

The Role of the State in Economic Development

—The Case of Council for Economic Planning and Development (CEPD)in Taiwan

Abstract

The Council for Economic Planning and Development (**CEPD**) is established specially for the purpose of planning, evaluating, coordinating and monitoring matters related to national economic planning and development. The CEPD is responsible for drafting overall plans for national economic development; evaluating development projects, proposals and programs submitted to the Executive Yuan; coordinating the economic policymaking activities of ministries and agencies; and monitoring the implementation of development projects, measures, and programs. The council carries out its advisory functions by working objectively and impartially to integrate the views of different government agencies and facilitate decision-making in the Executive Yuan in Taiwan.

Key words : The Council for Economic Planning and Development (CEPD) , Economic Planning and Development, Economic Policymaking , Monitoring the Implementation of Development Programs.

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I. International Economic Outlook in 2011

1. World economic expansion slowing

According to the forecast of Global Insight in December 2010, the world economy will grow 3.4% in 2011, down by 0.7 of a percentage point from 2010, with the pace of growth varying in different countries. Mainland China, India and other emerging countries will grow 5.9% on average, markedly higher than the average growth rate of 2.0% in industrial countries.

2. Rising influence of emerging markets

Emerging market economies have been playing an increasingly influential role in the global economy in the period since the 2008 financial crisis. Mainland China, India and other emerging countries in Asia have been especially prominent in this respect. Their active investment in infrastructure and their huge middle-class populations have raised the contribution of domestic demand to their economic growth, boosting their economic power and gradually turning them into main drivers of economic growth. This has speeded up the West-to-East shift in the center of gravity of the world economy.

II. Review of the Domestic Economic Situation in 2010

1. Economic growth

2010 was a critical year for Taiwan's economic development, with the economic growth rate making a mighty leap to a 21-year-high of 9.98% from the contraction of 1.93% in 2009.

Moreover, Taiwan led the way ahead of other Asian economies in carrying out structural reform, as it reoriented its economy to tap into exports and investment as twin engines of

growth.

(1) Domestic demand recovered conspicuously as the economy emerged from the shadow of the financial crisis, recording a real growth rate of 9.36% and contributing 92.89% to gross domestic product (GDP) at current prices. Serving as the primary source of economic growth, it contributed 8.01 percentage points to the economic growth rate of 9.98%.

— **Private consumption** recorded real growth of 3.43%, accounting for 58.16% of GDP at current prices, and contributing 1.98 percentage points to economic growth.

— **Private investment** notched up real growth of 40.72% in the first half of the year as the economy continued to recover, with a further boost from the expansion of contract manufacturing and release of orders to domestic firms by big international manufacturers, which prompted domestic high-tech firms to actively expand production capacity and upgrade manufacturing processes. In the second half of the year, it grew 24.98% in real terms, spurred by the government's investment promotion drive, improvement of the investment environment, and market expectations from the signing of ECFA. For the whole year, it recorded a real growth rate of 31.91%, contributing 3.76 percentage points to economic growth.

— **Government consumption** grew 0.88% in real terms, accounting for 12.18% of GDP at current prices, and contributing 0.11 of a percentage point to economic growth.

(2) Net external demand (trade surplus):

In 2010, exports grew very strongly, while import demand also increased sharply on the back of the booming export trade and soaring private investment. Taiwan posted a surplus of US\$30.4 billion in goods and services trade, contributing 1.97 percentage points to economic

growth.

- **Exports of goods and services:** Customs cleared exports increased by 33.88%, and total exports showed a real growth rate of 24.35% with the inclusion of service exports and the exclusion of price factors.
- **Imports of goods and services:** Customs cleared imports increased by 42.42%, and total imports showed a real growth rate of 27.37%.

2. Unemployment and employment

In 2010, the creation of new jobs increased and the unemployment situation improved markedly, thanks to the conspicuous upturn in the domestic and international economies, and as various government employment-promotion measures, including the 2010 Employment Promotion Program and the Project for Cultivating High-Grade Manpower to Promote Employment, kicked into full effect.

- The average number of those out of work was 577,000, with the unemployment rate averaging 5.2%.
- The average number of those in employment was 10.495 million, a year-on-year increase of 216,000 or 2.1%.

3. Prices

In 2010, The consumer price index (CPI) showed a very moderate rise of just 0.98%, achieving the plan target of not rising by more than 1%.

- **The CPI** showed a January-to-November increase of 0.94% over the corresponding period in 2009, inflated mainly by the higher prices of fuels & lubricants, tobacco products, and gas.

The general price index (the core price index), excluding fruits, vegetables, fish, shellfish, and energy, showed a slight rise of only 0.40%. However, the cost of living index rose more than the CPI during this period.

