

Economic Development, Social Equality and Democracy in Taiwan since 1949

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I. Introduction: What Lessons Can Be Learned from Taiwan?

In the 1950s and 1960s, Taiwan did not appear to have good prospects for economic development. It is because of the island's lack of resources, an unfavorable land-to-population ratio, a shortage of capital, and a discredited political leadership. In addition, Taiwan was also forced to face military threat from the Red China. The terrible situation encountered in Taiwan in the early development stage is very pessimistic. Yet, in the mid-1960s, Taiwan's economy took off with rapid growth. Many scholars used the term "miracle" to describe Taiwan's economic success.

Taiwan as a member of newly industrializing countries (NICs) has enjoyed very successful economic growth and transition in terms of trade, investment, productivity, technology, and information during the period of 1950-1990. How is possible for Taiwan's economy to be promoted during the 1950s, 1960s, and even 1970s? The answer is likely that Taiwan's economic development started with the developmental state to carry out efficient policies on economy, closely worked with so-called "techno-bureaucracy" or "technocracy."

Since 1970, Taiwan has outdistanced in income growth. In 1950, based on the currency value of US dollars for 1974, Taiwan had a per capita income of US\$ 224. Three decades later, in 1988, the per capita income of Taiwan was at US\$ 6,333.¹ The favorable growth performance of Taiwan accompanies a rapid expansion in its exports. From 1965 to 1984, the average annual growth rate of per capita income was 7.0% in Taiwan.

The aim of this paper has three purposes. First is to provide a framework for a better understanding on the nature of economic development of Third World countries

¹ See World Bank, 1990, World Development Report; Council for Economic Planning and Development (CEPAD), Taiwan Statistical Data Book, 1989.

and perhaps the early development of newly industrializing countries (NICs). Second is to take Taiwan as a case of study and to show its development experience and patterns by the concepts of state-market-society relation with developmental state and development governance. The last is to provide some Taiwan's development lessons, experience, and trend that Third World countries can learn about.

Furthermore, the paper aims to take Taiwan as a case study. It will show that Taiwan's economic development, social equality, and democracy is a perfect case to the built-model of development framework. Taiwan has accomplished an economic miracle with equity in the 1970s that paved a sound basis for democratic transition in the 1980s. With the progress of socio-economic development in the 1980s and 1990s, it has also let Taiwan highly enjoyed political miracle with the occurrence of the historical first-time presidential election in 1996, first political power transfer from Koumintang (KMT) to Democratic Progressive Party (DPP) in 2000, and second political power transfer from DPP to KMT in 2008. Nowadays, Taiwan is ready to pursue social miracle under the well-development of civil society after the second political power transfer from DPP to KMT. It would be observed that Taiwan has gradually moved into the stage of democratic governance with the “**society-state**” instead of “**state-society**” up-down position relation. The case of Taiwan would be treated as a good model for a peaceful movement of democratization on the development of civil society.

II. Theoretical Consideration: Development Mode with the Changing Relation among the State, Society, and Market

1. The Changing Relation between the State and Society: State Power versus the Rise of Civil Society

It is acknowledged that civil society is not a homogenous, united entity, but rather a complex arena where diverse values and interests interact and power struggles occur. On this way, the civil society may be evaluated by four different dimensions, such as the structure, external environment, the value, and impact. Also, each of these dimensions is composed of several sub-dimensions or indicators. The structure of civil society would contain breadth of citizen participation, depth of citizen participation, diversity within civil society, social infrastructure, and resources. The environment of the civil society may access political, constitutional, social, economic, cultural and legal contexts as well as state-society relation. The value of the civil society will be promoted and practiced in transparency, legitimacy, creditability, democracy, tolerance, non-violence, gender equity, poverty eradication, and

environmental sustainability. The impact of the civil society will be on people's lives and on society as a whole. Usually, the impacts from civil society would influence public policy, make state and private corporations accountable, respond to social interests, empower citizens, and meet societal needs.²

The rise of civil society is often determined by three crucial factors. Firstly, the growth of socio-economy would provide a sound base of social infrastructure and architecture for civil society, such as education, liberalization value, middle class formation, and social justice. Secondly, the enhancement of social capital would push up the development of civil society in terms of social trust, cooperation, communication, social network, awareness-raising, consensus, and collective reflection and capacity-building. Thirdly, the non-governmental organizations (NGOs) become important actors of civil society and would enhance the influence of civil society against the state and its policies, which would be denoted as the bottom-up democratization. The NGOs raise individual's awareness of democratic participation and consequently increase self-governance of civil society.³

In addition, the development of globalization is also conducive to the rise of global civil society via various non-governmental organizations and transnational social learning.⁴ As well noted, the development of globalization will reduce the role of the state in internal and external arenas that could strengthen democracy in the developing countries.⁵ Moreover, global civil society will depoliticize global governance through the promotion of human security and social development. Under this logic inference, globalization will help the rise of civil society and shape the relation between the state and civil society (as Figure 1 shown).

Furthermore, it has also been argued that the development of civil society is vital for democracy, due to the cultivation of social capital, such as trust, honesty, mutual benefit, and shared values, which may transplant into the political sphere and help to hold society together and integrated.⁶ The richness of social capital will enhance the power of civil society and in turn the success of democratic politics.⁷

² Please see The CIVICUS Civil Society Index (CSI): Summary of Conceptual Framework and Research Methodology, from <http://www.civicus.org>.

³ See Julie Fisher, *NGOs and the Political Development of the Third World* (West Hartford: Kumarian Press, 1998), pp.46-54; Anil Shah, "Challenges in Influencing Public Policy: An NGO Perspective," *PLA Notes*, Issue 27 (1996), p.1; Rajesh Tandon, "Civil Society, the State and Roles of NGOs," *IDR Reports*, Vol.8, No.3 (1991), pp.12-13.

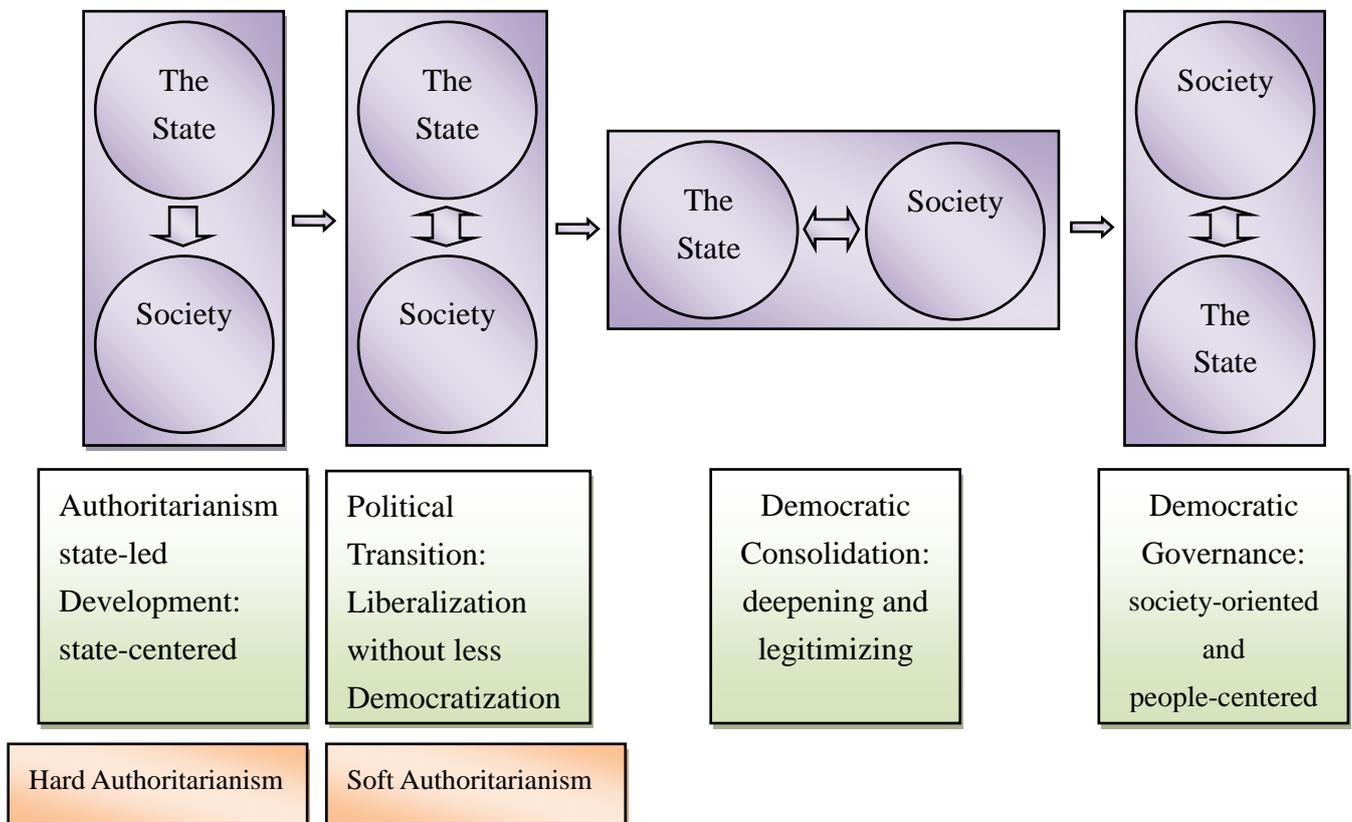
⁴ See L. David Bzrown and Vanessa Timmer, "Civil Society Actors as Catalysts for Transnational Social Learning," *Voluntas*, Vol.17, No.1 (2006), pp1-16.

⁵ N. Rudra, "Globalization and the Strengthening of Democracy in the Developing World," *American Journal of Political Science*, Vol.49, No.4 (2005), pp.704-730.

⁶ Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1994); P. B. Lehning, "Towards a Multicultural Civil Society: The Role of Social Capital and Democratic Citizenship," *Government and Opposition*, Vol.33, No.2 (Spring 1998), pp.221-242.

⁷ See Francis Fukuyama, *The Great Disruption* (New York: Free Press, 1999); A. Leftwich, *States of*

Figure 1: The Relative Relation between State and Civil Society



Generally speaking, the rise of civil society would be found in several crucial aspects, such as the rise of middle classes, the emphasis of human rights, social justice and equity, the creation of social capital, people’s political participation, and open information. This logic inference would be indicated as following:

Furthermore, nowadays the rise of civil society comes very close with a society’s information development and globalization. Information society would be treated as a sound base for people’s participation with political and public discourses. Digital civil participation is associated with the development of information technology as well as the accessibility, transparency, and freedom of information. The higher degree of the accessible digital information usually will be conducive to the higher degree of democratization.

2. The Changing Relation between State and Market: from State-led Development to Market-conformity

Although the connection between economic development and democracy is far from straight forward, democracy and development would always go together. Economic development also refers to the progress made in the economic spheres of social life and in turn to the increasing willingness on political participation. According to Huntington, economic development improves people's incomes and education levels as well as promotes the expansion of middle class. When economic development reaches a certain level, a sudden economic crisis on the one hand or the rise of middle class on the other hand inevitably challenges the authoritarian regime to transform into a democratic government.⁸

Basically, economic demand is basic needs for people living in the society that is highly involved with the market functioning. As often noted, the state-market relation will affect the degree and type of economic development, from the state-centered to market-conformed development policy mode. The state-led economic pattern is frequently related to the mode of developmental states which are the preconditions for a state's democratization, but not always. This logic inference would be categorized into three major stages (as Figure 2 shown).

Under the first stage, economic development is led by the state over the market. The state-led or -oriented development is labeled under the rule of authoritarian regime. With the highly rapid economic development, the mode of economic growth will be set into the state-led with an emphasis on market-conformity. This will be appeared in the second stage with stable economic growth and market mechanism. The middle classes will be germinating and emerging, starting to pursue greater political participation against the authoritarian regime. Under the third stage, it will appear a market-conformed economy with state governance, no more with state-led model.

