



OFFICE OF THE HISTORIAN

FOREIGN RELATIONS OF THE UNITED STATES, 1958–1960, CHINA, VOLUME XIX

323. Telegram From the Embassy in the Republic of China to the Department of State⁰

Taipei, December 31, 1959, 3 p.m.

537. Joint Embassy/ICA message. Subject: Accelerated Development Program Taiwan.

At time of Saccio visit¹ GRC was informed of US interest in embarking on accelerated development program Taiwan and invited to submit proposals.

After Haraldson's² return Hong Kong conference, CUSA presented him with 4-year plan. This was very general and did little more than suggest direction of development and asked for large amounts US aid. (Copy of this plan hand carried Washington by Ellis and Hunsberger.)³ Haraldson commented that plan provided adequate initial step but that we were interested in action program aimed at maximizing self-help.

At luncheon given by Economic and Finance Ministers for Ellis, Haraldson explained in some detail exactly what we had in mind and pointed out type of response we would like to get from GRC. (Memorandum of this conversation sent Washington.) Yager subsequently discussed proposed program in general terms with Foreign Minister and Acting Secretary-General of Kuomintang.

Another week went by and on December 24 CUSA handed Haraldson a revised 4-year plan. This was in considerably more detail, indicating expected development by sectors of economy but again referred only in most general terms to action GRC was prepared to take to further development. Haraldson informed CUSA that we would like to see more concrete statement as to specific steps that GRC was prepared to take to maximize its contribution.

Up to this point we had not been particularly successful in getting across type of mutual effort program we had in mind. CUSA seemed to be unable to understand what we meant by maximizing self-help.

K. Y. Yin asked Haraldson if he would put down on paper summary statement as to just how we visualized such program might be handled in order that he could study it carefully and have something to show other members of the government. [Page 644.] Consequently, Haraldson prepared summary statement, outline of which follows, and translation of which was given to Vice President by CUSA December 29. (Mission pouching full text to ICA/Washington.)

I. Why accelerated program Taiwan?

1. Necessary to provide jobs rapidly growing population and to build attractive "showcase" of achievements free society.
2. Prerequisites of leadership, skills, resources available Taiwan.

II. Objective.

Maximize sound economic growth next 4–5 years attaining condition where future growth would be self-generating, thus eliminating need foreign aid except military items and surplus agriculture products.

III. Purpose and method of operation.

1. Conceptually aid intended:
 - A. Encourage GRC take positive action for constructive economic, fiscal policy and
 - B. Provide foreign exchange necessary support growth to extent shortage needed foreign exchange not result of internal policies.
2. To lend flexibility, aid each year might be divided into three separate categories: (A) Minimum essential defense support necessary prevent deterioration living standard, (B) supplemental DS or SA, depending on positive action GRC to maximize effort. Rationale this aid:

1. Reward government for taking necessary action which in many cases might be domestically unpopular; 2. Provide foreign exchange needed by more vigorous, expansive industry which resulted from these government actions.

(C) specific funds for specific projects would be forthcoming under SIL, CDC and DLF aid to finance sound business expansion (amount of aid here largely dependent upon appetite private sector to expand, this in turn dependent upon success GRC in making business more attractive).

IV. Action by GRC.

GRC should take all possible steps to make business more profitable and attractive, thereby developing optimistic anticipations and willingness to risk and invest. Specification should include but not be confined to: 1. Limiting amount of resources annually devoted to military effort; 2. Non-inflationary fiscal credit policy; 3. Tax reform intended make business more attractive; 4. Uniform realistic exchange rate; 5. Liberalized exchange control; 6. Establishment utilities commission; 7. Securities registration and marketing; 8. Government divest itself of enterprises which compete with or could be better operated by private enterprise. [Page 64.5]

Yesterday, December 30, Vice President invited Haraldson and Yager to call and to discuss proposed program.

Yager emphasized political advantages to the GRC if an attractive showcase could be created and pointed out the necessity of full conviction and support by all elements of government and population if proposed program were to succeed.

Haraldson emphasized that (1) proposal outlined in paper did not represent Washington instructions, rather Embassy/Mission attempt to put in written form general suggestions carried here by Saccio group; (2) aim of program is to maximize sound economic growth, giving primary emphasis private sector; (3) program intended to make available necessary assistance to support this growth providing the government maximizes its self-help; (4) actual amount of aid any one year indeterminate since it depended upon appetite of private sector to expand, this in turn dependent upon success of government in creating attractive business climate.

Vice President's reaction was at first somewhat formal. He agreed in principle; he emphasized serious financial problems connected with demobilized officers and men; and asked many specific questions which indicated his keen understanding of the problem but which, it became apparent, had arisen as result of hasty translation. After these questions satisfactorily resolved, he seemed to become genuinely enthusiastic. He was particularly pleased that Taiwan has been selected for program like this and pointed out that several years ago he had suggested that allies which made special efforts should have special treatment. He observed that proposed program was natural development of the Dulles–Chiang joint communiqué and suggested that proper reference to this communiqué might be made in proposed program. He emphasized difficulties which government would face in making reforms that were necessary but agreed that these must be faced. He repeated several times his determination to improve investment climate.

Finally, he agreed that we could inform Washington that he was in accord with proposal contained in paper and was eager to get started.

Question now arises as to the next move and how to formalize any final understanding.

Mission is going ahead with 1961 program along lines suggested outline above and in accordance with amounts recommended ICA/Washington. We also propose to elicit from GRC a schedule of actions it is prepared to take over next few years to adopt and pursue policies in- tended to maximize self-help, together with some general goals as to contemplated magnitude and direction of anticipated development.

Ultimately, we believe high level conversations, perhaps as Secretary Herter with Chinese Ambassador and Ambassador Drumright with President Chiang, may be desirable. Such conversations might be followed by formal exchange of notes setting forth major elements of new joint US–Chinese undertaking. For immediate future, we suggest exchange of letters between Haraldson and K. Y. Yin as appropriate means of committing to writing agreement already, achieved, if [as] assumed some such evidence of common intent would be necessary preliminary to presentation of new proposal to Congress. If Department and ICA/Washington concur, instructions requested soonest on desired content proposed exchange. [Page 64.6]

We feel that enthusiasm here is genuine and that we must act in positive fashion to maintain and direct this enthusiasm in proper channels.

Yager

0. Source: Department of State, Central Files, 793.5–MSP/12–3159. Confidential. Transmitted in two sections.↵

1. ICA Deputy Director Leonard J. Saccio visited Taipei December 3 and 4. Despatch 293 from Taipei, December 4, and telegram 973 from Hong Kong, December 6, reported on his conversations with Chinese officials. (*Ibid.*, 793.5–MSP/12–459 and 793.5–MSP/12–659, respectively; see Supplement)↵

2. Wesley C. Haraldson, Director of the ICA Mission in Taipei.↵

3. Apparently William A. Ellis and Warren A. Hunsberger of the International Cooperation Administration.↵