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Mr. Howard L. Parsons  
Director  
United States AID Mission to China  
Taipei, Taiwan

Dear Mr. Parsons:

Lately, the 19-Point Program seems to have been brought up rather frequently. To supplement your background information I am sending you, for your ready reference, a copy of "An Outline of An Accelerated Economic Development Program" prepared by China Mission. It is on the basis of this paper, with the understanding of how Taiwan's economic development and aid are to be coordinated, that the 19-Point Program was subsequently developed.

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Sincerely yours,

Original signed by  
K. Y. Yin  
K. Y. Yin  
Vice Chairman

Encl.

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AN OUTLINE  
OF AN ACCELERATED ECONOMIC DEVELOPMENT PROGRAM

I. Why an accelerated economic development program for Taiwan?

The proposal for embarking upon an accelerated economic development program for Taiwan rests upon two basic assumptions:

1. It is necessary to speed up the economic expansion in order to feed and provide jobs for a rapidly growing population and to create in this part of the world a "show case" of the achievements of a free society.
2. The prerequisites for rapid economic expansion -- leadership, skills, energy, and resources -- already exist on Taiwan and can be readily utilized.

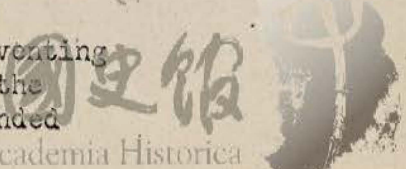
II. Objectives of program.

The proposed development program is aimed at maximizing sound economic growth for the next four or five years, thereby attaining a condition where the needed future growth will be self generated, and thus eliminating the need for foreign aid except for heavy items of military equipment and some surplus agricultural commodities. It is expected that in this process Taiwan will prove to be increasingly attractive to foreign investors and will also be able to establish an enviable international credit rating.

III. Purpose and method of operation.

1. Conceptually, aid under this new arrangement is intended to:
  - a. Encourage the Government of China to take positive action in the fields of economic, fiscal, and commercial policy in an effort to maximize its own contribution and to reward the Government for taking such action; and
  - b. Provide the foreign exchange necessary to support maximum sound economic growth to the extent that any shortage of needed foreign exchange is not the result of internal economic, fiscal, and commercial policy.
2. It is anticipated that the aid available to China each year might well be divided into three separate parts or categories:
  - a. Minimum essential Defense Support.

Within the limitation imposed by Congressional action, the United States would attempt to provide that amount of aid each year necessary to support any agreed military force goal. This would be aimed at preventing a deterioration in the standard of living given the agreed military burden, but it would not be intended





to promote economic expansion or development.

b. Supplemental Defense Support, or Special Assistance.

Depending upon the actions of the GRC to make the administrative and legislative changes necessary for more attractive business, thus maximizing its own efforts, additional annual grants would be made available. The rationale for this aid would be (1) to reward the Government for taking such actions, and (2) to provide the foreign exchange necessary to meet the needs of the more vigorous and expansive industries that result from such actions. This aid would perhaps be largely confined to the non-project sector -- machinery, spare parts, equipment, and raw materials -- although essential projects that cannot qualify under Paragraph c, below, could also be covered.

c. Specific funds for specific projects for modernization, expansion, or building of new plants. If the other parts of the program can be satisfactorily developed, it is expected that arrangements can be made for special priority financing under DLF or DS to meet any and all sound business expansion in such fields as power, transportation, or communications. The amount of aid in this category will, by its nature, be largely dependent upon the appetite of the private sector for expansion and development. The more sound applications for loans that are forthcoming, the more aid. This, in turn, will depend upon the success of the GRC in its efforts to make business more attractive. Funds of this nature will be channelled through CUC, the SIL, or handled directly by the DLF. All private projects will naturally have to meet criteria of economic soundness. All public projects will have to meet such specific requirements as might arise from time to time (e.g., adequate power rates) and will be considered within the context of the overall efforts of the GRC to maximize its contribution.

IV. Action by the Government of China.

The basic purpose of this new method of handling aid is to make readily available to the private sector any and all reasonable financing necessary to promote maximum sound economic growth. To accomplish this, it is essential that everything possible be done to make business profitable and attractive, thereby developing optimistic business anticipation, willingness to risk and invest, and a desire to modernize and expand --- in a word, to develop a favorable, promising business climate.



In order to do this, the GRC should adopt and vigorously pursue policies intended to stabilize the economy and encourage savings and investment. It should also liberalize business controls to the maximum extent possible. Specific actions in this regard should include, but not be confined to, the following:

1. A firm decision concerning the part of the total available resources that annually go to support the military effort.

Obviously, no real progress can be made if any large part of future increases in production are to go for military purposes.

2. Non-inflationary fiscal and credit policy.

The inflation and the fear of inflation tend to divert resources into uneconomic channels. The inflationary pressure of the last several years has been a major deterrent to more rapid economic growth. Unless price stabilization can be achieved, it is fruitless to talk about, let alone plan for, rapid economic expansion.

3. Tax reform.

Business must be made profitable if it is to be vigorous and expansive. Profitable business provides jobs and wages and an ever-increasing tax base. All possible existing tax deterrents to business should be abolished.

4. Uniform and realistic exchange rate.

The Government should adopt, as soon as possible, and continue to maintain, a uniform and realistic exchange rate. Anything short of this leads to uneconomic use of resources and usually encourages consumption, discourages exports, and discriminates against certain types of business.

5. Liberalized exchange controls.

Imports and exports dictated by market considerations rather than by Government direction insure the most effective use of the nation's resources.

6. Establishment of a utilities commission.

This is an essential step in order to give public utility management the freedom necessary to operate efficiently its enterprises. This procedure will also provide the public with adequate protection against monopoly practices.

7. Securities registration and marketing.

Institutional and legal arrangements must be made that will simplify investing and render it more attractive to the general public.

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8. Sale of Government enterprises to private owners.

The Government is presently engaged in a wide range of industrial and commercial activities that could be performed better and more efficiently by private firms. Furthermore, the climate for private investment, domestic as well as foreign, would be improved if the Government were to get out of, and stay out of, many of its present business activities.

20 December 1959

Wesley C. Haraldson

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