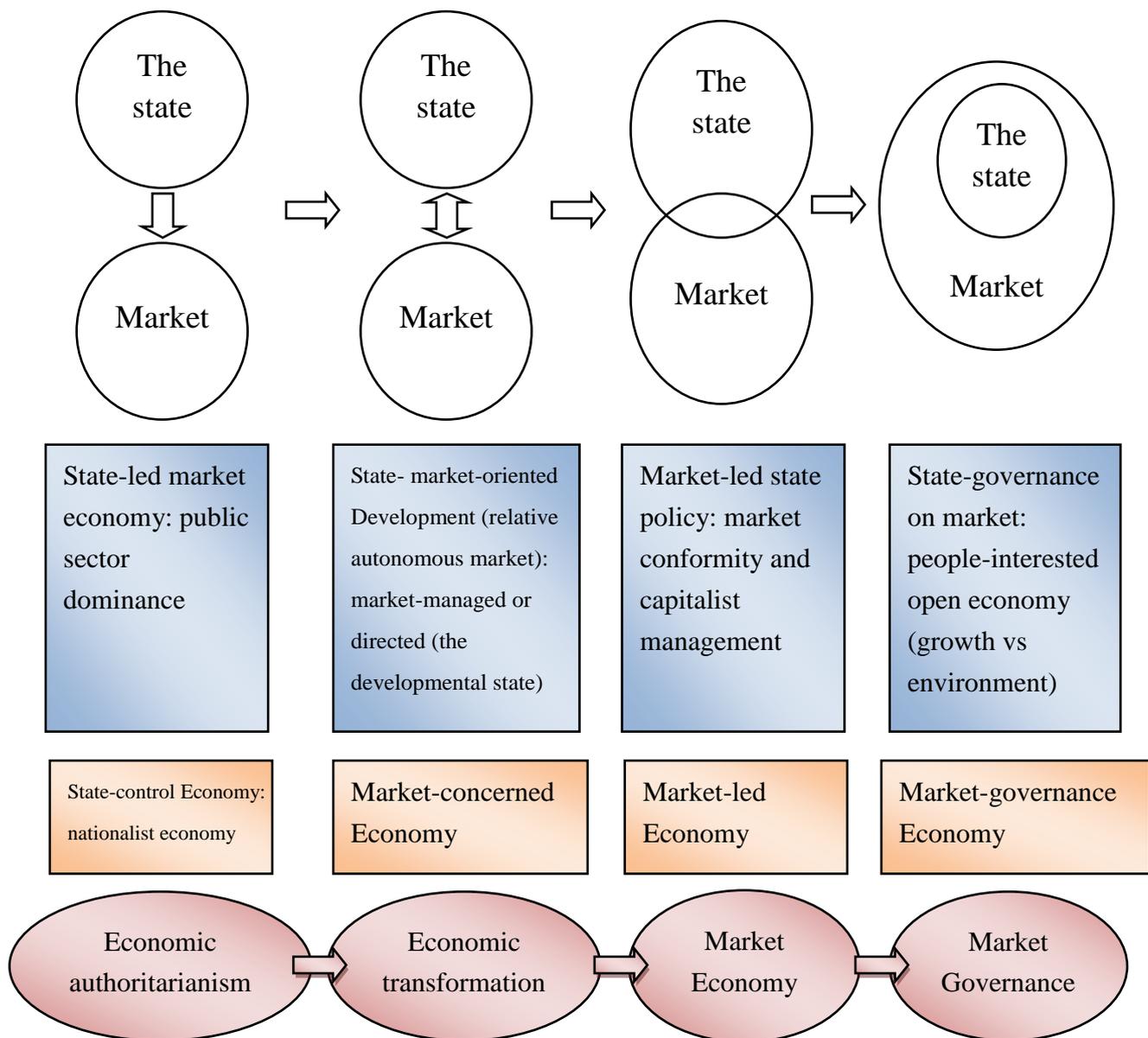
Economically, there is close relation between democracy and market. The higher respected on open market mechanism, the lower will be influenced by state intervention.⁹ Checking with the relation between the state and market, a country develops from an agro based economy to an industrialized one is most happened in a model of state-led development. Relatively, a country moving from an industrialized economy to a service economy is most found in a pattern of equal emphasis on state-market mechanism. Lastly, a country moving into an information economy must be operated in coordination with a model of market conformity policy.

⁸ Samuel P. Huntington, "The Third Wave: Democratization in the Late Twenty Century (Norman, OK: University of Oklahoma Press, 1991); Mark J. Gasiorowski, "Economic Crisis and Political Regime Change: An Event History Analysis," *American Political Science Review*, vol.89 (1995), pp.882-897.

⁹ Adam Przeworski, *Democracy and the Market* (Cambridge: Cambridge University Press, 1991).

Among other things, it is worthy to mention, an analysis of the influences in democratic consolidation reveals that socioeconomic development in terms of income raise is influential but it is not the only factor that determines the level of democratic transition and stability.¹⁰ Higher income does not necessarily cause democratic transition or even democratic stability. Yet, higher income and economic living improvement is one of determining precondition factors for contributing and promoting political change demand toward democracy.

Figure 2: The Relative Relation between the State and Market



¹⁰ John B. Londregan and Keith T. Poole. 1996. "Does High Income Promote Democracy?" World Politics, Vol. 49 (1996), pp. 1-30.

These observed indicators may include gross national product per capita; agricultural labor force; secondary and tertiary school enrollment ratio; urbanization; infant mortality; land inequality and the relative rural disruption potential; and homogeneity index. The study evaluates the social and economic indicators of Peru, the Dominican Republic and Guatemala by using longitudinal and diachronic data analysis. The study also concludes that socioeconomic progress has to be directly proportional to the level of political and economic equality.¹¹ Also, the political and economic equity will subsequently ensure the promotion of economic performance via institutional change.¹² Apparently, the political and economic equality will be the important criteria to examine the level of democratic transformation and consolidation.

3. A Research Model of Socio-economic Development with the Concepts of the State, Society, and Market

The term “consolidating democracy” indicates two ways: one is to remove the threat of democratic breakdown, the other is to move towards higher stage of democratic performance.¹³ Relatively, the consolidated democracy is meant to be a high-quality democracy as well as crisis-proof democracy. There is a continuum of democracy between authoritarianism and idealized democracy, the consolidating and consolidated democracies in between. If the advanced democracy can be considered as a genuine type of liberal democracy in relative to the electoral democracy as the transformation of democracy, the consolidating democracy would be treated as a progress from authoritarianism to electoral democracy, and then to liberal democracy. The former could be treated as democratic transition while the latter is seen as democratic consolidation. Authoritarianism is equivalent to nondemocratic regime which would move into the stage of electoral democracy with the implementation of election. During the stage of electoral democracy, with the empowerment of civil and political rights as well as fair, competitive, and inclusive election would approach the stage of liberal democracy which is kind of democratic deepening.¹⁴ Under the

¹¹ Peter M. Sanchez and David K. Jesuit, “Development and Democratic Consolidation: the Dominican Republic, Guatemala, and Peru in Comparative Perspective,” *Journal of Developing Areas*, Vol.31, Issue 1, (1996), pp.1-3.

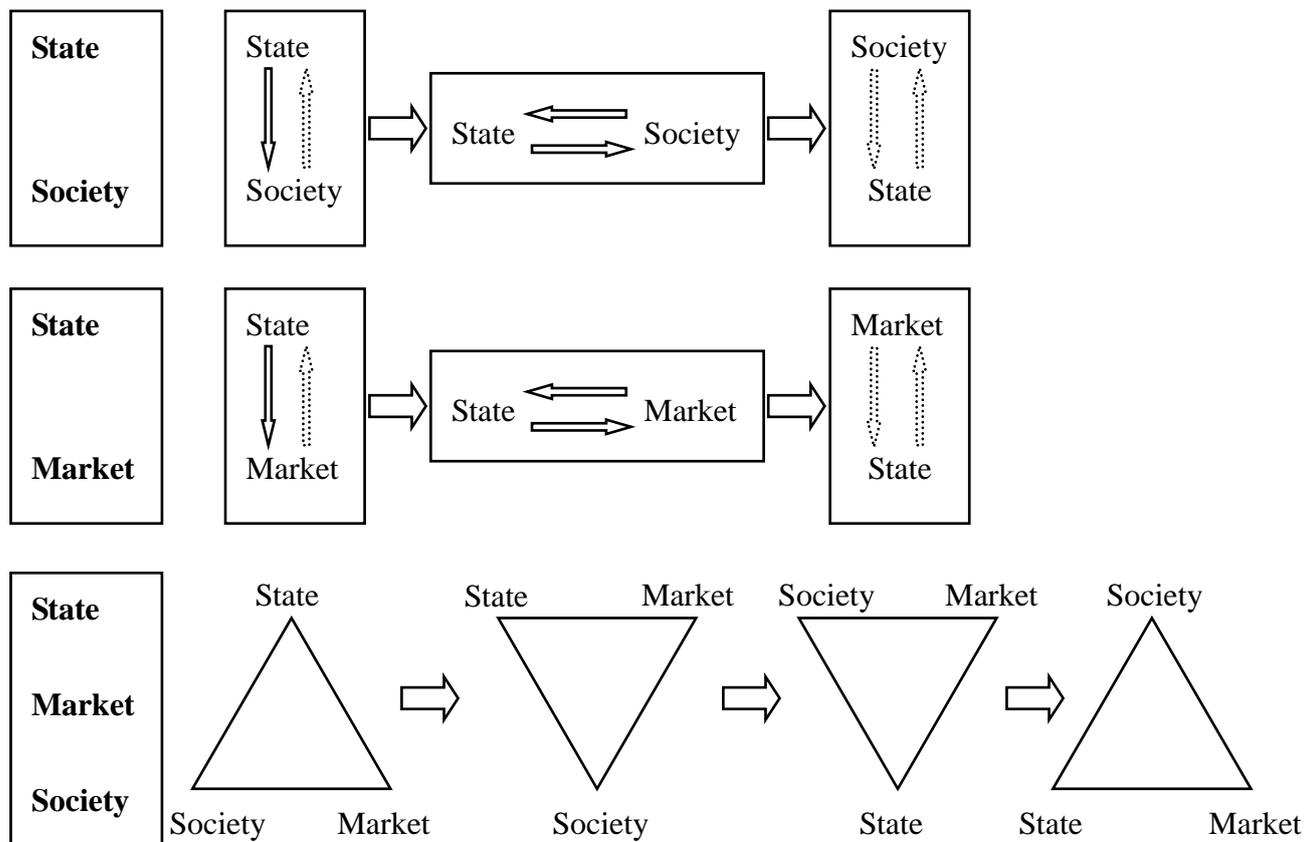
¹² Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990); L.S. Lauridsen, “State, Institutions and Industrial Development, Vol 1-2 (Aachen: Shaker Verlag, 2008).

¹³ Juan J. Linz, and Alfred Stepan. *Problems of Democratic Transition and Consolidation* (Baltimore: Johns Hopkins University Press, 1996); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press, 1990).

¹⁴ With a reference from Guillermo O’Donnell and Philippe C. Schmitter, *Transitions from*

effort of liberal democracy, it would be assumed to reach the idealized advanced democracy which would be fulfilled by the implementation of “democratic governance,” that is dominated by civil society. In a word, by deepening liberal democracy would push it closer to advanced democracy.¹⁵ In fact, nobody knows better what is advanced democracy. Since the situation of advanced democracy is idealized, this would only be presented and recognized as a model of Western societies or specific institutionalized democracies (shown in Figure 3).

