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## Tai-chun Kuo & Ramon H. Myers. Taiwan's economic transformation—leadership, property rights and institutional change, 1949-1965. Routledge. 2012.

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**Tai-chun Kuo & Ramon H. Myers. *Taiwan's economic transformation—leadership, property rights and institutional change, 1949-1965*. Routledge. 2012.**

Taiwan's rapid economic growth over the second half of the 20<sup>th</sup> century has deservedly attracted the attention of many scholars. This book analyzes the causes leading to Taiwan's economic take-off in the 1960s from two new angles. Based on neoclassical economic theory, many scholars have believed that Taiwan's economic breakthrough in the 1960s occurred because Taiwan created a productive market economy. But the previous scholarship, according to the authors of this book, has not adequately explained "how . . . Taiwan's leaders [identified, selected, and adapted] new institutions" (p. 105) that enabled the country to turn its command economy to a productive market economy. This book has filled this void and shows that the most crucial factors leading to this change were the Taiwanese government's endorsement of property rights reform and institutional change.

According to the authors, history shows that "a productive market economy requires the existence of a particular set of beliefs and institutions in order to establish the incentives that will encourage people to participate in a market economy and be sufficiently rewarded for their efforts" (p. 5). When the KMT government fled from mainland China to Taiwan in 1949, Taiwan faced hyper-inflation, falling production, commodity scarcities, and declining foreign exchange. A group of capable technocrats, led by K. Y. Yin lost no time in introducing a series of institutional reforms to turn Taiwan's dominant command economy into a private enterprise market economy. Land-to-till reform law and the Regulation Governing the Transfer of Government Enterprises to Private Ownership were carried out to redistribute property rights and privatize state-owned enterprises. The government purchased land from the former land owners and then resold it to the former tenants. The program let "more than two million rural residents [secure] property rights . . . , made a major contribution[s] to the doubling of farmers' incomes between 1949 and 1959" (p. 55), and "empowered more farmers than ever before to enter the market and become entrepreneurs" (p. 57).

In the three years from 1953 to 1955, a plethora of new laws were enacted in Taiwan to create a productive market economy. With these laws, the government's control over cotton yarn was abolished; private enterprises could raise capital by issuing stock; capital-intensive enterprises received tax relief; foreign and Chinese business interests could now freely invest in Taiwan's market economy; and landowners could easily own and manage industrial and commercial businesses. These changes "affirmed the legitimacy of the market economy, [while] also providing for its rapid expansion" and not only "conveyed the message that a new economic culture, supportive of private enterprise, was now in place" but also "made possible the redistribution of state enterprise property rights in order to promote the expansion of private enterprise" (p. 69).

The reforms did not stop there. In 1958, more new laws were enacted to transform multiple exchange rates into dual exchange rates, to devalue the overvalued purchase price of the Taiwanese currency, and to emphasize the encouragement of exports rather than the restriction of imports. These new laws and regulations forced Taiwan's economy to integrate with the international market, generating a chain reaction of activities of private enterprises to stimulate exports.

Despite these many gains, more reforms were needed. By the end of the 1950s, about 40% of Taiwan's investment capital still came from U.S. economic aid. As U.S. aid was expected to

be phased out some short time after the end of the decade, Taiwan's economic leaders realized that the only secure option to sustain Taiwan's economic growth was to adopt a strategy of export-oriented industrialization. Outlined in the Nineteen-point Project for Economic and Financial Improvement, a new wave of reforms was launched to create a more favorable investment environment in order to increase foreign and domestic investments by changing foreign investment, banking, taxation, and other regulations. In 1960, the Legislative Yuan passed the Statute for Encouraging Investment. According to the authors,

The law embodied a new spirit in its efforts to improve and consolidate the market economy . . . [and it saw] the abandonment of the old command economy and a shift on to an evolutionary path that actively encouraged the expansion of private enterprises while limiting that of state enterprises. At long last, the state and party had embraced a new ideology of encouraging private enterprises. (p. 99)