III. Taiwan's Macroeconomic Targets for 2011

1. Planning concepts

In 2011, the government will strive to achieve the stable, sustainable and balanced development of Taiwan's economy. Besides promoting economic growth, the government will also pursue the objectives of job creation, price stability, fiscal soundness, balanced income distribution, and sustainable development of the environment. In response to the changed situation of the global economy, the government will adjust Taiwan's economic structure with a view to firing up both domestic demand and exports as twin engines of economic growth, in a manner that boosts the sharing of economic fruits by all of the people. In addition, to match the changes in the map of local administration, the government will make plans for developing block industries appropriate to each region, to integrate all of the nation's economic resources for the greatest total benefit. The main policy actions for achievement of these aims will include:

- Expanding the “Invest in Taiwan” international investment promotion drive and urban regeneration, with the aims of augmenting investment energy, speeding up structural transformation, and promoting domestic demand and exports as twin engines of growth.
- Promoting private investment to boost employment, employment to drive wage growth, and wage growth to spur consumption.
- Continuing to promote the development of six major rising industries, ten key service industries, and four emerging intelligent industries, to speed up the reshaping of Taiwan's

industrial sector.

- Developing block industries, and mapping out the “Homes for Industries, Industries for Homes” plan, to achieve regionally balanced development and create local employment opportunities.
- Deepening the effects of ECFA, with sights set on tapping into the opportunities of mainland China’s 12th Five-Year Plan, building up Taiwanese enterprises’ penetration of the mainland domestic market, and expanding Taiwan’s trade within the Asian region.
- Promoting spatial remodeling of our homeland, creating a low-carbon society, and raising our capacity for adaptation to climate change.

2. Plan Targets

(1) Taking account of objective conditions in the international realm and subjective conditions in the domestic realm, and in line with government policies under active implementation, the macroeconomic targets for 2011 have been set as follows:

- An economic growth rate of 4.82%, with national per capita GDP rising to US\$20,242.
- The unemployment rate cut to 4.9% (with employment to increase by 1.8% and the labor participation rate to stand at 58.3%).
- Effort to be aimed at keeping inflation (as measured by increase in the CPI) at no more than 2.0%.

(2) Demand-side sources of economic growth

a. National consumption

—Private consumption: With domestic unemployment continuing to fall and incomes rising, private consumption is targeted to grow by 3.52% in real terms, accounting for 58.36% of nominal GDP, and contributing 1.91 percentage points to the economic growth rate.

—Government consumption: Targeted to grow by 0.75% in real terms, accounting for 11.82% of nominal GDP, and contributing 0.09 of a percentage point to the economic growth rate.

b. Domestic investment

—Private investment: Targeted to grow by 0.20% in real terms, accounting for 15.91% of nominal GDP, and contributing 0.03 of a percentage point to the economic growth rate.

c. External demand

—In 2011, the balance of external trade in goods and services is projected to account for 7.99% of nominal GDP, contributing 3.03 percentage points to the economic growth rate.

—The export of goods and services: Projected to grow 6.20% in real terms, accounting for 74.56% of nominal GDP, and contributing 4.60 percentage points to the economic growth rate.

—The import of goods and services: Projected to grow 2.65% in real terms, accounting for 66.57% of nominal GDP.

VI. Policy Directions and Development Focuses in 2011

In 2011, to address the new situation of Taiwan's economic development in the era of ECFA's implementation, the government will pursue five main-axial policy objectives, namely, the promotion of an innovative economy, a just society, high-grade manpower, a

low-carbon environment, and clean and competent government. The underlying aim will be to actively develop Taiwan into a low-carbon, LOHAS-oriented country where the people can live comfortably and happily in harmony with their surroundings. The main policy directions and development focuses will be as follows:

1. Innovative and prosperous economy

(1) Speeding up industrial innovation

Developing block industries: The government will implement the Homes for Industries, Industries for Homes plan, under which it will promote the establishment of at least three home locations each for targeted industries, to match the industry's characteristics, local advantages, and other relevant conditions. Core cities in each region will be given assistance to develop regional brands, each developing at least three main industries. This will serve to demarcate the spatial positioning of Taiwan's industrial development for the next decade, to ensure that the Invest in Taiwan drive delivers the optimum concrete benefit for regional development.

b. Speeding up the development of four emerging intelligent industries:

The government will enhance the strategic promotion of the cloud computing, smart electric vehicle, intelligent green building, and invention & patent industrialization industries, to forge new advantages for Taiwan's industrial competitiveness.

(2) Promoting spatial remodeling

Implementing the *i-Taiwan* 12 Projects:

The government will continue to implement these 12 major projects, including plans for completing the construction of a fast and convenient is landwide transportation network and

for regenerating Kaohsiung Port and City, to promote the development of regional industries.

