

Asian Crisis Project

Country Report on Taiwan

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Abstract

Since the first eruption of the Asian crisis last July, the majority of Southeast Asian countries have been hit by stormy shocks from the regional crisis to their financial sectors; they also have encountered grave setbacks in production, consumption and investment. As a result, their economic growth has been stunted and possibly reversed. However, among Asian countries, Taiwan appears to be away from such economic chaos. Taiwan does not suffer serious structural problems that seem to have impacted the other Asian Tigers. The fact that Taiwan's economy has incurred a loss of international investor confidence is simply due to Taiwan being located in the region. Taiwan's ability to weather the Asian financial crisis so far can be seen as an assertion of the soundness of its economic policies. Most important, the small fluctuation of the exchange rate and stock market, a higher saving rate, a surplus of account balance, higher foreign reserves, and no substantial external debts also contribute to the stability of Taiwan's economy.

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I. Introduction

In the past four decades, a close economic relationship between Taiwan and Southeast Asia has been well established through investment and trade. Southeast Asia has been a major destination for Taiwan's external investment (Table 1): Taiwan's accumulated investment in the area up to 1997 is estimated to be exceeded US\$37 billion. In most Southeast Asian countries, Taiwan has been a major foreign investor in terms of foreign direct investment (FDI); in particular, the average value of each investment in Indonesia is more than US\$20 million.

**Table 1. Taiwan's FDI in the ASEAN Countries
(1979 - 1997)**

Countries	Committed Investment (US\$ billion)	Cases	Taiwan's Ranking among Foreign Investors
Thailand	9.5	1,278	2
Malaysia	8.3	1,517	2
Philippines	0.8	802	5
Indonesia	13.3	600	6
Singapore	1.1	239	N.A.
Vietnam	4.3	341	2
Total	37.2	4,777	-

Note: All the figures are accumulated

Source: Council for Economic Planning and Development, Taiwan

The bilateral trade between Taiwan and the ASEAN countries exceeded US\$29 billion in 1997 (Table 2). Of this trade, Taiwan's exports reached US\$16.2 billion or 13 percent of total exports and imports reached US\$13.3 billion or 12 percent of the total. In the past four years, Taiwan has been increasing its bilateral trade with Southeast Asia.

Table 2. Bilateral Trade between Taiwan and the ASEAN Countries

Period	Total			Exports			Imports			Balance (US\$ billion)
	Value (US\$ billion)	% of Total Trade	Growth Rate (%)	Value (US\$ billion)	% of Total Exports	Growth Rate (%)	Value (US\$ billion)	% of Total Imports	Growth Rate (%)	
1994	20.1	11.2	23.0	11.4	12.3	21.8	8.6	10.1	24.8	2.8
1995	25.4	11.8	26.4	14.9	13.4	30.5	10.4	10.1	21.0	4.5
1996	26.5	12.2	4.3	15.4	13.3	3.2	11.1	10.9	6.0	4.3
1997	29.4	12.4	11.2	16.2	13.3	5.2	13.3	11.6	19.8	2.9
1985-93 ²	-	-	19.8	-	-	20.2	-	-	19.3	-
1994-96 ³	-	-	17.5	-	-	17.9	-	-	16.9	-

Source: Ministry of Finance, Taiwan

The Southeast Asian financial crisis, starting last July, has greatly undermined the economies of the region. Given its very close ties with Southeast Asian economies, Taiwan's economy inevitably became involved in the financial turmoil. In both the financial sector and overall economy, Taiwan has been affected to some degree by fallout from the financial storm which swept Asian in the second half of last year.

This report is organized as follows. The Taiwan economic performance during the period of the crisis with comparisons to other Asian countries is described in section II. The reasons that Taiwan could have such performance are presented in section III. Conclusions and further studies are summarized in section IV. Some basic data and political structure of Taiwan are attached in appendix.

II. How well has Taiwan's economy performed?

Exchange Rate

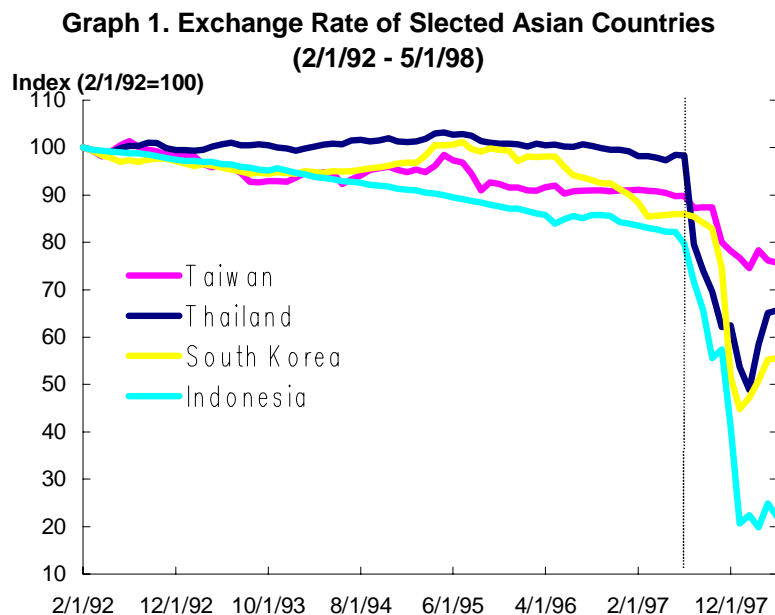
Taiwan seems to be defending itself better against the fallout from the currency turmoil than are most of the affected economies in Southeast Asia. Maintaining stability, however, has not been easy or cheap. The Central Bank of China (CBC, Taiwan's central bank) has had to spend more than US\$5 billion from its foreign exchange reserves in defense of the New Taiwan dollar (NT\$, Taiwan's currency) since early July, 1997. Still

² the figures are annual average of the growth rates

³ the same as footnote 1

the exchange rate has depreciated 8% against the greenback during this period to its lowest level in a decade.