Figure 3: The Relative Relation among the State, Market, and Civil Society



State power is not then seen in a top-down position form, but through a more flat relation form where multiple power centers exert influences as Figure 3 shown. Civil society is treated as a decisive counterweight to states, markets and international organizations which injects publicity and accountability into political and economic systems. Besides, civil society is assumed to be outside the official political system and to challenge the state-system and its institutions from below. As social

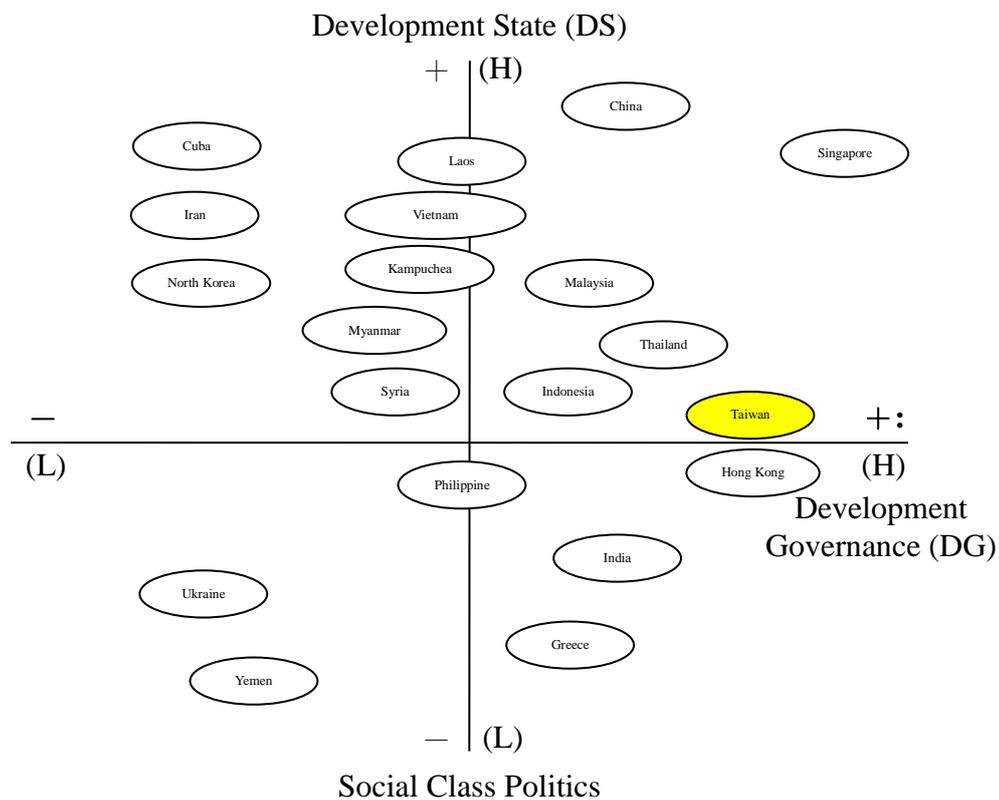
Authoritarian Rule: Tentative Conclusions about Uncertain Democracies (Baltimore: John Hopkins University Press, 1986).

¹⁵ See Guillermo O’Donnell, “Illusions about Consolidation,” *Journal of Democracy*, Vol.7, No.2 (1996), pp.34-51.

development on human rights and security, civil society would remove state governance from the realm of politics, which may be called as democratic consolidation or democratic governance.

All in all, democratization with the rise of civil society would be considered as liberalization and the rise of civil society. Society functions multiple differentiation mainly from NGOs, NPOs, interested groups, civilian movements, and their activities. The inclusive analysis of framework will constitute these aspects, such as development policy, democratization, liberalization, differentiation, de-politicization, as well as “governance” among state-market-society multiple relations.¹⁶ This can be shown as Figure 4, with the relation between development state (DS) and governance development (DG).

Figure 4: Country Positions on DS vs. DG



III. The Taiwanese State and Socio-economic Development between 1949~1970: from Land Reform and ISI to EOI

¹⁶ With a reference from Laurids S. Lauridsen, “Governance and Economic Transformation in Taiwan: The Role of Politics,” *Development Policy Review*, Vol.32, No.4 (2014), pp.427-448.

From 1945 to 1949, during the end of World War II and the Koumintang (KMT, Nationalist Party) state retreated to Taiwan, Taiwan's economy and activity declined precipitously. In 1945 Taiwan was returned to the KMT government in China. The war extensively damaged Taiwan's industries, harbor facilities, and transportation systems. After the war, Taiwan was a depleted island, badly in need of all kinds of assistance and financial aid.

During the period, Taiwan's economy suffered from severe shocks. One was the withdrawal of Japanese administration and enterprises. Two is the KMT state did not pay too much attention on the worse Taiwan's economy due to ruinous civil war in China. Three was the new Taiwan's governor Chen Yi's efforts to create a kind of socialist economy on the island were disastrous.¹⁷ In 1946, overall production had fallen to less than half of what it had been or even furthered worse. The price of food rose 700 percent, fuel and construction materials 1,400 percent, and fertilizer 25,000 percent.¹⁸

Most shock was Chiang Kai-Shek retreated to Taiwan with 1.5 million Chinese immigrants from the Mainland. This influx caused dislocations in housing, employment, and the already heavily taxed infrastructure. More worst was the limited and precious resources on the island, that might have been used to revive the economy, had been prepared for defense from the Communist China. It was not until the mid-1950s, Taiwan's economy developed with some stability. After the outbreak of the Korea War, American President Truman dispatched the US Seventh Fleet to the Taiwan Strait to protect Taiwan from military attack by the Communist China.

1. The Implementation of Land Reform, 1949-1953

With the concern of feeding Taiwan's rapid growing population and achieving the peasant support, the agricultural sector was taken a serious choice for reform. Land reform, thus, was the first important facet of planning in the agricultural sector with guarantee American economic aid. Basically, land reform in Taiwan had two purposes, economic and politic. The economic aim of land reform was to redistribute land and to increase the productivity of agriculture in order to increase the farmers' income and prepare for industrial development. The political aim of land reform was to promote social and political stability and to secure the KMT's power.

In 1949, over 60% of the total population was peasants and about one half was tenants. The mal-distribution of land and the traditional system of land tenure not only

¹⁷ See John F. Copper, *Taiwan: Nation-State or Province?* (Boulder, Co: Westview Press, 1997, 2 edition), chapter 5, p.154.

¹⁸ See Anthony Y. C. Koo, "Economic Development of Taiwan," in Paul K. T. Sih, ed. in *Taiwan in Modern Times* (New York: St. John's University Press, 1973), pp.402-406.

forced the farmers' living standards down, but also hindered agricultural development.¹⁹ Thus, in order to improve KMT's relation with the local Taiwanese, land reform was rapidly implemented which was an urgent necessity for both political and social aims. That was to prevent peasant upheaval and to acquire further Taiwanese support.

The program of land reform consisted of three stages. It began with a 37.5% land rental reduction in 1949. The immediate effect was that farmers devoted all their energy to increasing their production and the landlord had less profit from their land. This was followed by the sale of public land (taken over from Japanese) to tenant farmers at 2.5 times the value of one year's crop in 1951. This resulted in 96,000 hectares of public land going to 156,000 tenant farm families. It culminated with the "land-to-the tiller" program in 1953, which forced landlords to sell land they did not farm themselves, except for 2.9 hectares of paddy field and double that amount for dry land.²⁰ Land in excess was purchased by the state and redistributed. It affected about 28% of the farm families and over 16% of the cultivated land.²¹

Overall, the land reform programs redistributed about 210,000 hectares of land and about half (48%) of the farm households were affected by land redistribution. In 1949, the distribution of farm tenancy was 39% (about 20% of the population) tenant farmers, 25% partially self-tilling farmers, and 36% self-tilling farmers. After the land reform, the figures were 10%, 12%, and 78% in 1970, respectively. This can be illustrated by the Gini Index. In 1952, the Gini coefficient was 0.618, declining to 0.457 in 1960. As was Ho's calculation, about 13% of GDP in 1952 was transferred to the majority of farmers.²² This contributed to a more equal income distribution.

Land reform also transformed social attitudes and the rural power structure. Traditionally, landlords were the rural leaders and played a major conservative role in village life. The land reform weakened the landed oligarchy and led many landlords to withdraw their interests from the rural sector to economic pursuits in urban centers. This increased the farmers' interests to participate in community affairs and local politics. Besides, farm family incomes rose at a rate of 3% per year in real terms during the 1950s and 5.4% in the 1960s. As farmers improved their living standards, they had higher expectations for their children's education, wanted better health

¹⁹ The rent varied according to the quality of land, ranging from 40% to 60% of output, even up to 70%.

²⁰ See Anthon Y. C. Koo, *The Role of Land Reform in Economic Development: A Case Study of Taiwan* (New York: Praeger, 1968).

²¹ See Jenn-Jaw Soong, *The Political Economy of Development in the Newly Industrializing Countries: A Comparative Analysis of Taiwan, South Korea, Brazil and Mexico* (Unpublished Ph.D. Dissertation, 1991, University of Florida), chapter 5.

²² It was measured about New Taiwan Dollar 2.2 billion at 1952 prices or 13% of GDP was shifted to farmers. See Samuel P. S. Ho, *Economic Development of Taiwan 1860-1970* (New Haven, CT: Yale University Press, 1978).

standards, and employed innovative farming methods. These changes in economic structure paved the way for later economic development.

2. The Contribution of Agriculture to Industry (1953-1970)

Taiwan witnessed an unprecedented rural prosperity which gave rise to the development of small industries and commerce. The well-developed agricultural sector provided the basic requirement for industrialization. The agricultural sector not only provided cheap food to the urban working classes, but also served as a market. Agriculture also contributed to foreign exchange by providing agricultural exports. Annual exports of agricultural products increased from US\$ 7 million in 1950 to US\$ 40 million in 1955, and processed agricultural products increased from US\$ 63 million in 1951 to US\$ 125 million in 1957.²³ Most important, after the land reform, the landlords shifted their capital from the land to industry or business. This was partly due to the lessened security of land ownership and to lower profits from land rentals. It was also, in part, because of the government's method of paying compensation for expropriated land at a low interest rate. The compensation of government stocks in terms of market value fell below the par value of the stocks per se. From 1953 to 1963, some 100,000 landlords transferred their capital into industrial investment. From 1951 to 1954, the gross domestic capital formation and manufacturing production doubled, respectively.²⁴ The net real capital outflow from agriculture to industry increased at a rate of 10% annually between 1951 and 1960, compared with 3.8% annually between 1911 and 1940.²⁵ The average annual net real capital outflow was NT\$ 113 million during 1950-1955 and NT\$96 million during 1956-1960.²⁶

Taiwan's land reform and agricultural policies also facilitated state surplus in the form of "super-exploitation." The extraction on agriculture, with a transfer of agricultural resources, was equally impressive with spillover effect on industry. The super-squeeze on agriculture was three fold. First, the peasantry worked longer hours to maximize production. It increased farmers' income and savings, as well as tax revenue. Second, the KMT state effectively levied the surplus directly on the farmers, without intermediation of landlords. Third, the state monopolized the fertilizer industry. The price of fertilizer, manipulated by the state, was actually higher than it

²³ See Anthony Y. C. Koo, "Economic Development of Taiwan," in *Taiwan in Modern Times* (New York: St. John's University Press, 1973), ed. by Paul K. T. Sih, pp.397-433.

²⁴ The gross domestic capital formation increased from NT\$1,779 million to 4,041 million and the index of manufacturing production increased from 46.1 to 100 during the same period. See Ho, 1978, p.296, p.368.

²⁵ See Teng-Hui Lee, *Inter-sectional Capital Flows in the Development of Taiwan: 1895-1960* (Ithaca, NY: Cornell University Press, 1971), p.28.

²⁶ *Ibid*, Lee 1971, pp.20-21.

should be. The KMT state, via the rural farmers' associations, exchanged fertilizers for rice with the farmers. The fertilizers increased agricultural output and the state also enjoyed high profits. The rice collected from farmers rose from approximately 400,000 tons per year in the early 1950s to 600,000 tons by the end of decade. The agricultural exports, mainly rice and sugar, provided sufficient foreign exchange for importing machinery and raw material for developing a primitive industrialization.²⁷

In sum, capital accumulation largely relied on agricultural sectors. Land reform supported a form of super-exploitation for the state accumulation of capital, labor forces, and export earnings during the import-substitution period. The supply of cheap food met the minimal requirement of domestic consumption that guaranteed stable and low wage rate for the working class in the manufacturing sector. This, in turn, not only increased competitiveness in the world market because of its low production costs, but also ensured a certain degree of political stability. The low wage rate and the political stability were important incentives to attract foreign direct investment. Thus, agriculture supported industry in Taiwan during the 1950s and 1960s.