(3) Carrying out the Invest in Taiwan project

a. Boosting investment in Taiwan:

The government will continue to carry out the Invest in Taiwan project aimed at attracting investment in Taiwan by both local and foreign investors (particularly in India, Japan, Europe and the United States). This investment promotion drive will be geared toward the goals of establishing Taiwan as a global innovation center, an Asia-Pacific economic and trade hub, an operations headquarters for Taiwanese businesses operating overseas, and a regional headquarters for foreign businesses.

b. Promoting mainland Chinese investment in Taiwan:

The government will continue to carry out the Project for the Promotion of Mainland Chinese Investment in Taiwan. It will set up a service window for mainland Chinese investment in Taiwan, and form delegations to explore possibilities for cross-strait investment, to open up sources of mainland business investment in Taiwan.

c. Improving the investment environment:

The government will continue to review and ease financial and economic regulation, create a more business-friendly environment, and build a prime living environment, to make Taiwan more attractive to international investors.

(4) Strengthening international linkage

Expanding global deployment:

The government will use the favorable opportunity created by the signing of ECFA to

participate in regional economic integration, pursue the negotiation and signing of FTAs with Singapore and other countries, play an active part in international economic and trade organizations, and carry out the Project to Promote Most-Valued and Fair-Priced Products in Emerging Markets, in an all-out effort to expand access to global markets.

2. A just and stable society

(1) Building a warm society

a. Improving income distribution: The government will work along seven strategic lines mapped out by the Executive Yuan's Special Committee on Improving Income Distribution, including taking measures to "balance development divides and vitalize local manpower." A fundamental aim of policy on this front is to continue stimulating private investment and strengthening the driving forces of economic growth, as means of creating job opportunities and raising wage levels, so that all of the people can share the fruits of economic development.

b. Strengthening social welfare:

The government will establish a mechanism for linking the income and expenditure of the national health care system, to match the second-generation revision of health insurance legislation. The government also will implement the Public Assistance Act, easing the thresholds for review of minimum living costs and low-income households; set up an Emergency Relief Fund, and improve the mechanisms for the provision of micro-startup loans and assistance; and in coordination with the amendment of the Physically and Mentally Disabled Citizens Protection Act, will formulate an action strategy for the next ten years to set up a full-range support system for people with disabilities.

c. Taking care of new immigrants:

The government will continue to implement measures for providing care and assistance to foreign and mainland Chinese spouses, and will utilize the Foreign Spouse Care and Guidance Fund to bolster help for foreign spouses to adapt to life in Taiwan.

(2) Creating employment opportunities

a. Stabilizing the employment market:

The government will continue to carry out the 2009~2012 Employment Promotion Program, to pep up labor market mechanisms and ameliorate the unemployment problem.

b. Enhancing employment opportunities:

The government will carry out a scheme for providing financing guarantees to help businesses cope with the effects of trade liberalization by changing their lines of business or products, to maintain and create job openings; and will provide subsidies for small and medium-sized enterprises to hire more staff for the purpose of innovation, to promote industrial transformation toward greater innovativeness.

c. Investing in human capital:

The government will carry out the Project to Invest in Industrial Human Resources, subsidizing on-the-job training expenses for workers to enhance their workplace competitiveness; and will carry out the Program to Assist Business Entities to Upgrade Manpower Resources.

3. Innovative high-grade manpower

Speeding up innovational R&D

a. Reinforcing innovational linkage among industry, academia and research institutions: The government will deepen the linkage between human resources cultivation in higher education and industrial demand, establish an industry-friendly campus environment, and enhance the linkage between incubation centers in schools and professional service units.

b. Strengthening forward-looking R&D capabilities:

The government will carry out a program to enhance enterprises' capabilities for conducting forward-looking R&D, and encourage enterprises to conduct R&D on products or technologies that have not yet been commoditized, with a view to generating influential key patents.

c. Raising R&D input:

The government will carry out a program to promote the development of leading new products and a lending program to promote industrial R&D, and will improve the review mechanism for government science & technology development projects, to promote the efficient utilization of S&T expenditure.

4. A sustainable low-carbon environment

(1) Responding to climate change

a. Promoting energy saving and carbon reduction:

The government will continue to carry out its benchmark Master Plan for National Energy Saving and Carbon Reduction, with the targets of raising energy efficiency by 2% a year and gradually reducing the level of CO₂ emissions.

b. Establishing a complete framework of laws and regulations:

The government will push through passage of the Greenhouse Gas Reduction Act, and draw up an action plan for the appropriate reduction of greenhouse gas emissions, to build the systems and strategic framework for greenhouse gas reduction; and will study the introduction of an energy tax act, mapping out a set of ancillary measures appropriate to Taiwan's circumstances, to raise the efficiency of energy use.

(2) Carrying out post-disaster reconstruction

Typhoon Morakot post-disaster reconstruction:

The government will rebuild basic facilities in disaster areas, with the incorporation of disaster-resistant design, according to the requirements of the reconstruction master plan for placing top emphasis on land conservation; and will continue rebuilding disaster-stricken communities on their original sites in accordance with the principle of "removal from peril without removal from villages."