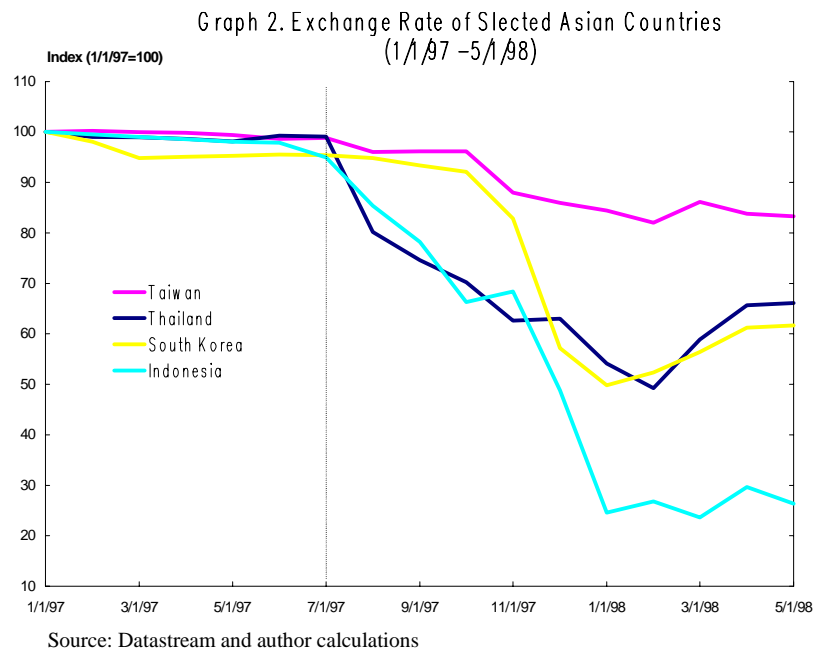
In the second half of 1997, Taiwan's financial markets were in a tumble due to the regional financial disorders. From the beginning of July until October 17th 1997, the CBC has spent more than US\$7 billion to keep the New Taiwan dollar at NT\$28.6:US\$1 during the speculative currency assaults. Then, in the middle of last October, the CBC abandoned its defense of the New Taiwan dollar and freed the currency, which resulted in a big drop to NT\$30.5:US\$1. In the following weeks, the Taiwan currency slid to NT\$31.4:US\$1, through the end of November, when the South Korean won fell and dragged the Taiwan dollar down towards NT\$33:US\$1. Between July 1st 1997 and the first week of January 1998, the New Taiwan dollar has dropped by 19% from NT\$28:US\$1 to NT\$34.5:US\$1. This was a sharp drop but a relatively modest one compared to other Southeast Asian currencies; during the same period the Indonesian rupiah dropped by 70%, the Thai baht by 55%, the South Korean won by 50%, and the Malaysian ringgit by 42%. By the second week of January 1998, the sharp decline in the currency was halted, with the exchange rate reaching NT\$35:US\$1. Taiwan was effectively defending its currency, as opposed to the governments of other Southeast Asian countries.



Source: Datastream and author calculation

As graph 1 shows, the exchange rates of most Asian countries dropped sharply after July 1997 (the vertical line), except for Taiwan, whose exchange rate declined by about 15% from mid-1997 to the first quarter of 1998. It is evident that Taiwan had a smaller impact on the exchange market than the other Southeast Asian countries. Notice that while the Indonesian rupiah has been depreciating since early 1992, its fall accelerated after the first eruption of Asian financial crisis.

If we look at the exchange markets closely, graph 2 suggests that the New Taiwan dollar depreciated less than the others which dropped by more than 30% in magnitude. Thus, it suggests that although it dropped to some degree the New Taiwan Dollar has been much more stable than any other Asian currencies.



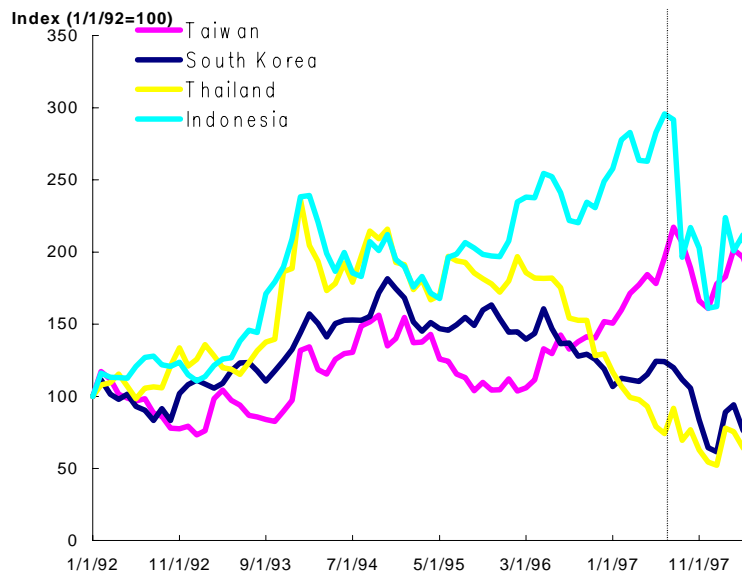
Stock Market

The Taiwan Stock Exchange (TSE) performed essentially better than other Asian stock markets in 1997; however, because of the currency fall, the returns for foreign investors were disappointing. In local currency terms, the Taipei weighted index rose by 18.1% during the year, finishing at 8,187 points; stock markets in South Korea and Southeast Asia dropped by 30% to 55% except for the Bombay stock market which