3. State Policy Reform and State Capacity from ISI to EOI (1950-1960)

Economic policy reform in the early 1960s is a key factor to explain export growth in Taiwan. In the end of 1950s, Taiwan experienced economic crisis as a result of limited domestic market. This meant the import-substituted industrialization (ISI) showed signs of exhaustion in Taiwan by the early 1960s. The early transition from ISI to export-oriented industrialization (EOI) can be understood in terms of capabilities of the state with an idea of market-conformed policies. The state was a key policy-maker in the economy. The relative autonomy and strong nature of the state in Taiwan has been marked as a type of the developmental state model.

The ISI policies were adopted by the most developing countries in the postwar period. Their aim was to build domestic industries and to replace traditional imports for the domestic market. During the 1950s, foreign firms were absent in Taiwan because of their small domestic markets and political instability. Clearly, the implementation of ISI was also to overcome the difficulty of developing industry. The ISI growth in Taiwan was accompanied by the application of import controls, high tariff protection, overvalued foreign exchange rates, subsidized credit, and other tax and fiscal incentive policies. The ISI regime in Taiwan aimed at bringing up domestic industries in order to strengthen their national forces, reduce external threats, and

²⁷ See Richard Grabowski, "Taiwanese Economic Development: An Alternative Interpretation," *Development and Change*, Vol.19 (1988), pp.53-67.

support a heavy military burden. The impetus to ISI in Taiwan was helped by the loss of their foreign market in Japan and by the influx of a large population from Communist China. External constraints and internal pressures forced the KMT to adopt an inward-looking course to expand domestic, industrial capacity.

Taiwan's exports, mainly agriculturally related, had already been partially developed during the Japanese colonial period. However, many of the small industries were destroyed during the war that made Taiwan's economy back to the prewar level. In the 1950s, economic policies in Taiwan were inward-looking, with efforts to promote both growth incentives in the agricultural sector as well as ISI. Top priority was given to produce enough consumer nondurables and construction materials for basic needs. During 1950s, economic development in Taiwan was substantial. The annual growth rate of GDP was 7.6% and manufacturing production had an annual growth rate of 13%. Economic growth was also affected by better trained human capital. The labor force, which was highly trained, willing to work for a lower wage, and motivated, contributed to domestic productivity. Besides, growth occurred in the highly protected ISI because of import controls and high tariff policies that helped the growth of local nascent industries, such as textile, milling, construction, food processed, and nondurable consumer goods.

During the ISI period, Taiwan enjoyed economic growth without facing severe budget deficits. Also, growth of local industries was based mainly on domestic investment and excluded foreign firms. The weak linkage of foreign firms with local industrialization precluded their domination of the national economy. The inflow of direct foreign investment was very low in the 1950s, with averaging US\$2.5 million a year. The ISI, without the threats of competition and denationalization from MNCs, created indigenous industrialization. The ISI phase laid the foundation for the growth of the private sector. Indeed, the encouragement of direct foreign investment started at the turn of EOI for the purpose of absorbing sufficient capital for investment.²⁸

The ISI also strengthened the state. It benefited more state-owned enterprises than small, local private firms, because the former accounted for a large portion of GDP. The protection under ISI, indeed, can be seen as the attempt of nurturing state-owned enterprises. The growth of state-owned enterprises also increased the relative autonomy of the state, which permitted more effective policy implementation. Taiwan's development was largely based on strong state-owned enterprises, the dynamic leading sector in the early development stage. State-owned enterprises were the backbone of industrial development.

Rapid economic growth in Taiwan was supported by a sharp increase in export earnings after 1960. Why was Taiwan able to expand exports despite of enjoying an

²⁸ See Thomas B. Gold, *State and Society in the Taiwan Society* (New York: M. E. Sharpe, 1986).

annual rate of economic growth of 7% during the ISI period? Except one of the major reasons can be attributed to Taiwan's switch from ISI to an EOI strategy that is compatible with the world's economic recovery. Several reasons for the strategy switch occurrence can be marked here:

First is market saturation due to industrial production under the ISI. The price war ensued and investment was sluggish. The utilization rates of the industrial capacity were low. The ISI was having deleterious spread effects. In the end of 1950s, the ISI has been exhausted that is likely for Taiwan to regain her growth toward export markets.

Second is poor natural endowment and small market. Taiwan had a poor natural endowment so that a development strategy based on the use of natural resources was not conceivable. Also, Taiwan suffered from strong population pressures and had a smaller potential for expanding primary exports. Promoting manufactured exports with a labor-intensive industry was a must.

Third is the deficiency of a multiple exchange rate system/ The overvaluation of the exchange rate was carried at the expense of productive activity. In the 1950s, Taiwan employed a system of overvalued multiple exchange rates. The exchange rates for exports were lower than those for imports. The overvaluation on exports hurt agricultural and manufacturing exports, making them less competitive.

Fourth is the impact of American aid. American aid played a decisive role in Taiwan's economic development in two ways: aid and advice on economic reform. The American aid forced Taiwan to adopt a 19-point program of economic and social reform. The aid also forced Taiwan to reduce import controls, unify foreign exchange rates, encourage exports, and reform fiscal and monetary policies. These factors pushed Taiwan towards EOI. As American aid began to decline in the late of 1950s, Taiwan had to find a source of foreign exchange to solve their balance-of payment problems. The EOI was used to attract foreign investment capital as a substitute for the decline of aid supply.

Fifth is the government's commitment to economic development. The Taiwanese state has faced external threat from Communist China. Economic development was viewed as a means to raise Taiwanese living standards to achieve social and political stability and to support vast military expenditures. The EOI was seen as a means to sustain high rates of economic growth. Also, respected to the economic technocracy with an emphasis on the open economy, the KMT state was willing to carry out EOI.

The last, it is state autonomy from society. The strong KMT state was able to make its own policy without overwhelming pressure from the social classes involved. The KMT state is more concerned about its own power maintenance on politics rather than on economy. The KMT would like to let economic sector open for Taiwanese

in order to reduce political struggle against itself from society. So in this way, the KMT state led its economic development more effectively, with the guidance of economic technocracy.

4. Export Promotion and State Policy Reform: Policies for EOI (1958-1970)

In Taiwan, before 1958, the state development strategy had primarily an ISI orientation, by means of which domestic nascent industries were highly protected by tariffs and quantitative restriction on imports. By 1958, production from the protected ISI industries of nondurable consumer goods had saturated by the domestic market. The development strategy was immediately changed to stress export-led growth in 1958. Outward-looking strategy was emphasized which is realized that Taiwan might exploit the comparative advantages of labor-intensive industry, seek broad foreign markets for export goods, and bring up her industrial efficiency. Policy reorientation was instrumental in the emergence of Taiwan's export-led growth in the 1960s. Exporting was viewed as a means rather than as an objective. Export-led growth was brought into improve trade balance and earn foreign exchange. Policy reorientation for promoting exports was characterized as trade liberalization, but not as *laissez faire*.

A set of policy reforms was employed to cultivate export consciousness among entrepreneurs and to increase export earnings. Several policy reforms occurred in Taiwan, such as the unification of the multiple exchange rates system, high interest rates, tariff rebates, import liberalization, and the establishment of export-processed zones. Policy reform created a favorable environment for exports, which enabled Taiwan to move from ISI to EOI.

The unification of the multiple exchange system: In Taiwan, multiple exchange rates were replaced with a devalued unitary rate. The unitary exchange rate was equally applied to all kinds of exports and imports, giving a stronger incentive to exporters. The exchange was fixed at a level close to the market rate. This reform paved the way for liberalization as the ISI phase drew to an end.²⁹ The basic exchange rate was devalued from NT\$15.55 (per US dollar) to NT\$24.58 buying and NT\$24.78 selling. The sharp change in exchange rate encouraged exports.

High interest rate policy: Taiwan revised the low interest rate policy upward to control inflation. The nominal rate of interest was drastically raised to about 30%

²⁹ See Shirley W. Y. Kuo and John C. H. Fei, "Causes and Roles of Export Expansion in the Republic of China," in *Foreign Trade and Investment: Economic Development in the Newly Industrializing Asian Countries*, ed. by Walter Galenson (Madison, WI: University of Wisconsin Press, 1985, pp.45-84.

above the inflation rate. A high rate of interest policy helped to control inflation and also encouraged domestic savings. With inflation under control, market prices were stabilized. This was one factor to “get the price right,” to increase competitiveness in the world market. High interest rates stimulated domestic savings that obviated monetary expansion, provided the capital for investment, and eliminated the demand for imported goods. All these measures were conducive to a transition to EOI.

Tariff-rebates: The tariff-rebate scheme in Taiwan was devised to favor exports, not imported consumer goods. Exports were further encouraged by two important measures, fiscal and financial incentives. Fiscal incentives included tax exemption for exports and import duty rebates for industrial exports. Tax rebates on exports were effective in reviving them. No export duty was imposed. Import duties on raw materials and intermediate and capital goods for use in the production of exports were also reduced to a low rate. In additions, exporting industries were provided financial incentives, i.e., subsidized credits and loans for exports at preferential interests that were usually lower than the market rate. Cheaper loans for exporters and concessional credits encouraged the progress of exporting firms. Besides, exporters were given the automatic right to import their inputs duty-free, and high wastage allowance subsidies.³⁰

Import liberalization: Tariff protection was reduced for all commodity items and quantitative restrictions were eased. Tariff rates for consumer goods were higher than those for intermediate and capital goods. Foreign exchange controls were no longer allocated by quotas according to import category. Imports for use in export production were approved a great deal more liberally than other imports. Actually, these conditions for import restrictions were not conspicuously changed in the 1960s for all imported items. Import controls continued with few fundamental changes until 1970. After 1970, Taiwan then became free-trade regimes and import liberalization was in effect.³¹

The establishment of export-processing zones (EPZs): The policy transition in Taiwan encouraged private capital for investment, both domestic and foreign. The statute for Encouragement of Investment in Taiwan was enacted for promoting exports, which provides tax exemptions and deductions for exports, provided an income tax holiday, subsidized export credits and loans, and accelerated depreciation allowances for the fixed assets of major export industries.³² The establishment of EPZs was the application of such preferential investment incentives. It was innovative

³⁰ See Maurice Scott, “Foreign Trade,” in *Economic Growth and Structural Change in Taiwan*, ed. by Walter Galenson, pp.308-385, Ithaca, NY: Cornell University press, 1979).

³¹ See Robert Wade, “State Intervention in Outward-looking Development: Neoclassical Theory and Taiwanese Policies,” in *Developmental States in East Asia*, ed. by Gordon White, pp.30-67, New York: St. Martin’s Press, 1988.

³² See Amsden, *op.cit.*, 1989.

for its emphasis on production for exports, a device to foster labor-intensive manufactured exports. The transaction in these EPZs was liberal, which became an import element in Taiwan's export-oriented growth. Firms in EPZs enjoyed all privileges and tax incentives. Customs duties, commodity taxes, and sales taxes were not imposed. The EPZs also increased employment opportunities and export earnings and motivated domestic producers for exports.

Overall, these fundamental policy reforms were linked to the emergence of EOI and economic growth. Neo-classic economists have argued these reforms in Taiwan achieved the near-equilibrium level of exchange rates and interest rates that helped to get the price right. Other than the above factors, three others were important in determining the success of the transition to EOI.

The first was that the KMT state has effectively controlled labor activities and wage rates. Strong labor unions were not allowed. The strong state with weak labor organizations in Taiwan constituted a unique development pattern.