Another unique contribution of this book is that the authors explored an important issue that has been largely ignored by the previous scholarship in exploring the ideological transformation of Taiwan's political and economic leaders: Taiwan's ability to do for itself what China could not do on Taiwan's behalf. For more than 2,000 years, according to the authors, successive governments on the Chinese mainland had failed to create a productive market economy in Taiwan. How, then, was Taiwan able to accomplish such a transformation in less than ten years? The answer, the authors claim, is that Taiwan's political and economic leaders experienced a cognition change, which "enabled them to solve the existing problems in ways that quickly enhanced Taiwan's economic performance on a sustained basis" (p. 105). Using first-hand interview material with key government officials from the period and analysis of hitherto unused Chinese-language archives, the authors describe exactly how Taiwan's leaders made such a cognition change.

In 1949, most of Taiwan's political and economic leaders believed (just as Sun Yat-sen believed with respect to the Chinese economy) that only a strong command economy could rehabilitate a weak economy. The loss of the Chinese mainland in 1949, however, challenged Taiwan's political leaders to understand the failures of a planned command economy. Still, few people at the time embraced the idea of establishing a free market economy in Taiwan. The first debate on whether to do so started in 1952, triggered by the "land-to-the-tiller" reform. Some people criticized private land redistribution as an act of "total destruction" and advocated that the government stand firm in its commitment to adopt a planned economy (p. 66). Despite this, Taiwan's technocrats, led by K. Y. Yin, stood firm on their faith in the private enterprise route as the foundation of Taiwan's economic recovery and growth. By the time the debate ended in 1954, Taiwan's top leaders finally agreed that state enterprises should be privatized and that Taiwan's economy should be based on market rather than on state command (p. 55).

The second debate, from 1954 to 1958, focused on how to restructure Taiwan's foreign trade system. A group of conservatives in favor of maintaining a command economy, led by the Minister of Finance, believed that Taiwan's manufacturing industries could not compete in an international market without the government's protection. The government, they believed had to tightly control foreign trade and exchange markets by overvaluing the Taiwanese currency, regulating the money supply, setting multiple foreign-exchange rates, and allocating all foreign exchange. Otherwise, they worried that domestic inflation and loss of government revenue "might even destroy Taiwan's economy" (p. 79).

The reform group, in contrast, led by C. Y. Yin and C. K. Yan, pointed out that the cost of managing a state-controlled foreign trade system was beginning to exceed its benefits as

Taiwan's domestic market had become saturated. It was necessary, they believed, to deregulate the market by establishing a unitary and free foreign-exchange rate to "promote exports as well as imports . . . [and] enlarge producers' market shares by integrating domestic and international markets" (p. 80). The debate brought forth new laws to liberalize Taiwan's command economy's foreign trade.

The third debate occurred in 1959-60 and focused on whether to promote foreign investment. The reformers intended to create a capitalist market economy, increase competition, encourage the growth of markets, and facilitate the incorporation of markets into a more efficient and integrated economy (p. 94). As expected, the plan was met with fierce opposition from conservative forces. Some criticized the free-market economy saying that it violated "the teachings of our founding father," and that it "cannot work just as one cannot expect that rice will sprout from a wheat seedling" (p. 95). Some also worried that the reform would reduce tax revenue and cause a financial deficit.

Against all pressures, Yin and other reformers continued to press for a more comprehensive social-political-economic reform to promote foreign investment. After heated debates in 25 meetings of the joint committee for economic and financial affairs, civil affairs, and transportation, the Executive Yuan finally endorsed the Statute for Encouraging Investment. The rapid and positive results that followed the enactment of the legislation brought to an end the debate that had raged within state and party circles over Taiwan's economic structure and facilitated the strengthening of the reform momentum (p. 101).

Cognition change among Taiwan's top political and economic leaders after these debates resulted in an economic consensus to launch various institutional reforms that became "the cornerstone of Taiwan's economic development [for] the next thirty years" (102). In short, this book gives the reader insights into Taiwan's developmental experience and the direction in which, under different circumstances, the Chinese post-war development of Taiwan might have proceeded. The work will be an invaluable resource for anyone interested in the economic and political history and development of Taiwan. More broadly, it will also appeal to scholars and students of China's historical and contemporary development, Asian economics, and Asian studies.

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