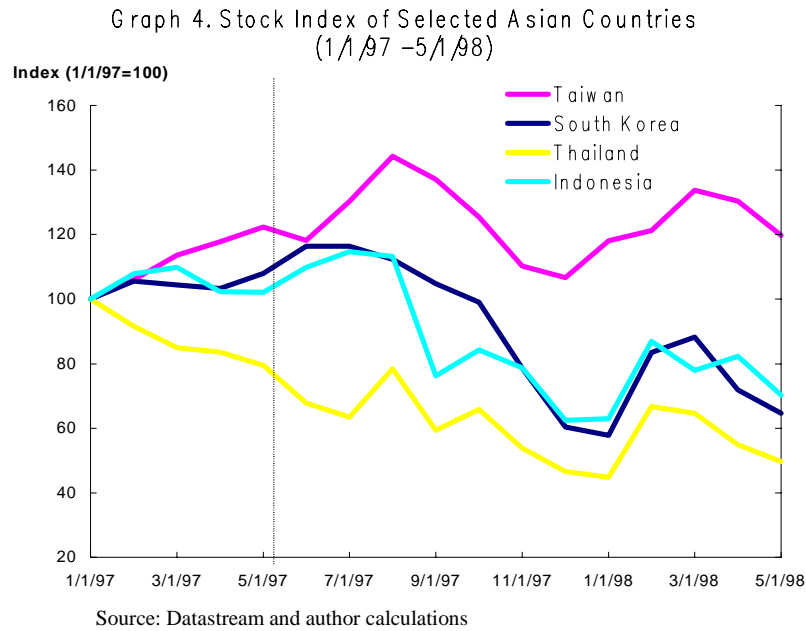
performed better among Asian markets. In US dollar terms, however, the Taipei index fell by 0.4% during the year. This still compared favorably with the 42-75% drops in US dollar terms registered by other Asian markets. Foreign investors fled the market in the second half of the year. Foreign investors only put US\$1.4 billion into the market in December, the lowest figure since May 1996, and far below the record figure of US\$6.26 billion in July 1997. However, large-scale privatization plans are expected to boost the stock market in 1998. About NT\$130 billion (US\$4 billion) of the government-held shares in state-owned and private companies will be sold off in the stock market. These include China Petroleum and Taiwan Power (NT\$50 billion each), 380 million shares in China Steel, over 300 million shares of the Chiao-Tung Bank and more than 10 million shares of the Farmers' Bank.

Graph 3 shows the changes of the stock indexes from 1992 to the first quarter of 1998 among Taiwan and three other Asian countries. Most of the stock indexes appear to be upward in trend before early 1996. However by 1997, stock markets among these countries started crashing. None of them can avoid the impacts of financial turmoil on their stock markets.

Graph 3. Stock Index of Selected Asian Countries
(1/1/92 - 5/1/98)



Source: Datastream and author calculations



Graph 4 gives a clear picture of the fluctuations in countries' stock markets. During the second half of 1997, while South Korea and Indonesia devaluated by more than a half in their stock markets, Taiwan's stock index only fell by 25%. After December in the same year, the stock markets of these countries gradually recovered from their plummet. These comparisons suggest that Taiwan's stock market will remain more stable than those of the other countries in question during the period of the crisis.

Table 3. Volatility of Financial Markets of Selected Asian Countries

(Time period: the end of June 1997 to the end of 1997) Unit: %

	Change in Exchange Rate (1)	Change in Stock Index (2)
1.Taiwan	-14.8	-9.3
2.Hong Kong	0.0	-29.4
3.Singapore	-14.7	-23.0
4.Japan	-12.0	-25.9
5.Philippines	-34.3	-33.5
6.Thailand	-46.1	-29.3
7.Malaysia	-34.9	-44.8
8.Indonesia	-52.3	-44.6
9.South Korea	-47.6	-49.5

Source: Council for Economic Planning and Development, Taiwan

In general, the financial markets of the most Asian countries have been severely affected by the Asian crisis. Table 3 summarizes the volatility of exchange rates and

stock indexes of the Asian countries in the second half of 1997. For countries like Thailand, Malaysia, Indonesia and South Korea, the currency market turmoil greatly weakened their financial markets. For the case of Taiwan, although the stock market and exchange rate have declined due to the crisis and its contagious effect, they were affected to a lesser degree than those of other Asian countries.

Banking Sector

With the growing demand for loans, lending to domestic manufacturers rose by 15.4%, the highest growth rate since 1993; loans to the long-depressed construction sector increased by 9.1%, the biggest rise in three years. There has been a concern about the quality of lending decisions. The overdue loan ratio at Taiwan's big three banks⁴ was significantly higher at the end of 1997 than a year earlier, ranging from 4.3% at the First Commercial Bank to 5.7% at the Chang-Hwa Commercial Bank. Together the three banks set aside NT\$5.2 billion to cover potential bad debts in the second half of 1997. In part because of those concerns, but more because of the Asian financial crises, ten of the island's major banks have been alerted to the possibility of a credit rating downgrade by Moody's Investors Services. The overall overdue loan ratio at all of Taiwan's banks fell in 1997 to 3.4%, from 4% a year earlier.