The second is the good timing of shift to EOI during a period of rapid growth in world trade and investment allowed Taiwan to continue developing. In the 1960s, there was an abundant of capital and fewer trade barriers as the world economy recovered. Well-made labor intensive goods could find a niche in foreign markets, with the product cycle period, a new form of direct foreign investment because of high wage rates in the developed countries.

The third is Taiwan had more chance and advantage to increase the value in exports. Without other new competitors and transitional difficulties, Taiwan accelerated her exports and shifted smoothly from ISI to EOI.

All in all, the KMT state was actively intervening in domestic industrialization and external economic relations. The planning economic and industrial policies were the form of state intervention to direct economic development. Even though import liberalization set free the quantitative restriction, its impacts were limited by several measures, this would be considered as, simply, a managed liberalization under the KMT state. Also, clearly, the shift in policy certainly not implied that Taiwan became a free-trade state and pursued market mechanism. Indeed, the KMT state approached a pragmatic strategy with a mixture of market and non-market forces. With their industrial, financial, fiscal, and foreign trade policy instruments, Taiwan appeared great state intervention and capacity to approach economic growth.

IV. Taiwan's Experience on Economic Development: Take-off and Transition (1970~1990)

During this period, Taiwan was in the development mode of state-direct or

state-led economy. The state still kept in the driver's seat of national power and development while the society started to change in terms of consumption, education, living quality, mass communication, and wealthy. These basic changes for Taiwan's society in economic conditions have contributed the democratic demand in the 1980s. It could be called "liberalization without democratization" for Taiwan in the 1970s and 1980s that would be treated as a soft authoritarian state. After 1986 as Democratic Progressive Party established, Taiwan has come into a new era of democratic transition for political development, which could be indicated as electoral democracy. Pro-democracy reforms were initially implemented since 1986.

Several important social, economic, and political phenomena and development during 1970-1990 would be categorized and featured as following.³³

Firstly, the state maintained political control over society under martial law. Under Martial law, the Taiwan Garrison Command was responsible for arresting and punishing individuals who threatened ROC security and public order.

Secondly, strained relations between Taiwanese and Mainlander marked a fault line that ran through both politics and society. The ethnic segregation enlarged on language barrier, ideological education, and political opportunity difference that became a battleground for Taiwanese-Mainlander political tensions.

Thirdly, the state urged to improve Taiwan's economy and infrastructure in order to maintain the KMT's legitimacy in power. The state enacted further economic reforms, from labour-intensive industrialization to export-oriented industrialization, the improvement of infrastructure (Ten Major Constructions), reducing controls over foreign currency exchange, and establishing a stock market and an investment banking system.

Fourthly, the state reduced the barriers impeding education and entrepreneurship, unleashing the economic potential of Taiwan as a whole. It opened up opportunities of upward socioeconomic mobility for individual families.

Fifthly, confronted with the strong inside political struggle and challenges from non-KMT activists or so-called Taiwanese, Chiang Ching-Kuo changed his ruling policy to give Taiwanese more positions of responsibility in the party and the government. Especially, in order to improve the legitimacy of the KMT and ROC government, Chiang was more concerned to perform economic development.

Lastly, in addition to the death of Chiang Kai-shek in 1975, Taiwan faced severe international diplomatic challenges and setbacks during the Cold War, such as the expulsion from the United Nations in 1970 and the termination of formal diplomatic

³³ See Denny Roy, *Taiwan: A Political History* (Ithaca, NY: Cornell University Press, 2005); Chun-Chieh Huang, *Taiwan in Transformation 1895-2005* (London: Transaction Publishers, 2006); Dafydd Fell, *Party Politics in Taiwan: Party Change and the Democratic Evolution of Taiwan, 1991-2004* (New York: Routledge, 2005).

relation with USA in 1979.

It can be observed that in this period “democracy” had been central to the dissenting discourse of the oppositional movement, commonly known as the ‘Dangwai Movement,’ in Taiwan since the beginning of the country’s democratic transition in the late 1970s. Yet democracy appeared in the public discussion earlier than that at the late stage of Free China Movement in the 1960s. It remains the most influential discourse today in post-authoritarian Taiwan. However, it should not be so surprising as “democracy” has dominated the intellectual as well as political debates on the global level and become a hegemonic discourse. Indeed, it is widely regarded as the sole source of political legitimacy. As one commentator has pointed out, ‘[I]f the name [of general will] among others and the grand narratives of modernity and universalism sound dated, so should democracy—yet remarkably the latter has triumphed in “postmodern” cultures.’³⁴

National identity was long missing from the mainstream literature on Taiwan’s political development. This changed when acute ethnic conflicts in some third-wave democracies, specifically former Communist states in Eastern Europe, prompted democracy scholars to scrutinize the relationship between democratic consolidation and nationalism. The Taiwan case was relevant because of the nation-building movement launched by the regime under Lee Teng-hui and the island’s transition to liberal democracy beginning in the early 1990’s. Since then, as liberal democrats argue, a divided national identity and nationalist politics have been the most crucial factors affecting Taiwan’s democratic consolidation, threatening the stability of liberal democratic constitutionalism on the island. Yet evolving nationalism has always influenced the trajectory of Taiwan’s post-war political development.

In spite of the aforementioned structural constraints, Taiwan made progress on its democratic transition at much greater speed than expected. Most remarkably, this has been achieved without a serious breakdown of state authority or irreparable political disorder. Indeed, this is the reason why Taiwan’s democratisation has been dubbed a “political miracle,” following the island’s “economic miracle” in the 1970’s that was characterised by its rapid growth combined with relative socioeconomic equality.

Although the first ever democratic movement in post-war Taiwan can be traced back to the abortive “new party movement” led primarily by Lei Chen, the 1977 “Chungli Incident” is commonly viewed as the beginning of the change of Taiwan’s political landscape. The Kaohsiung (or Formosa or Meilidao) Incident, occurring two years later as an unexpected development of a mass rally organised by the Dangwai to mark the International Human Rights Day in Kaohsiung City, was considered to be an

³⁴ See: Lin Chun, *The Transformation of Chinese Socialism*. Durham and London: Duke University Press, 2006, pp. 190-1.

important event in the history of Taiwan's opposition movement and political liberalisation.³⁵

One commentator even argued that the Kaohsiung Incident demonstrated the power of a democratic idea/ideal in changing the course of Taiwan's political development.³⁶ Perhaps to the surprise of the KMT, the arrest and imprisonment of the most prominent figures involved in the Kaohsiung Incident and their military trial attracted so much sympathy and support for their attorneys and relatives that they were elected to office. This made a deep impression on Chiang Ching-kuo, causing him to review the party's repressive policies and practices. Chiang then became receptive to political liberalisation and began formal negotiations with opposition leaders. Martial law was lifted and democratisation, aimed at establishing representative democratic institutions, commenced.³⁷

Pressure from the United States also figured in the KMT's decision to embark on political reform. Yet America's support for limited democratisation along Japanese lines in the latter half of the 1980's, after decades of consistently backing the anti-communist authoritarian regime, may have been anchored in the pressure exerted by domestic economic interests.

Post-war Taiwan's democratic development, as mentioned above, has been dubbed a "political miracle" because it was achieved without much violence and in a relatively short period of time, in comparison to the Euro-American democracies. In explaining Taiwan's political miracle, one has to take into account of the contribution of the island's "economic miracle" in creating socioeconomic preconditions conducive to democratic development.

Modernisation theory is the dominant approach that explains Taiwan's post-war political democratisation by establishing a causal relationship between socioeconomic prerequisites, primarily the level of economic development/capitalist industrialisation, the literacy rate/educational level of the people, and the living standard, and political democracy. In short, a typical and indeed "oversimplified" account of modernisation theory for Taiwan's democratic transformation is that capitalist industrialisation brings about democracy. Democratic transformation is explained as a direct result of economic development.³⁸

However, the notion of *neo-authoritarianism*, which is applied to explain and characterise the development path of most East Asian democracies, distinguishes

³⁵ Alan M. Wachman, *Taiwan: National Identity and Democratization* (Armonk, N. Y.: M. E. Sharpe, 1994), pp. 140–141.

³⁶ See Wu Nai-the, "The Power of Human Idea/Spirit in the Historical Transformation the Formosa Incident and Taiwan's Democratization," *Taiwan Political Studies Review*, 2000, Vol. 4.

³⁷ David Potter, *Democratization at the same time in South Korea and Taiwan*, eds. by David Potter et al., *Democratization* (Cambridge: Polity Press, 1997), p. 233.

³⁸ For a typical account of the modernization theory, see Seymour Martin Lipset and Reinhard Bendix, *Social Mobility in Industrial Society* (Berkeley, CA: University of California Press, 1959).

Taiwan's political modernisation from the development of Western advanced capitalist democracies. Central to the theory of neo-authoritarianism is the existence of an authoritarian developmental state, which plays an active role in promoting economic growth, social stability and a middle class as the preconditions for, or at least positively correlated with, democracy. Indeed, Taiwan's economic miracle was "created" by an authoritarian developmental state controlled by the KMT regime. While the structural and historical analysis of the modernisation approach is important in explaining Taiwan's democratic development, its economic determinism is its major shortcoming, and therefore, should be rejected. The "process-oriented" analysis of the transition theory is developed with a view to overcoming the weakness of the account of the modernisation theory and providing a better understanding of how and why the democratisation process commenced. Central to the analysis of political process are the role of political elites and the interaction among them. Indeed, the transition theory has replaced the modernisation theory and become the dominant approach to the study of Taiwan's political democratisation. While the elitism of the transition theory has been criticised, its attention to the role of state actors and historical contingency has been useful in accounting for Taiwan's political development.

At the centre of the analyses of Taiwan's post-war economic development and democratic transition is the transformation of the relationship between state and society; specifically, the change of the state-society relationship in the context of an authoritarian developmental state. The theory of a developmental state offers a particular explanation of East Asian industrialisation. *Developmental state* is a shorthand for the seamless web of political, bureaucratic, and moneyed influences that structured economic life in capitalist Northeast Asia.³⁹ The post-war developmental trajectories of Taiwan and South Korea, the former colonies of Japan, were heavily influenced by the models and policies that Japan imposed on them before the war or demonstrated to them in the 1950's and 1960's. The two NICs learned lessons, absorbed advanced technologies and capital from Japan, and embarked on a similar trajectory of light-industrial exporting under multiyear plans, guided by strong state ministries (if less so in Taiwan than in Korea). Strong state involvement in economic activities or strong state intervention in economic affairs through policy tools is therefore the defining characteristic of the developmental state.

The context in which Taiwan's "economic miracle" was created is the existence

³⁹ This state form, as Woo-Cumings argued, originated as the region's idiosyncratic response to a world dominated by the West, and today state policies continue to be justified by the need of the nation's economic competitiveness and by a residual nationalism (even in the contemporary context of globalisation). See: Meredith Woo-Cumings, Introduction: Chalmers Johnson and the Politics of Nationalism and Development, In: Meredith Woo-Cumings (ed.), *The Developmental State* (Ithaca, NY: Cornell University Press, 1999), p. 1.

of a developmental state with a weak and indeed repressed society.⁴⁰ Its economic development in the 1960's and 1970's, even to the 1980s is praised as a "miracle," as mentioned above, mainly because Taiwan's rapid economic growth happened in a relatively equitable society. As one expert on Taiwan's equitable development has pointed out, the spectacular growth of per capita income and the distribution of that income, at least up to the late 1980's, are without parallel.⁴¹ The Taiwan experience thus provides a persuasive counter-example to what was once viewed as Kuznets' inverse-U-shaped iron law.⁴²

While average real per capita GDP rates (percent per year) generally rose, increasing from 5.9 times in the 1960's through 8.1 times in the 1970's and 5.6 times in the 1980's to 7.3 times in the early 1990's. In 1950, the Gini coefficient, a statistical measure of the distribution of household income, was 0.56 in Taiwan. It fell to 0.44 in 1959, and 0.29 in 1970 and 0.28 in 1976. Yet, it rose again from 0.29 in 1978 to 0.312 in 1990. The Gini coefficient in Taiwan hovered around 0.30 from the 1970's up through the 1980's, making the distribution of income in Taiwan one of the most egalitarian in both the industrial and developing worlds. The wealth gap was 4.18 times in 1976, 4.17 times in 1980, and 4.94 times in 1989. Taiwan also did well in improving basic living conditions. Though excluded from the United Nations Development Programme's (UNDP) Human Development Report for political reasons, estimates by economists show that Taiwan's human development index (HDI) rating has improved steadily, from 0.618 in 1976 to 0.898 in 1993.⁴³

In the economic side, the figures on Taiwan's real GDP growth per annum from 1992 to 1998 were 6.8% in 1992, 6.3% in 1993, 6.5% in 1995, 5.7% in 1996, 6.8% in 1997 and 4.8% in 1998. The average of economic growth rates in the 1970s was around 10.12% and 1980s was 7.7%. GNP per capita in 1970 was US\$ 393, US\$

⁴⁰ Hughes, among others, explained the origin of the developmental state in Taiwan from the perspective of the ruling KMT's desire to gain political legitimacy. The KMT's political repression had badly damaged its relationship with native Taiwan society. It attempted to undo the damage by concentrating on economic reform and development. As one of its satellites in East Asia, the United States provided Taiwan with military protection and economic aid, which helped bring about the "Taiwan miracle" and enabled the émigré regime to establish a relationship with the diverse social groupings on the island. Hughes, 1997, p. 26.

