a progress summary on the implementation of the recommendations of the Economic Advisory Group by the Chinese Government. I take pleasure to make a brief review on the status of this subject.

Only three copies of the EAG report were available to the Premier during mid-October, 1954. After the completion of the translation and stenographing work contributed by CUSA, ESB, MOF and IDC, about ten copies of the Report in English and fifty copies of its Chinese translation were available as classified information for selected circulation. The Executive Yuan issued a directive on December 18, 1954, to relevant agencies calling for the submission of their comments on the chapters concerned, later setting the limiting date as of January 15, 1955. ESB comments were dated Jan. 14, endorsed by the Minister of Finance, Minister of Economic Affairs, and the Director General of Budgets, Accounts and Statistics, and circulated at the 42nd ESB meeting on January 27, 1955. Additional copies may be supplied as attachment to this memorandum.

The lack of a complete or summarized list of recommendations appended to the Report made the process of approval by the Executive Yuan rather difficult. As I understand, the Report was taken up at two sessions of cabinet meetings late in January and rouse deep interest of the members. A directive has been issued to relevant agencies to study and implement the recommendations contained in the Report, and the cabinet members have been solicited to submit their independent comments, but there has not been any formal decision on the acceptance of the Report as a whole or in specific parts. For my own study, I have counted about 85 points of concrete ideas in observations or recommendations in the Report, and in my opinion 47 have been implemented or are being implemented, with the rest under study. These points are not of the same standard in scope or in importance, I only passed along my list of selected points for the personal reference of the Secretary General of the Executive Yuan with the understanding that it should not be quoted officially. For the same reason, I prefer to treat in this memorandum various chapters in a general way without attempting of verification by tabulation.

Chapter I has served well in clarifying our conception of a free competitive enterprise system of economy, what the government should do and should not do, as against the misconception of a laissez faire attitude. Ideas like the establishment of Working Group on Marketing, the equal treatment of overseas Chinese investment with the foreign investment regarding remittance of principal and interest, strengthening the inspection of export goods, high level liaison group with the overseas Chinese giving necessary assistance and encouragement to their investment plans, selling of public enterprises, (four already sold) have been followed.

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Regarding Chapter II, the recent changes on foreign exchange and trade control taking effect since March 1 differ somewhat on the EAG recommendation of a unitary rate at US\$1.00 to NT\$18-20. The ideas of the retention of defense tax on imports and outward remittances, abolishing of export subsidy, more severe punishments to importers violating the regulations, lowering the interest rate, have been followed. With the recent contention of ICA/CM in interpreting defense tax as a part of foreign exchange rate and the application of certificate rate to all imports of U.S. Aid commodities, the eventual evolution will point to a unitary rate at a level of US\$1.00 to NT\$24.78.

The recommendations in Chapter III are involved and any implementation will require long preparation for necessary legislative procedure. However, some of the recommendations are being implemented in the Revised Income Tax Law expected to be passed by the Legislative Yuan in September, and some recent revisions on tariff matters. No increase in the monopoly price for wine and tobacco will be made until it can be ascertained that the operation cost of WTMB cannot be further reduced. No increase in the budget of any agency will be made without additional assigned activities. The application of the principle of additional tax to beneficiaries is exemplified in the case of gasoline surtax earmarked for the maintenance of the county and rural roads.

Some of the recommendations in Chapter IV are being followed, such as: strict control of the budget of civil agencies, scrutinizing the military budget by high civilian authority, stricter enforcement of Treasury Law, and the improving of the statistical analysis. A recent executive order has prohibited government agencies to obtain loans from the Bank of Taiwan except to apply fund according to budget from the Treasury.

The recommendations contained in Chapter V are many and diversified but most of which have been implemented. To mention some particular points: the strengthening of Bureau of Standards, promotion of Shihmen project, raising the electricity rate, expansion of textile industry with export proceeds of textiles, expansion of fertilizer industry, weight and quality control of export coal, Bank of Taiwan rediscount of some of the commercial bank loans, no BOT loan to public enterprises on capital expenditures, lowering the deposit percentage in opening L/C's for commercial procurement, tax rebate on exports, promotion of industries using local raw materials.

I do not think the economic situation in Taiwan has worsened since the EAG visit. Adverse factors such as budget deficit and some necessary control measures are mainly the results of military situation caused by the threat of communist aggression. Generally speaking we are moving farther ahead toward free economy and private enterprises. For an account of the economy in Taiwan from July 1954 to June 1955, I have recently finished a paper to be sent as official information for the use of the 1955 Economic Survey of the Economic Commission for Asia and the Far East of the United Nations. Copies will be distributed to ESB members and observers next week. I will be glad to furnish additional copies to ICA/CM to be forwarded to the members of EAG.

cc: Mr. C. Y. Chen, EY
Members & Observers, ESB
Mr. S. C. Pang, BBAS
Mr. J. L. Brent, ICA/CM (6 additional copies)