GDP

As table 5 shown, Taiwan's GDP measured in constant New Taiwan dollars rose by 6.9% in the third quarter of 1997 year on year, as opposed to 6.3% in the second quarter. The growing GDP resulted from a growth by 9.5% in gross fixed investment, which reached its highest quarterly increase in several years. Private consumption also grew steadily, rising by 8.6% in the third quarter year on year, from 7.5% in the previous quarter. The strong performance of the Taiwan stock market in the third quarter contributed to the increase in GDP; due to the wealth effect, the profitable stock market spurred domestic private consumption. Government expenditure grew at a modest 5.6% in the third quarter, down from 8.0% in the previous quarter. Due to the devaluation of Southeast Asian currencies, the external sector was a net drag on GDP growth, as import

⁴ The big three banks include the Chang Hwa Commercial Bank, the First Commercial Bank, and the Hua Nan Commercial Bank.

growth of 21.9% outweighed export growth of 9.8%. However, much of this import growth can be accounted for by imports of military equipment.

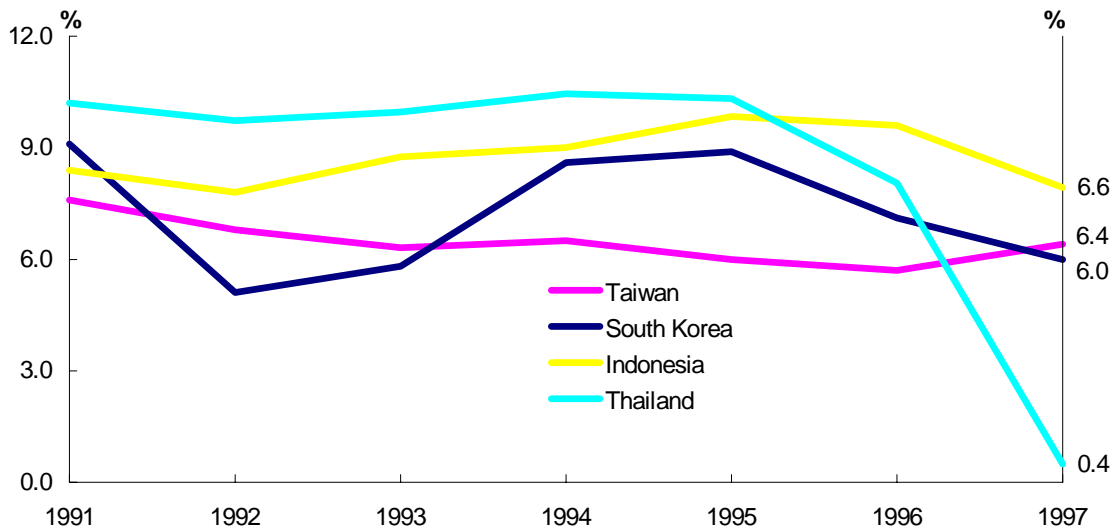
Table 5. Expenditure on gross domestic product
(% change, year on year; 1991 prices)

	1996			1997		
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Private consumption	6.2	6.0	6.2	6.7	7.5	8.6
Government consumption	8.9	2.8	10.7	7.6	8.0	5.6
Gross fixed investment	0.6	1.4	4.6	6.4	4.1	9.5
Exports of goods & services	9.0	4.8	5.8	9.3	5.6	9.8
Imports of goods & services	4.0	-3.0	11.0	11.6	9.1	21.9
GDP	5.4	5.5	6.8	6.9	6.3	6.9

Source: EIU Country Report 1st quarter 1998

As Graph 5 illustrated, Taiwan's economic growth remains fairly stable around 6.5%. From 1996 to 1997, Taiwan's economy was growing while the economies of the countries, like South Korea, Indonesia and Thailand, were shrinking. In particular, Thailand's growth rate in 1997 reached its lowest level, 0.4%, in 7 years.

Graph 5. Economic Growth of Selected Asian Countries
(Real GDP Growth)



Note: All numbers are in percent of Real GDP
Source: EIU Country Report

impact of the Asian financial turmoil, IMF estimates that Taiwan economic growth reached 6.9% in 1997, the seventh highest in the world (IMF, 1998).