⁴¹ See: Christopher Howe. "Taiwan in the 20th Century: Model or Victim? Development in a Small Asian Economy," *China Quarterly*, 2001, p. 55.

⁴² Simon Kuznet's "inverted U-curve hypothesis" is the most influential idea ever put forward on inequality and development. It states that "inequalities first rise with the onset of economic growth, eventually level off over time, then begin to fall in advanced stages of development, thus the growth-equality relationship is characterised by a trajectory in the shape of an inverted U." See: Timothy Patrick Moran, "Kuznet's Inverted U-Curve Hypothesis: The Rise, Demise, and Continued Relevance of a Socioeconomic Law," *Sociological Forum*, June 2005, p. 209.

⁴³ See: Gustav Ranis. "Reflections on the Economics and Political Economy of Development at the Turn of the Century," In: Gustav Ranis, Sheng-cheng Hu and Yung-peng Chu (eds.), *The Political Economy of Taiwan's Development into the 21st Century: Essays in Memory of C. H. Fei*, Volume 2. (Cheltenham: Edward Elgar, 1999), pp. 5-8.

1,944 in 1979, US\$7,748 in 1989, US\$ 8,339 in 1990 (as shown in Table 1). This meant that GND per capita increased 21.1 times within 20 years, from 1970 to 1990.

In the political side, according to Freedom House Index, political rights given 6 and civil liberties given 5 was marked as no freedom status in 1973-1976. Yet, since 1976, status became partial freedom during 1977-1995, as political rights given 3 and civil liberties given 3 in 1995 in relative to 5 and 5 in 1977, respectively. Moreover, the number of nation-wide civic associations (NGOs) was 1,817 in 1992. Yet, none information on NGOs before 1992, it was ruled under the martial law. This indicated that democracy has some progress under the authoritarian rule that was accompanied by partial freedom.

In the social side, there was not National Health Insurance at all until 1995. At that time, only 377,928 were insured by Public Servants Insurance and 1,709,847 insured by Labor Insurance in 1976. Not Peasant Insurance was at that period until 1985. As table 5 indicated, the number of students in colleges and universities was 299,414 in 1976 (graduated number 64,057) and 576,623 in 1990 (graduated number 129,193). It increased 1.93 times over the period of 1976-1990. The number of graduate students was 4,501 in 1976 (graduated number 1,519) and 22,372 in 1990 (graduated no. 6,927). It increased almost 5 times at the same period. This could tell that Taiwan's social capital and living quality were substantially improved.

At last, most of the existing literatures on Taiwan's democratic development focus on how the passive, weak, and suppressed civil society turns itself around and becomes the force for democratic transformation.⁴⁴ In other words, they probe the question as to how and why the "strong state vs. weak society" situation in authoritarian Taiwan changed towards the direction of "weak state vs. strong society," which is commonly thought to be the ideal relationship between state and society in a democratic Taiwan. This view of state-society relationship demonstrates the deep-seated liberal distrust of state. Yet it has been contested whether an antagonistic state-society relationship has to be presupposed in theory as far as democracy is concerned.

V. Political Miracle and Taiwan's Democratic Transformation and Social Governance: The Presidential Election, Power Transfer, and Class Politics (1991~2008)

Taiwan's post-war development is the setting of "growth with equity" in the 1960-1990 while Taiwan's peaceful democratic transformation is dubbed a "political

⁴⁴ Cf. Wen H. Kuo. "Democratization and the Political Economy of Taiwan," *International Journal of Politics, Culture and Society*, Vol. 11, No. 1, 1997, p. 5.

miracle,” in the 1990s. In fact, Taiwan’s people did not fully enjoy democratic self-government until the first direct presidential election in 1996. Also, Taiwan’s economic development and the leaders’ policy changes successfully led into a democratic transition. Yet, the democratic transition was not accompanied by an abrupt collapse of the authoritarian rule, nor an economic slowdown, social turmoil, and a serious political struggle. Thus, the transition from an authoritarian system to a democracy was called a process of tranquil revolution.

Moreover, the opposition Democratic Progressive Party (DPP) was formed in 1986 and its candidate Chen Shui-bian won the presidential election in 2000. This is first time to end Taiwan’s 55 years of rule by the KMT and to transfer power to the DPP during 2000-2008. The defeat of the KMT to the opposition DPP in the 2000 had terminated KMT over 50 years of one-party rule. However, even Taiwan has experienced first democratic transfer of power, as the DPP’s Chen Shui-Bian won the presidential elections in 2000 (39% of the votes) and 2004 (50.1% of the votes). The legitimate popularity rates were not high enough that made the ruling DPP faced strong challenges from the opposition KMT and the whole civil society.

Among other things, in most literature on Taiwan’s democratisation, the precondition of an equitable society for Taiwan’s democracy has been largely neglected. In fact, Taiwan’s equitable development laid a strong foundation for social capital that is essential to its democratic development. The enlarging wealth gap between the rich and the poor, or to put it another way, the problem of increased socio-economic inequality in post-authoritarian Taiwan has gradually become one of the main challenges to Taiwan’s democratic future.

“With the stunning defeat of the KMT in the year 2000 presidential election, the resiliency of Taiwan’s new democracy has passed its last test. But the emerging consensus over national identity is by no means consolidated.”⁴⁵ Two prominent political scientists in Taiwan sum up the island’s development since the end of World War II. While acknowledging the democratic progress, they highlight a crucial element of Taiwan’s post-war political evolution: the national identity. A distinctive feature of post-war Taiwanese public culture is the dual development of liberalism and nationalism in a setting of “growth with equity.”

The quality and the future of Taiwan’s democracy have been even more hotly debated among the general public as well as intellectuals recently. The trigger is a series of the so-called “first family scandals” that involves primarily President Chen Shui-bian’s wife and son-in-law.⁴⁶ The problem of corruption is at the centre of the

⁴⁵ See Chu Yun-han and Lin Jih-wen, “Political Development in 20th-Century Taiwan: State-Building, Regime Transformation and the Construction of National Identity,” *The China Quarterly*, 2001, Vol.165, p. 129.

⁴⁶ Wu Yu-shan, “Taiwan’s Developmental State: After the economic and political Turmoil,” *Asian*

public concern. The rise of so-called Red Shirt Guard aimed at the issue of anti-corruption and planned to besiege the Presidential Office. The rise of anti-corruption from volunteering civilian power took a legal action of social demonstration parade against the Chen administration. The massive peaceful social mobilization motivated by civil society without violence and bloodshed would prove that Taiwan's civil society developed in mature.

Yet at the heart of the public concern of corruption is a broader issue of socio-economic injustice. However, corruption is hardly a new problem facing Taiwan's democratic politics. "Money-mafia politics," or "black-gold politics," as many ordinary Taiwan people call it, has long been regarded as one main legacy (of negative sense) of Taiwan's democratisation in the past few decades. The controversy over the "first family scandals" has also caused great concern of some intellectuals and activists who worry about the damage that the scandals might bring to the "Taiwan identity." The content of this Taiwan identity as understood by these critics is and should be democracy. Appealing to the idea of "enriching Taiwan identity with democracy," they called for the President to step down in order to rescue Taiwan's democratic politics and Taiwan identity from moral crisis.

Also crucial for understanding Taiwan's post-war democratic development are the broader historical and political contexts of the end of World War, the Chinese Civil War and the Cold War. Taiwan's location in the "web of empires," as Michael Mann described it, illustrates these contexts well.⁴⁷ The normalisation of the Sino-American relations, beginning in the early 1970's with a rapprochement between the two countries, resulted in a series of diplomatic setbacks to Taiwan in the 1970's. The event generated the legitimacy crisis to both the regime and the state, and created one major structural constraint to Taiwan's relatively young democracy, that is, the "undecided status" of Taiwan. By *undecided* it is meant that while Taiwan is a *de facto* a sovereign state, it is a question far from being settled as to whether Taiwan constitutes a separate country from the mainland China (as pro-independence proponents have argued), a province of the PRC (the official discourse of the Chinese government), or the home of the legitimate albeit government of all China in exile (signified by the official name of Taiwan, "the Republic of China").⁴⁸ Christopher Hughes's term *intermediate state* also, in one way or another, captures the characteristics of this structural constraint.⁴⁹ In the wake of Taiwan's diplomatic crises,

Survey, Vol.47, No.6 (2007), pp.977-1001.

⁴⁷ See: Michael Mann. Taiwan in the Web of Empires, paper presented to Conference Taiwan at the Edge of Empires, Taipei, December 18-19, 2004, pp. 14-15.

⁴⁸ Chu Yun-han. "Taiwan's Year of Stress," Journal of Democracy, Vol. 16, No. 2, April 2005, pp. 44-45.

⁴⁹ Christopher W. Hughes, Taiwan and Chinese Nationalism: national identity and status in international society (London: Routledge, 1997).

democratic struggles became intertwined with the question of national identity and the issue of cross-Strait relations.

Under the leadership of Lee Teng-hui, who succeeded Chiang Ching-kuo as the leader of the KMT and of the nation, Taiwan's political liberalisation and democratisation moved further. The change of the rules on the presidential election under Lee's administration and the holding of the first direct popular presidential election in 1996 have earned Lee the name of "the father of democracy in Taiwan." Yet Lee's "politics of legitimisation"⁵⁰ and "Taiwanization of the KMT"⁵¹, together with the "money and mafia politics" in post-authoritarian Taiwan, have put his contribution to Taiwan's democratic development and politics in contest.

In the view of many liberal democratic commentators, Taiwan had completed its democratic transition and entered the stage of democratic consolidation with the peaceful power transfer from the KMT, which had been the ruling party for over half a century, to the then opposition DPP in the year 2000 presidential election. Yet Taiwan's democratic development after 2000 is far from consolidated. Whilst liberal democrats began to worry about the impact of the society's divided national identity on the consolidation of its democratic political institutions, democratic leftists, in addition to criticised the national identity politics, drew the public attention to the problem of social disparities and inequalities as the result of Taiwan's capitalist democratic development.

The 2004 presidential election ended with the incumbent Chen Shui-bian, DPP leader and standard-bearer of the pro-independence "pan-Green camp,"⁵² winning his second term. Yet controversy raged over a dramatic incident the day before the election in which Chen was injured by a pistol shot while waving regally to his supporters aboard a jeep in his hometown of Tainan. It is impressive to be marked as "Taiwan's a Year of Stress."

