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THE

EVOLUTION  
OF POLICY BEHIND  
TAIWAN'S  
DEVELOPMENT  
SUCCESS

*2nd Edition*

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THE  
EVOLUTION  
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SUCCESS

*2nd Edition*

*Kuo-Ting Li*

*Introductory essays by  
Gustav Ranis and John C.H. Fei*



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# PROLOGUE

GUSTAV RANIS

There exists a lively interest today in the effort at transition growth, labeled development, in the third world, especially among the so-called newly industrializing countries (or NICs) and most especially with respect to probably its most successful member, Taiwan. The economic story of that success has already been told in several places, but the question of how and why it happened is still only imperfectly understood.

This book differs from many others on the subject of development at least in three ways: first, it focuses on the evolution of policy that lies below the surface of economic events; second, it records the recollections of a high-level practitioner of development; and third, it includes, in addition, introductory essays by two academicians concerned with development. Academicians look at the mystery of successful development quite differently; they may give advice to the government but essentially they enjoy the luxury of examining the process from a detached and dispassionate vantage point seeking to extract what is generalizable and transferable. Practitioners, on the other hand, although guided by a framework of ideas, are almost bound to be more problem- or crisis-oriented, with a sense of immediacy and practicality as they respond to urgent issues and constraints.

The armchair academician is prone to imagine that the world of action proceeds according to some well-thought-out master plan following some *a priori* theorizing. The practical policymaker (in this case a very high and influential official at the ministerial level), on the other hand, responds instinctively and often innovatively to the problem at hand. Only after some years do academicians, who must find a “system” and seek transferability, come up with an *ex post*

rationalization of what must have happened in a consistent logical fashion to permit the Taiwan story to unfold as it did. The analysis of Taiwan's policy changes and development path is, in this sense, analogous to the experience with the New Deal of the 1930s. School children are taught how the major building blocks to get the United States out of the Depression were put in place carefully and selectively with one eye on Keynesian theory, which was just coming into vogue. But, in fact, it is well known that the New Deal emerged from the crucible of trial and error rather than from a theoretical blueprint. Much the same is true of the analysis of the liberalization path of Taiwan as seen by academicians and of the creative response to problems as seen by the practitioner. Policy analysis is often done after the fact while the design of policy must necessarily be done in advance. The historical record, nevertheless, is there for all to see, to analyze, and to benefit from in the best tradition of the social sciences.

Finally, a word on coverage. The academician naturally tends to see matters in a holistic fashion, endeavoring to look at the economy within a general equilibrium framework of interlocking parts. Jointly with Minister Li, John Fei and I have consequently prepared a policy matrix that lists important changes in the evolution of policy in a substantial number of sectors over time (see appendix). The practitioner, on the other hand, is most likely to focus on specific strategic issues or policy areas that he considers to constitute crucial bottlenecks to further forward motion. As a consequence, the main chapters of the book do not attempt to cover comprehensively policy changes in every single one of the economy's sectors or markets but focus on what Minister Li felt were the key strategic areas in which bottlenecks had to be broken to permit the economy to continue to move forward.

The practitioner is thus necessarily selective. I believe we are fortunate to have had one of the major participants in the evolution of policy on Taiwan available to give us his view on the important dimensions of that story.

Since World War II, econometrics, a methodology incorporating a combination of deductive theorizing and empirically observable statistical numbers (with or without a probabilistic formulation), has

become a firmly entrenched academic tradition. By emphasizing policy formation and evolution, however, the authors of this volume hope to convey the message that in the study of the transition growth process of contemporary less developed countries there is a less quantifiable aspect of organizational (or institutional) change, which, though nebulous, is quite meaningful and essential. Nevertheless, in deference to the established method of economic analysis, the authors agree that a set of essential growth-related time series on Taiwan should be included in a statistical appendix. These vital statistics summarize the quantitative aspects of the unique transition growth phase of Taiwan (1950–90) that is quickly coming an end. Some readers may find this statistical record useful in their further investigations of the economic performance of Taiwan over these forty years.

1978

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# PREFACE

This is a rags-to-riches story. Within thirty years of its beginning as a war-damaged former colony, its population swollen by people evacuated from mainland China, the Republic of China on Taiwan was listed by the Organization for Economic Cooperation and Development (OECD) as one of ten newly industrialized countries (NICs). This book is a reflection on that growth—on how and why it happened and on what part of that how and why might be useful in helping other countries achieve economic growth and improved living standards. Broadly, then, this book is directed toward those interested in an overview of development in Taiwan and in the relationship between government policy and development.

Having assumed my current post of Minister without Portfolio, after earlier holding the Ministry of Economic Affairs (1965–69) and Ministry of Finance (1969–76) portfolios, I became convinced of the need to write about Taiwan's development, and I considered a descriptive study. However, there are several of those already available. My comparative advantage lay, it seemed, in concentrating on the evolution of government policy, where my involvement provided first-hand knowledge. Rather than simply looking back and recounting what happened in Taiwan, I wanted, in a sense, to look ahead by concentrating my discussion on features of Taiwan's development, particularly government economic policy formation, that could be instructive for the future of other developing countries.