III. Why was Taiwan's economy able to weather such a large-scale tempest?

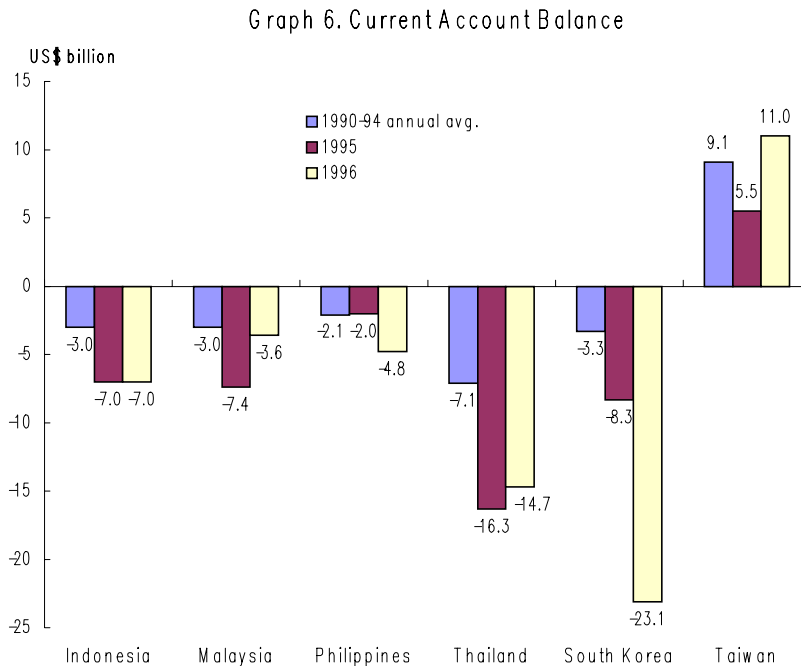
Financial Sector

The reasons that Taiwan can stabilize its economy can be summarized as follows: First of all, Taiwan has huge foreign reserves which allows the CBC to defend the unexpected speculative attacks in the second half of last year. Second, with little external debt and with a current account surplus, strong economic fundamentals contribute to the stabilization of the New Taiwan dollar. Third, Taiwan's slow pace of financial liberalization gives foreign speculators no direct channel to invest the domestic capital markets, and thus lessening the magnitude of uncontrolled capital movement. In regards to the part of the Asia-Pacific Regional Operations Centre (APROC) development plan to eliminate the government's control on foreign capital flows, however, consideration for stabilizing the domestic economy, will halt financial reform until the Asian crises is over and relations with China improve. Fourth, based on the concern that the currency devaluation and the contagion effect of neighboring crises might incite inflation, the CBC adopted a "moderately loose" monetary policy, which keeps the price level in a reasonable range.

Taiwan has adopted the right step-by-step process of financial liberalization. This involved first stabilizing commodity prices, liberalizing trade, and lifting restrictions on interest rates and foreign exchange rates. The next step was to open up the flow of capital. By the time the crisis occurred, Taiwan had a floating exchange rate, unlike the dollar-peg schemes of crisis-ridden countries. Taiwan's banking sector remains in good shape. In particular, Taiwan's credit rating on its sovereign debt remains at AA+, which followed right behind Japan's and Singapore's AAA ratings, according to the report released by Standard & Poor's (S&P) in February, 1998. In the report, S&P added that Taiwan's relatively low debt burden and relatively efficient bank regulation and monetary policy have created a much healthier financial sector than in other Asian countries.

Current Account Balance

One of economic problems leading to the Asian crisis is that there were huge current account deficits in some Asian countries. If a country has a current account



Source: Council for Economic Planning and Development, Taiwan

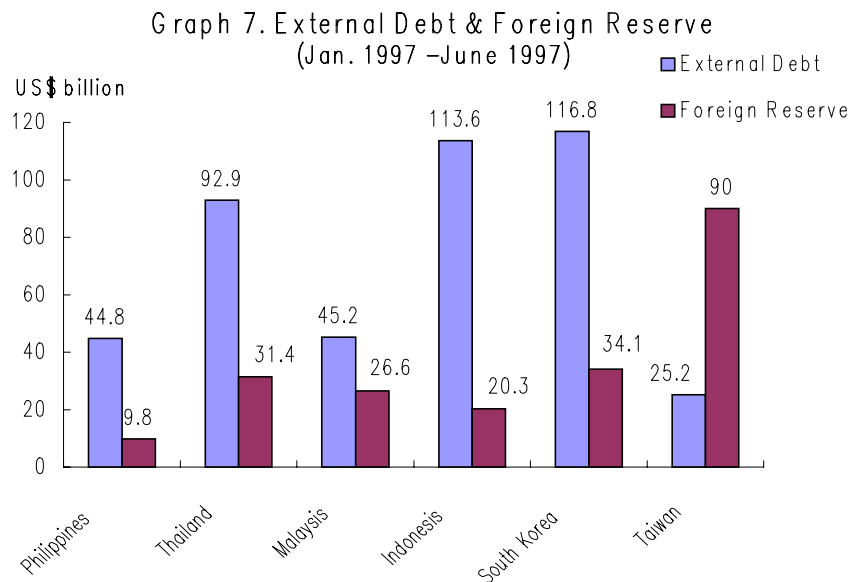
deficit, it means that the country is spending more than its income; or, the country is investing more than it saves. Thus, with huge current account deficit, the country has to borrow a lot of money from abroad, which in turn deteriorates its economy. As graph 6 illustrated, while these countries were running current account deficits, Taiwan has been keeping current account surplus since 1990. Also, notice that many of the Asian countries whose currencies collapsed in 1997 had experienced large and increasing current account imbalances in the 1990s.

External Debt and Foreign Reserve

The current account deficit is an imbalance between national saving and investment that needs to be financed by foreign capital. If the deficit is financed by foreign direct investment, the capital inflow will not lead to debt. In all other cases, a current account deficit results in the accumulation of foreign debt. Foreign exchange reserves and a small

external debt burden reduce the risk of external crises, and enable a country to finance a current account deficit at a lower cost.