What is relevant to our discussion of post-war Taiwan's economic development and democratic transformation here is that due attention has to be paid to the role of the authoritarian developmental state of Taiwan in developing human capital and create an equitable society. Indeed, the development of social capital, which is crucial to democratic politics, presupposes a strong foundation of human capital in material as well as human production and reproduction.⁵³ Drawing attention to the active role

⁵⁰ See Kuo Cheng-liang, *The Lee Teng-hui Phenomenon: democratic transition and political leadership*. In Yin Hai-guang Memorial Foundation (ed.) *Democracy-Transition? The Taiwanese Phenomenon* (in Chinese), Taipei: Laureate Co. Ltd., 1998; Carl K. Y. Shaw, "Modulations of Nationalism Across the Taiwan Strait," *Issues & Studies*, Vol. 38, No. 2, 2002, pp. 122-47.

⁵¹ See: Huang, The-fu. "Election and Evolution of Kuomintang," In: Tien Hung-mao (ed.). *Taiwan's Electoral Politics and Democratic Transition: riding the third wave* (Armonk, NY: M. E. Sharpe, 1996).

⁵² See Perry Anderson, "Stand-off in Taiwan," *London Review of Books*, Vol. 26, No. 11, June 2004.

⁵³ See Lin Chun. "Defining and Defending the 'Social'—a Chinese tale." *Hitotsubashi Journal of*

of state in Taiwan's political and economic development, however, is by no means intended to "romanticise" the state or justify its authoritarianism. Rather, it seeks to emphasise the need for a more sophisticated analysis of the relationship between the state and society that is sensitive to different preoccupations of a society in its different developmental stage/when facing different situations.

It is accurate, accordingly, to see Taiwan's trajectory in a way as a "transition" process from an "economic miracle" to a "political miracle." It is also a process from a situation in which the state dominates the society to another situation where the society strives to challenge or even conquer the state. Yet it is arguable whether the ideal state-society relationship in a democratic Taiwan, as argued above, has to be the reversal of a "strong state vs. weak society" relationship, that is, "weak state vs. strong society," as it is commonly assumed in liberal theories. After the "economic miracle" and "political miracle," the term of "social miracle" has been proposed to signify the direction of Taiwan's future development that is aimed at reconstructing the social order for the society's sustainable development. Central to the aforementioned idea of a "social miracle" is actually the capability of the Taiwan society to overcome all those social problems resulting from "the great disruption of social order" as Taiwan transformed from an industrial to a post-industrial society, i.e., from a manufacturing-based to an information/knowledge-based economy. The creation of Taiwan's social miracle thus refers to the reconstruction of the social order.

The public debate over the democratic consolidation in Taiwan emerged after the 1996 presidential election. The publication of the volume entitled *Democratic Consolidation or Breakdown? Taiwan's Challenges in the twenty-first century* and some essays on Taiwan's democracy renders the issue of democratic consolidation the central concern of the Taiwanese public.⁵⁴ The identity politics, especially the issue of (divided) national identity, appeared to be the common concern here.

It is no coincidence that the debate over national identity politics and Taiwan's democratic prospect emerged around the time when Lee Teng-hui, who has emphasised Taiwan's "subjectivity" and endeavoured to promote Taiwanese identity, won the first direct presidential election in Taiwan. For in the early 1990's, around the time when the Lee administration adopted "nation state-building" or the creation of a "new state" as its core task, nationalism appeared to take the place of liberalism in the public, becoming perhaps the most distinctive feature of Taiwanese public culture.⁵⁵

Social Studies, Vol. 33, 2001, p. 59.

⁵⁴ See You Ying-long (ed.), *Democratic Consolidation or Breakdown? Taiwan's Challenges in the Twenty-first Century* (Taipei: Yuedan Press, 1997); Chu Yun-han, "Taiwan's Unique Challenges," *Journal of Democracy*, July 1996, Vol. 7, No. 3.

⁵⁵ D. Waldner, *State Building and Late Development* (Ithaca, NY: Cornell University Press, 1999); K. Nordhaug, "Institutional Change and Policy Reform in Taiwan: the Making of a Developmental State," *Pacific Focus*, Vol.12, No.1 (1997), pp.25-47.

The competitive pressure from China as the result of a “rising” China in the international politico-economic arena, also contributed to the development of nationalist politics on the island. Nationalism and “stateness” are considered by scholars of democratisation, such as Linz and Stepan, to be “problems” of democratic consolidation. The reason why the issues of *stateness* and *nationalism* can be problems for democracy, according to Linz and Stepan, is because “a modern democratic state is based on the participation of the demos (the population), and nationalism provides one possible definition of the demos, which may or may not coincide with the demos of the state.”⁵⁶ Indeed, the crisis of the authoritarian KMT regime was intermixed with profound differences about what should actually constitute the polity/political community and which demos or demoi (population or populations) should be members of that political community.

These differences about the “territorial boundary” are articulated in the so-called “unification-independence” debate: the ideas, which of the people on Taiwan or the mainland China, or both, should have the right to determine Taiwan’s future, are fiercely contested. Discourses of Chinese nationalism and Taiwanese nationalism are therefore constructed and articulated to support different positions on the issue.

If we hold that the problem of stateness is a “unique” challenge for the Taiwanese democracy, it is unique primarily in that: although Taiwan has hitherto not been recognised by the international community as an independent sovereign state, it however has enjoyed self-government or has been a *de facto* independent state since the end of Second World War. Or to put it another way, like North and South Korea, Taiwan and China can be said to be “divided but independent sovereign” states, yet unlike the two Koreas, Taiwan does not enjoy *de jure* independence.⁵⁷ Surely, the situation has to be understood in the context in which both Taiwan (or ROC) and PRC withholds the principle of “one China.” Also contributing to the creation of such situation is the division of Taiwan society on the unification-independence issue.

For those commentators who concern about social order and political democracy in Taiwan, socio-ethnic cleavage has become one of the main sources of social disorder, which in turn is detrimental to Taiwan’s democratic development. Indeed, this socio-ethnic cleavage could erode the foundation of social solidarity and social capital, both of which are crucial and even indispensable for democracy. Without social solidarity, it would be hard to imagine that social or public consensus on common goods could be possibly achieved fairly and democratically.

⁵⁶ Juan J. Linz and Alfred Stepan, “Stateness, Nationalism, and Democratization,” In Linz and Stepan (eds.), *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe*. Baltimore and London: The Johns Hopkins University Press, p.16.

⁵⁷ In a way, we may say that Taiwan “lost” its *de jure* independence after the PRC took the ROC’s seat in the UN, becoming the sole representative government of all China in 1972.

What is often neglected in the mainstream literature on democratic consolidation is the attention to the impact of socio-economic inequality upon democratic participation. Focusing on formal or minimalist requirements for a consolidated democracy is typical of the political discourse of liberal democracy, which is modelled primarily on Euro-American and capitalist experiences. Without getting into the debate between liberal and alternative conceptions of democracy (or the debate between procedural and substantial democracy) here, the enlarging wealth gap between the rich and the poor, and the occurrence of political corruptions committed by the political elites of old (the KMT) and new (the DPP) regimes as the consequences of money politics have generated popular discontent with the democratic practices in Taiwan and widespread political cynicism and apathy among Taiwanese. The low turnout in most recent national elections shows that well.

The problem of socio-economic inequality is crucial for Taiwan's democratic development. For asymmetrical life-chances injure personal autonomy and impede political participation, to be corrected only by democratic justice.⁵⁸ Taiwan's equitable economic growth (its "economic miracle") laid a strong foundation for Taiwan's peaceful democratic transformation (its "political miracle"). A relatively equitable society, not an affluent society, is therefore a social requisite for Taiwan's democratic negotiations and stability. By the same logic, it remains an important precondition for Taiwan's democratic deepening.

Although the key indicators show a high level of (human) development in Taiwan, its income distribution, commonly taken to be the measurement of the socio-economic (in) equality has been increasingly unbalanced.

In the economic side, the annual economic growth rate in the 1990s was averaged around 6.35% and 7.7% during 2000-2009. GNP per capita in 1995 was US\$ 13,115, US\$ 14,906 in 2000, US\$16,449 in 2005, US\$ 17,833 in 2008. This meant that GND per capita only slightly increased 1.36 times within 14 years, from 1995 to 2008.

In the political side, according to Freedom House Index, political rights given 2 and civil liberties given 2 was marked as freedom status in 1996. Until 2008, Taiwan enjoyed freedom status that was given 2 for political rights and 1 for civil liberties in 2008. Moreover, the number of nation-wide civic associations (NGOs) was up to 3,698 in 1996, 4,319 in 2000, 6,983 in 2005, and 9,016 in 2008. During the period of 1996-2008, it increased 2.44 times. It shows the activities from NGOs became very brisk that empowered civil society against the state policy.

⁵⁸ See David Held. *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance*. Cambridge: Polity Press, 1995, pp. 171-172, on "autonomy"; Brian Barry, *Democracy, Power, and Justice: Essays in Political Theory*. Oxford: OUP, 1989, on "liberal egalitarian principles."

In the social side, the National Health Insurance was carried out in 1995 that covered 19,123,278 persons. At that time, with the people of 634,543 were insured by Public Servants Insurance, 7,635,063 insured by Labor Insurance, 1,800,187 insured by Peasant Insurance in 1995. In comparison of the year of 2007, there were 22,803,048 insured by National Health Insurance, 590,808 by Public Servants Insurance, 8,799,405 by Labor Insurance, and 1,601,410 by Peasant Insurance. The highly covered insurance guaranteed human capital and social capital development.

The number of students in colleges and universities was 795,547 in 1996 (graduated number 196,384) and 1,326,029 in 2007 (graduated number 323,540). It increased 3.97 times over the period of 1980-2007. The number of graduate students was 44,873 in 1996 (graduated number 14,503) and 204,225 in 2007 (graduated number 57,527). It increased almost 45.37 times from 1976 to 2007. This would be recognized that Taiwan's human capital resources and population quality were substantially improved.

However, according to the latest available figures, Taiwan's Gini coefficient stood at 0.345 in 2002, 0.340 in 2005, and 0.341 in 2008 after 0.326 in 2000.⁵⁹ The wealth gap was 5.34 in 1995, 6.39 in 2001, 6.04 in 2005, 6.19 in 2010, and 6.08 in 2013 (as shown in Table 1). The worsening income distribution was at a result of skill-biased technological, capital-intensive or knowledge-based economic policies, pro-capital tax reforms, and the privatization or commercialization policies of welfare provisions. All of these pro-capitalist policies widened the gap between the rich and poor in Taiwan.

To be sure, identity predicament and socio-economic inequality are just two among many challenges to Taiwan's democratic development. As one commentator noted, for instance, Taiwan's aboriginal population continues to be marginalised, and workers are still subjected to restrictive labour laws. Political corruption has only begun to be addressed. Tensions between Chinese immigrants, ethnic Taiwanese and aboriginal communities persist in democratic Taiwan. Excessive pollution is still a reality.⁶⁰ None of these and other challenges to the quality of Taiwan's democracy is trivial. Yet identity predicament and socio-economic inequality still stand out as the main challenges to Taiwan's democratic deepening.

⁵⁹ Council for Economic Planning and Development, R. O. C. (<http://www.cepl.gov.tw>)

⁶⁰ See Joseph Wong, "Democratic Deepening in Taiwan," *Pacific Affairs*, Vol. 76, No. 2, Summer 2003, p. 241.