Covering just the period from the late 1940s to the early 1980s, the writing of this book was encouraged and then supported by Gustav Ranis and John C. H. Fei. They devoted their time to writing introductory essays providing a simple model for understanding policy

evolution and its links to Taiwan's development, respectively. The first chapter discusses some comparative studies of Taiwan's development and factors contributing to that development, including the island's geography, land reform, and United States aid, as well as providing overviews of aggregate growth and improvements in social welfare. Short chapters are then devoted to population, labor force, and export-processing zones. These are strategic areas in which I was particularly involved as a policymaker. Publicity surrounding the conference on population held in Mexico City in the summer of 1984 and the United States government's official position on birth control have again pushed into the news the discussion of problems that have been an ongoing concern in developing countries. Although Taiwan has already moved through the early stages of its demographic transition, this experience is not grounds for general optimism.

Policy changes are discussed in a largely chronological overview into which is woven an analysis of development policy generally and as it was effected in Taiwan. This section is as much an essay on Taiwan's development as it is a history of that growth. The book concludes with my feelings about the relevance to other developing countries of Taiwan's experience and the transferability of Taiwan's development policies.

As a government policymaker during this period, I have emphasized the government's role in the transformation, linking Taiwan's economic development and government policy and showing how they interacted and evolved with each other. This book tells what we did and tried to do as real-world planners and hands-on doers, few of us with formal training in economics. (Although since the early 1950s my career has been with the various agencies and ministries responsible for the economy, my education was in physics.) I write in the hope that other countries will be able to learn selectively from our experience, though it is not a blueprint for growth that other countries can follow directly.

Because details on Taiwan's development are available in a number of studies, I have limited the specifics to what I feel is necessary to put the discussion of policy evolution in context. For those interested in knowing more about various aspects of Taiwan's growth and

development, three overviews of particular note are Kuo, Ranis, and Fei (1980) for general readers, Galenson (1979) for those seeking more detailed economic analysis, and Ho (1978) for a longer historical perspective.\*

During the past thirty years I have given many speeches, presented many papers, and participated in many conferences and seminars. Three volumes of my speeches and papers (many done with the assistance of T. K. Tsui) have been published in English (1976, 1980, 1985).<sup>†</sup> Thus, my general views and lines of thinking on Taiwan's development are well known.

It remains for me to thank Professors Fei and Ranis for their encouragement, Professor Charles Kao for his assistance in preparing the initial draft, Wellington Y. Tsao for his administrative support, and Larry Meissner and T. K. Tsui for their editorial assistance.

K. T. Li  
December 1987

\*Shirley W. Y. Kuo, Gustav Ranis, and John C. H. Fei, *The Taiwan Success Story: Rapid Growth with Improved [Income] Distribution in the Republic of China, 1952–1979* (Boulder, Colo.: Westview, 1981); Walter Galenson, ed., *Economic Growth and Structural Change in Taiwan* (Ithaca: Cornell University Press, 1979); Samuel P. S. Ho, *Economic Development in Taiwan, 1860–1970* (New Haven: Yale University Press, 1978).

<sup>†</sup>K. T. Li, *The Experience of Dynamic Economic Growth on Taiwan* (Taipei: Mei Ya Publications, 1976); *My Views on Taiwan's Economic Development: A Collection of Essays from 1975 to 1980* (Taipei: Project on the Study of ROC Economic Development Strategy on Taiwan, 1980); and, *Prospects for Taiwan's Economic Development: A Collection of Essays from 1980 to 1984* (Taipei: Council for Economic Planning and Development, 1985).

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## WORDS ON THE SECOND EDITION

The first edition of this book was published in 1988, principally as a narrative portraying the evolution of Taiwan's economic development policy. To be brief, Taiwan successfully adopted the principle of the People's Livelihood, developing light industries first, then heavy industries, and later other related industries. As part of the process of development, the government encouraged savings and investments by the private sector, giving free rein to the market mechanism whenever possible but intervening to compensate for market inadequacies when necessary. In other words, the government sought to achieve a balance between market forces and planning, fostering the more desirable aspects of capitalism while avoiding its excesses. Policies were formulated or modified with a view to meeting the needs of successive stages of economic development, accommodating the legislative process, and winning public support.

As some readers of the first edition pointed out, aside from the development of agriculture, industry, and human resources, fiscal and monetary policies play a significant role in the process of economic development. With that in mind, two new chapters have been added to this edition to review the conduct of Taiwan's fiscal and monetary policies and their effects on the economy.

The government began to emphasize the importance of science and technology in economic development as early as 1965, when it launched the fourth four-year plan. Public involvement in research and development increased markedly through the 1980s, as special emphasis was given to the development of high-tech industries. These efforts, and their successful outcome, are the subject of a third new chapter.

The introduction by mainland China of economic reforms and an open-door policy over the last decade, as well as the gradual demise of its socialist system, has been of enormous significance worldwide. This transformation has permitted the rapid growth of investment in the mainland, especially by Taiwan firms and by foreign firms as well. Such investment has not only accelerated the pace of mainland China's industrial growth but also made it a power to be reckoned with in international trade. A fourth new chapter focuses attention on these developments and the burgeoning economic relations between the two sides of the Taiwan Straits.

I have tried to make the "Taiwan Experience"—Taiwan's unique achievement of rapid growth, price stability, and social equity—the unifying theme of the second edition of this book. All data and statistical tables, as well as relevant portions of the text, have been updated to 1991. It is my hope that this edition, like its predecessor, can serve as a useful guide to developing nations that are interested in following Taiwan's approach to economic development. Finally, I would like to express my deep gratitude to Professor John C. H. Fei and Messrs. T. K. Tsui, W. P. Chang, and N. H. Ma. Their constructive advice and many valuable suggestions helped make my task as a writer a pleasurable and rewarding experience.

*K. T. Li*  
*January 1994*

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