Graph 7 tells that the external debts of ASEAN-4 and South Korea were around 2-5 times over their foreign reserves, but Taiwan's foreign reserves were more than 3 times over its external debt. The ample foreign exchange reserves and current account surplus helped Taiwan's central bank to protect the New Taiwan dollar in the second half of last year. It is worth noting that for those countries running huge account deficits, they also had heavy external burdens.



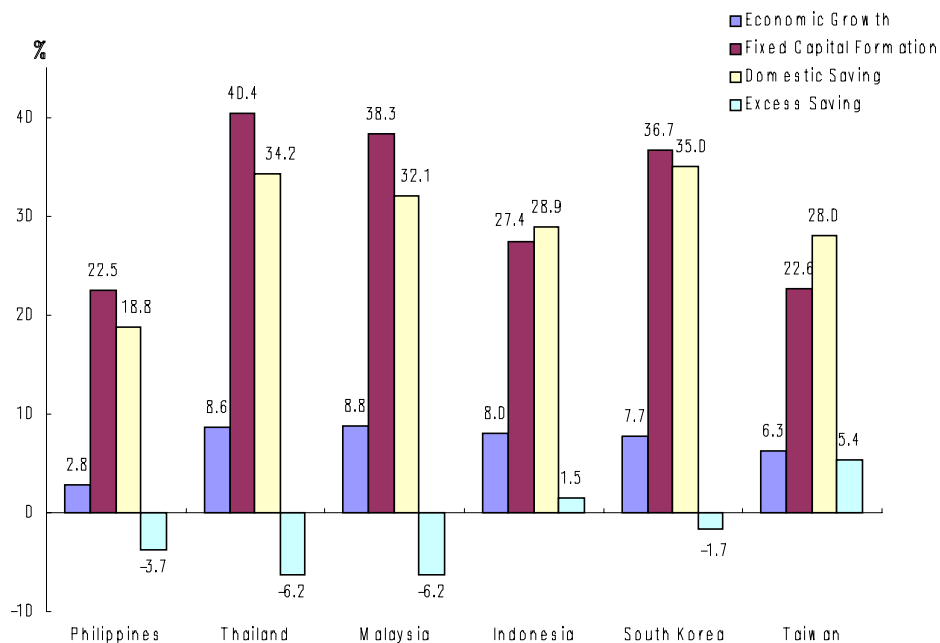
Source: 1. BIS 2. IMF 3. Council for Economic Planning and Development, Taiwan

Taiwan had ample foreign exchange reserves of US\$83.5 billion at the end of 1997, which is below US\$90 billion, the higher level maintained in June. The gap can be explained by the fact that the CBC was using the foreign reserves to defend the New Taiwan dollar in October. Nevertheless, Taiwan's foreign reserves stood at the number 3 in the world, followed behind Japan (US\$227 billion) and China (\$136 billion, not including Hong Kong).

Investment

Graph 8 suggests that some Asian countries were investing more resources than they had in domestic savings during 1990-1996, which created over-heated domestic economies. In contrast, Taiwan has been keeping its savings at a higher level than its fixed capital formation, implying its economy does not rely heavily on foreign capital inflow and does not run into debt. Thus, this policy fosters Taiwan's growth rate, sustained at 6.3% during the period.

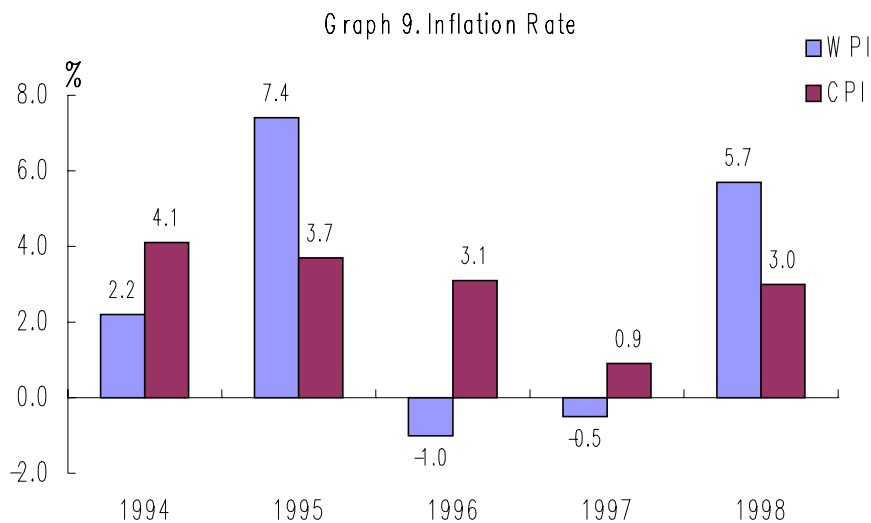
Graph 8. Growth, Capital, Saving
(1990-1996)



Note: All numbers are in percent of GDP. Excess Saving = Domestic Saving - Fixed Capital Formation
Source: IMF, World Economic Outlook: Interim Assessment, Dec. 1997

Investment in Taiwan, both in the public and private sector, is essentially funded from domestic savings, rather than by incurring foreign debt. Taiwan started from a very good position. It doesn't run a current account deficit, one of the features of the other countries severely weakened by the crisis. It runs a surplus. Taiwan has run a current account surplus for many years (US\$7.7 billion last year), as opposed to the enormous year-after-year current account deficit of those nations affected by the financial crisis. It's in a position to actually recycle that surplus, a little like Japan, as investment, into China

and into other countries in the region, which it has done to some extent. In particular, Taiwan government is pressing on with the island's major infrastructure projects. Among leading public sector investment projects are the island's second science-based industrial park and a high-speed railway. The important investment projects to date have amounted to more than NT\$100 billion, while the figure for the whole year is estimated to reach NT\$450 billion, and the total for all investment project this year is expected to reach NT\$1 trillion. Such investment projects will spur domestic market demand and raise the willingness of the private sector to invest, and thus in turn expand the economy's growth.