Table 1: Several Statistics of Society and Economy in Taiwan, 1955-2014

Year	Population (Mid-Year, Persons)	GDP Growth Rate (%)	GDP (Million U.S.\$,at Current Prices)	Per Capita GDP (U.S.\$,at Current Prices)	Ratio of income share of highest 20% to that of lowest 20%(Times)	Gini's concentration coefficient	Freedom House Index		
							PR	CL	Status
1955	8,967,001	7.72	1,940	216					
1960	10,667,705	7.20	1,743	163					
1965	12,511,863	11.89	2,869	229					
1970	14,582,944	11.51	5,786	397					
1975	16,075,128	6.19	15,838	985			6	5	NF
1980	17,704,538	8.04	42,295	2,389	4.17	0.278	5	5	PF
1985	19,191,510	4.81	63,623	3,315	4.5	0.291	5	5	PF
1990	20,278,946	5.65	166,615	8,216	5.18	0.312	3	3	PF
1995	21,267,653	6.50	279,224	13,129	5.34	0.317	3	3	PF
2000	22,184,530	6.42	331,452	14,941	5.55	0.326	1	2	F
2005	22,729,753	5.42	375,769	16,532	6.04	0.340	1	1	F
2010	23,140,948	10.63	446,105	19,278	6.19	0.342	1	2	F
2011	23,193,518	3.80	485,653	20,939	6.17	0.342	1	2	F
2012	23,270,367	2.06	495,845	21,308	6.13	0.338	1	2	F
2013	23,344,670	2.23	511,293	21,902	6.08	0.336	1	2	F
2014	23,403,635	3.74	529,515	22,632	-	-	1	2	F

Source: National Statistic (Taiwan) and Freedom House Reports, 2015.

Note:

1. Political Rights and Civil Liberties are measured on a one-to-seven scale, with one representing the highest degree of Freedom and seven the lowest.
2. "F," "PF," and "NF," respectively, stand for "Free," "Partly Free," and "Not Free."
3. Until 2003, countries whose combined average ratings for Political Rights and for Civil Liberties fell between 1.0 and 2.5 were designated "Free"; between 3.0 and 5.5 "Partly Free," and between 5.5 and 7.0 "Not Free." Beginning with the ratings for 2003, countries whose combined average ratings fall between 3.0 and 5.0 are "Partly Free," and those between 5.5 and 7.0 are "Not Free."

VI. Conclusion and Lessons Implication: toward Social Governance Development after 2008?

1. Taiwan's Development Experience and Pattern: Building a Up-Society and Down-State Model with Democratic Governance

Taiwan's case has shown that economic development and political change are always mutually interacted. A developmental state with economic policy reform has allowed Taiwan to pursue rapid economic growth and then contributed the rise of civil society. Of course, without achieving successful economic development, it will be

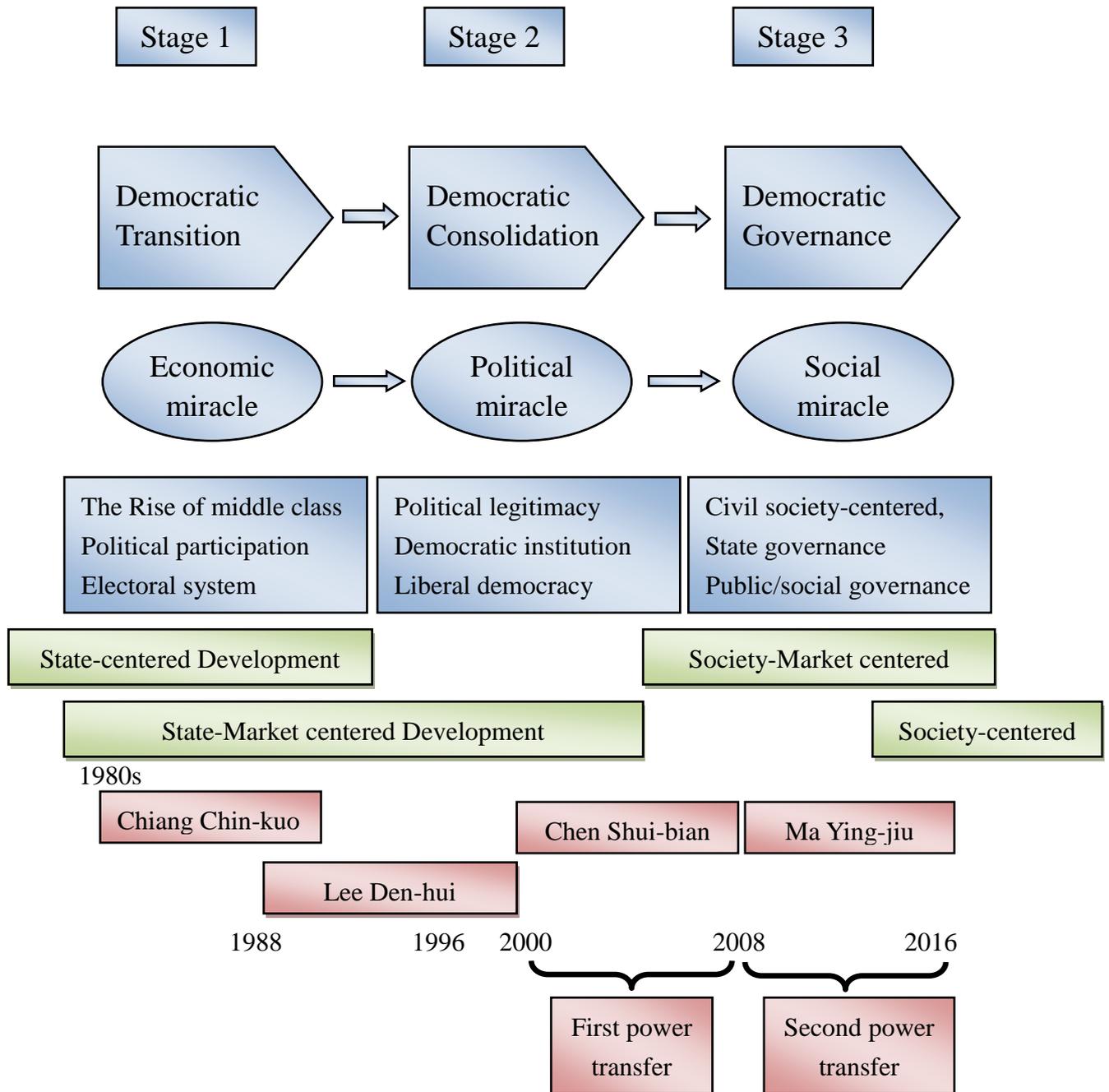
appeared a great threat to challenge the legitimacy of the KMT regime. The KMT state in order to maintain its legitimate ruling power started with a reform on development policies rather than with severe military control measure. Still using military control on Taiwan, of course, will jeopardize the KMT power. Rather, using open economic measures with a separation of political liberalization, the KMT state started with a more rational economic reform and policies to improve people's living standards and national economy.

It is much appropriate to tell that the history of modern Taiwan is a typical development for economic development and democratization. Taiwan has enjoyed the transition from the authoritarian state to the democratic state, and further walking into the state of civil society-led state with its democratic governance thru the past six decades. In the long run, as we can see, civil society is the core sector for democratic governance that would guarantee the well-functioning institutions for sustainable development and democracy. Therefore, building up-society and down-state model with democratic governance is the hard truth for democratization, even though the democratization is an endless process for human beings. (as Figure 5 shown)

In practice, it is worth emphasizing again that Taiwan's "political miracle" with a peaceful democratic transformation would not be possible without a strong foundation of human capital that was developed in its "economic miracle," an equitable economic growth led by an authoritarian developmental state. Only based on sound economic development, political reform or the rise of civil society would be expected and paved.

Besides, on the view invoked above, social defence is therefore essential to the democratic empowerment of the people in Taiwan, hence crucial for the prospect of Taiwan's democracy and democratic governance. A democratic public stand for social defence, supported by public forums, networks, associations, and social movements, would be obliged to check not only state power, but also the private concentration of power, wealth, and resources. It is precisely in this sense that the creation of a "social miracle," signifying an empowered social entity with the public sphere as its main democratic institution of "will formation," is seen as the prospect of Taiwan's democracy

Figure 5: The Roadmap of Taiwan's Democratization after 1970



In other words, the social miracle, which I regard as the core vision of Taiwan's democratic future, refers to a socio-political situation in which democracy is sustained by a strong society that not only could check and balance state power, but also could enhance social power, wealth, and resources. Currently, the state in Taiwan is much care about the public opinions from the civil society. In the meantime, the state also becomes an intensely learning actor from the civil society and market responses.

This is a new development (or perhaps democracy) model for Taiwan with negotiating and renegotiating rules of norms among the state, civil society, and the market. All actors are still learning how to operate and interact within a structure of democratic values and institutions that will determine the formation of social miracle in the long run. As shown in Figure 6, it is clear that social equality and justice will be important for the development of civil society toward democratization, especially facing the challenge of economic globalization. What the state has paid much attention on policy consideration since 2008 is the implementation of social equality, equity, and justice toward policy formation and economic development.

Figure 6: Taiwan’s Democratization with Economic Development and Social Equality

Chiang Kai-shek	Chiang Ching-kuo	Lee Teng-hui	Chen Shui-bian	Ma Ying-jeou
1949	1975	1988	2000	2008
Authoritarianism		Democratic Transformation	Democratic Consolidation	Democratic Governance
State-oriented Leadership		The Rise of Civil Society		Society-oriented Politics
ISI (1950-1958)	EOI (1950-1970)	2 nd EOI (1970-1985)	Service Sector (1985-)	High-tech of Information
Land Reform (1950-1952)	2 nd Land Reform (1980s)		2000	
Social Equality + Economic Growth		Social Welfare + Low Economic Growth		Income Inequality Worsened + Demanding Social Justice
		1986		

Source: made by author

2. Taiwan’s Development Lessons and its Trend: from developmental state to governance development

Looking at Taiwan’s development pattern and experience under the developmental state and governance, it can be simply pointed out that a developmental state mode leading economic reform and development during the period of 1950-1970 would be the perfect development stage that the Third World can learn from. Simply put, at least twelve lessons as following, Taiwan would provide for Third World to learn. Of course, these twelve lessons are closely related to one another that could, in turn, create trickle-down and spillover effects for economic

growth and political reform eventually. Current the Third World's economic development problem is highly related to political centralization and totalitarianism of state power without considering economic liberalization. Indeed, there are two possible ways for Third World countries to lift up economic growth. One is starting with political reform on state power and institution, and then to pursue economic reform and market economy. This way is quite difficult and least possible for current Kim Jong-Un regime to reorient his ruling idea on socialist planned economy. The other is to carry out economic policy reform on market economy, which would be separated from political superiority, just like that Chiang Kai-Shek regime had done during 1949-1970 in Taiwan. Thus, twelve lessons from Chiang Kai-Shek regime of Taiwan's early economic reform on market economy would be marked as following:

Lesson 1: the adoption of the developmental state model with high state autonomy and state capacity that can reduce rent-seeking and cronyism.

Lesson 2: implementation of market economy with high social mobility and economic reform on private ownership, instead of centrally planned economy.

Lesson 3: carrying out land reform policy to solve the land inefficient use, increase incentives on crop productivity, and to accumulate capital from agricultural sector.

Lesson 4: using agricultural development and natural resources for capital accumulation to breed industrial sector development.

Lesson 5: implementing labor-intensive industrialization that can create more employment, increase labor income, and improve people's living standards.

Lesson 6: creating an open economy, encouraging direct foreign investment, and following market-conformity economic policy.

Lesson 7: promoting export-oriented or export-led growth and industrialization

Lesson 8: the reduction and alleviation of poverty.

Lesson 9: keeping in mind that economic freedom and liberalization is superior to political compliance on development reform policy.

Lesson 10: bringing up the civil society and social capital in terms of improving human capital and resources, education, innovation or creativity capability.

Lesson 11: policy reform or consideration aimed at inflation reduction and getting the price right.

Lesson 12: promoting Export-Processed Zones (EPS) with attracting direct foreign investment that can contribute export promotion.

Besides, regarding Taiwan's development trend between the developmental state and governance, it can be shown as figure 7. Five development stages can be listed and marked in different locations. The first stage of Taiwan's development is with

high degree of the developmental state policy without social confrontation. The second state is with high degree of developmental state and some state governance. The third stage is with the low degree of the developmental state but with high degree of state governance. The fourth stage is with less state-led development but with a great consideration on social governance. Which will be next, three possible moves can be observed and expected, such as moving toward social miracle mode, populist society mode, or class-politics conflict mode.

Figure 7: Taiwan's Development Trend