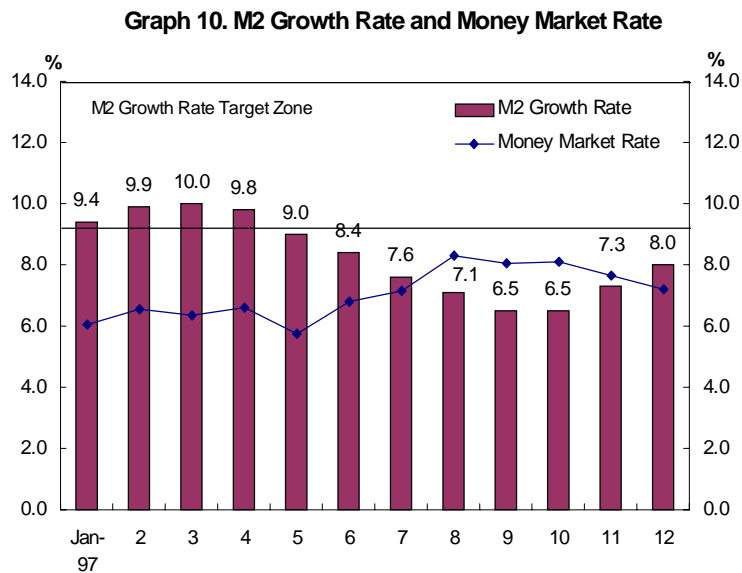
Source: Directorate General of Budget, Accounting and Statistics, Taiwan

Price Level

The average inflation measured by the consumer price index (CPI) remained modest in 1997 with an annual growth rate of 0.9%, the lowest in the 1990s (Graph 9). It is estimated the CPI in 1998 will increase to 3.0%, resulting from the depreciation of the New Taiwan Dollar. The wholesale price index (WPI) increased by 0.5% in 1997, and will rise to 5.7% in 1998. In general, the price level of Taiwan is still under the control and the Asian crisis did not lead to an uprising inflation rate that occurred in some Asian countries.

Money Supply and Interest Rate

Graph 10 describes the changes in the money supply and in the interest rate of Taiwan. The M2 growth rate in Taiwan was in its target zone, for five months from 9% to 14%, in 1997, while seven months out of twelve were below the target. Taiwan's central bank used a moderate money supply policy and induced domestic business to keep investing. The moderate interest rate led to stability in the financial markets.



Source: 1. Central Bank of China, Financial Statistics Monthly, Jan. 1998 2. Datastream

Business Sector

Taiwan's businesses made use of the country's hot stock market last year to raise equity. Over US\$15.3 billion in equity was raised, greatly increasing the firms' capitalization ratios. This event was significant because Taiwan's industrial structure consists primarily of small and medium-sized enterprises, whose share of the total number of enterprises exceeds 98.3% (Council for Economic Planning and Development, Taiwan, 1998). These businesses are quite flexible in responding to an external shock. Taiwan's economy has been rapidly upgraded over the past decade. A recent study, undertaken by the World Bank and Pennsylvania State University, shows that 40% of Taiwan's output in the chemicals industry in 1991 came from firms less than 5 years old. Similar results were found in other major industries like computer, plastics and textiles, in which the independent, small and medium-sized businesses have a large share in the

Taiwan's industries' structure. On the other hand, contrary to South Korea and Indonesia, where the governments funds directly to bureaucratically favored conglomerates, such as the chaebol, corporations owned by the relatives of the ruler, Taiwan's government tends to let non-profitable companies go bankrupt and will not award preferential loans. In addition, according to the survey conducted by the Council for Economic Planning and Development of Taiwan, in 1997 the average capital-assets ratio for the one hundred largest businesses in Taiwan is 53.9%, much higher than Korea (24.0%), Japan (32,6%), and even the U.S. (38.5%). Thus Taiwan's private businesses do not fear the withdrawal of foreign capital resulting from the financial turmoil.

Labor Productivity and Costs

In the third quarter of 1997 labor productivity was increasing by 5.2% year on year, the fifth successive quarter of growth above 5%, but also the lowest growth rate since the second quarter of 1996. Likewise, unit labor costs continued declining in the fifth consecutive quarter, decreasing by 1.6% year on year; again, the decline was the smallest since the second quarter of 1996 (EIU). It suggests that, before the Asian crisis occurred, the growing manufacturing sector was creating a tighter labor market, with lower productivity margins, the emergence of upward pressure on wages, and declining unemployment. Still, it is not clear whether the regional financial impacts lead to a cooling of the overheating labor market. However, keeping labor productivity higher than unit labor costs would lessen the impact of the crisis on the manufacturing sectors, and thus foster the Taiwan economy growth.

External Sector

Today, over 40 percent of Taiwan's total exports are capital- and technology-intensive products, while labor-intensive products make up less than 20 percent of all Taiwan's exports. Thus, the composition of Taiwan's exports becomes more similar to that of developed nations with the characteristics of capital abundance. The primary reason for the financial crisis in Southeast Asian countries was a shakeout in the export sectors caused by excessive demand. Hence, those countries truly affected were those located in the same region that was supplying cheap labor. About 10 years ago, Taiwan

was forced to abandon its traditional export-oriented industry. It is now a provider of raw materials, components, and equipment for export, so it has avoided being squeezed out of the export market by these countries. However, Taiwan's export markets are too dependent on Southeast Asian countries (about 50% in 1997-1998 as opposed to 25% in 1986). This leads to two effects on exports. First, the substitution effect causes exports to shrink since the huge devaluation of Southeast Asian currencies makes Taiwan's export prices less competitive than those countries. Second, the income effect and the devaluation give the Southeast Asian economy less purchasing power to import goods and services from other countries.

IV. Summary and Conclusions

Although Taiwan has not been able to completely isolate itself from the fallout from the Southeast Asian currency and stock market turmoil, its economy should be less adversely affected than most others in the region. In general, with continuing domestic investment, prudence in monetary policies, and strong economic fundamentals, some studies estimate that Taiwan's growth rate would remain near 5.0% in 1998 (Table 6), which is much higher than the predictions for other countries in Asia and even the

Table 6. Outlook for 1998 Taiwan Economy

Unit: Growth Rate, %

	1998 Forecasts		
	IMF (Mar. 1998)	EIU (Mar. 1998)	DGBSA (Feb. 1998)
GDP	5.0	4.7	6.2
Private Consumption	-	4.2	6.8
Government Consumption	-	5.0	0.2
Gross Fixed Capital Formation	-	4.5	10.9
Private Sector	-	-	16.7
Government	-	-	3.4
Public Enterprises	-	-	0.7
Exports of Goods & Services	-	7.3	9.0
Imports of Goods & Services	-	6.7	8.5
CPI	4.0	4.1	3.0

Note: 1.IMF: International Monetary Fund
2.EIU: Economist Intelligence Unit
3.DGBSA: Directorate General of Budget, Accounting and Statistics
Source: IMF (*World Economic Outlook*, 1998), EIU (*Country Report* 1st quarter 1998), and CEPD

advanced economies.

Although the Asian economic turmoil will slow down Taiwan's growth in 1998, two indices of Taiwan economy, reported by the Council for Economic Planning and Development, predict a strong economic performance in 1998: first, for the 14th straight month the composite index of economic performance, which evaluates nine major indicators, was in the "green" zone, indicating steady economic growth. Second, the CEPD's index of leading indicators posted a gain of 0.8% in December, its second straight monthly gain. Five of the index's components rose (new manufacturing orders, average monthly working hours in the manufacturing industry, floor area under construction, the stock price index and the wholesale price index). However, one thing that we need to watch is Taiwan's exports, which have been declining. In the first quarter of this year Taiwan had a trade deficit of US\$70 million, the first quarterly deficit in 17 years. Thus, Taiwan's government needs to figure out how to effectively encourage private investment and reduce the trade deficit in order to sustain a higher growth rate in the future.

Appendix

Taiwan

Basic Data⁵

Land area	36,000 sq km
Population	21.5 million (end-1996)
Main town	Population in '000 (end-1992)
	Taipei (capital) 2,696
	Kaohsiung 1,406
	Taichung 795
	Tainan 695
Climate	Subtropical
Weather in Taipei	Hottest month, July, 24-33°C (average daily minimum and maximum); coldest month, February, 12-18°C; driest month, November, 66 mm average rainfall; wettest month, August, 305 mm average rainfall
Languages	Mandarin, Taiwanese and Hakka
Measures	Metric system; some Chinese, Japanese and UK measures also in use
Currency	New Taiwan dollar = 100 cents
Fiscal year	July 1 - June 30
Time	8 hours ahead of GMT

⁵ Source: EIU Country Profile 1997-98

Political Structure⁶

Form of state	Representative democracy in the process of emerging from a one-party state
The executive	The president nominates a prime ministries to head the Executive Yuan (cabinet). The nomination is usually automatically approved by the Legislative Yuan (parliament). The Executive Yuan has three arms: the ministries and commissions; the 19 subordinate administrative organs of state; and the Executive Yuan Council, nominally the supreme policymaking body (although policy is really made by the leaders of the Kuomintang, the ruling party)
Head of state	President, directly elected for a term of four years
National legislature	The Legislative Yuan, formerly a rubber-stamp parliament, has in the past decade become a genuine forum for debate and the development of policy. The president agrees with the Legislative Yuan on the appointment of a prime minister to head the Executive Yuan (cabinet). The National Assembly, now fully elected, decides on constitutional changes
Local government	A provincial assembly and a series of local councils operate, but function mainly on an administrative level. The provincial assembly may be scaled down

⁶ Source: EIU Country Report 1st quarter 1998

National elections	December 1995 (Legislative Yuan) and March 1996 (presidential and National Assembly); next elections due by December 1998 (local government and Legislative Yuan) and march 2000 (presidential); National Assembly and provincial elections have been suspended
National government	The Kuomintang controls all executive, legislative and administrative organs
Main political organizations	Government--Kuomintang (KMT); opposition--Democratic Progressive Party (DPP); New Party
Regional organizations	Full member of the Asia Pacific Economic Cooperation (APEC) forum and the Asian Development Bank (ADB); left the UN in 1971; request of observer status in the World Health Organization (WHO) was rejected in April 1997 and April 1998; in the process of becoming a member of the World Trade Organization (WTO)

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