

The Study of Taiwan Economy: Retrospect and Prospect

Peter C.Y. Chow

The City College and Graduate Center, City University of New York, USA

I. Introduction

In general, the study of developing countries include Asia except for Japan, Latin America and Africa. Most development economists specialize in one or a group of countries which he/ she is most familiar with and interested in. With few exceptions, East Asia has been doing relatively well than most Latin American and African countries in economic performances on GDP and trade growth, income distribution, inflation and unemployment rate in the post WWII periods. Under such circumstances, the study of Taiwan economy, along with Korea and other Asian developing countries became a popular subject for decades until Taiwan's economic growth decelerated since the beginning of the 21st century.

The study of Taiwan economy usually belongs to an applied field of economic development or development economics, though economists in other fields also pick up Taiwan as their research topics whenever there is a unique case study in Taiwan or when Taiwan can be included in a group of countries for international comparisons. Most development economists who specialize in East Asia in general and Taiwan in particular are affiliated in the economics rather than Asian study department. One reason is because, except for those ivy leagues and the top universities in the States, area study is usually underfunded that than of economics department. Moreover, Taiwan study, by comparisons with those in Japan and or China studies, is not in the mainstream in most major institutions in the States even if they have strong program in Asia study.

Moreover, the study of economic development involves not only economic theories and empirical analyses; it also requires some interdisciplinary knowledge in anthropology, sociology, political science and other related disciplines. Hence, a minimum understanding of the socio-political structures of the country or geographic area is a pre-requisite for the study of economic development in any single country. Relatively, the study of economic development requires more thorough understanding of socio-political and other institutional infrastructures than any other fields in the disciplines in dismal science. That is one reason why fewer and fewer economists specialize in Taiwan economy, especially after its economic growth decelerated since the past decade.

Following the foot-step of post war economic development in Japan a la the "flying geese model" of development (Akamatsu, 1962); first in trade growth in the 1960's and then

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extended to foreign investment after the mid 1980's (Ozawa, 1992; Kojima, 2000), Taiwan, along with Hong Kong, Korea and Singapore, pursued their outward-looking industrialization development policy. These four economies generally considered as the first tier of the newly industrialized countries (NICs) reached remarkable achievement which was labelled as the "East Asian miracle" by the World Bank (1993). In fact, Taiwan would be considered as a member of the OECD had it not blocked by political hurdles.¹

Taiwan's success story offers quite a few lessons which are relevant, though not completely duplicable, to many developing countries. Moreover, after decades of economic development, both Taiwan and Korea underwent democratization in the late 1980's and transformed their countries not only economically but also socio-politically into modernized industrial democracies. Hence, the study of Taiwan economy is beyond the discipline of economics but also in the political economy of development. No wonder political scientists have written as many books as, if not more than, economists on economic development in Taiwan.

This paper reviews the study of Taiwan economy in historical perspective; assesses the problems occurred in doing research on Taiwan's economy and to suggest directions of future research efforts on the topic. Section II will review the economic development after the lifting of the Martial Law in 1987 and analyzes why the economic growth decelerates after the onset of democratization since the 1990's. It also explains why the study of Taiwan economy became less popular than it was before. Section III will assess the general tendency of the study of Taiwan economy based on the survey of literature existed mostly in the United States and to a less extent in Taiwan. Section IV analyzes the problems and prospect of studying Taiwan economy in the near future. The final section is to offer some directions of future research.

II. Economic Development in Taiwan after the lift of Martial Law

This section will be based on my previous article on a waning developmental state at the onset of democratization (Chow, 2012). It explains the internal and external factors that led to the deceleration of economic growth after a full scale of democratization since the 1990s. Though democracy and high economic growth are not always a good marriage, the author argues that authoritarian regime is neither necessary nor sufficient condition for economic development. Amartya Sen, Nobel Laureate in economics, argued that "development as freedom" (2001). Taiwan's decelerated rate of economic growth is complement with other socio-political achievements. Hence, more studies on political economy of development in Taiwan occurred since the beginning of the 21st century.

¹ Taiwan fulfilled the admission requirement to become a member of OECD for its of being a democratic country, a market system with highly industrialized economy and high per capita income. But, its membership was blocked for political reasons generally understood as the "China factor".

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Nevertheless, success has so many fathers yet failure is but an orphan. The study of Taiwan's economy, as part of the East Asian miracle, was prevalent in the decades since the 1960's, yet suffered from recession after the 1990's. While there was consensus on the success story of Taiwan's economy, it is subject to different interpretations because many scholars present their respective "pet theories" to address the complex issue of East Asian economic developments "through "partial insights and shaky evidence" (Wade, 199).

III. The study of Taiwan's economy in the United States and in Taiwan

This section will draw information mostly from the United States, complement with those from Taiwan. Surveys on the study of Taiwan economy from the following sources

- a. CCK Foundation funding projects
- b. Association of Asian Studies and America Economic Association conference papers on Taiwan's economy
- c. Major publishers on Taiwan's economy in the U.S. Canada and Europe
- d. Journal of Economic Literature index on Taiwan's economy

Prior to the 1990's, there are some books solely deals with the studies of Taiwan economy. But, the paradigm shift of East Asian economic dynamism from Japan (followed by the East Asian NICs or the Asian tigers) diverted the attention of economists to the rise of China. The general tendency is that single country study on Taiwan's economy is much less than those on comparative studies. Hence, there are more comparative studies by including Taiwan with other economies with similar levels of development.

The following phenomena are from the preliminary observation on the study of Taiwan economy in the past decades;

- a. Topics covered more on trade and industrial policies, less on labor, environmental and health economics until recently.
- b. More studies on the real sector than of the economy than on financial sector until financial liberalization undertaken in the 1980's
- c. More studies on economic growth than on income distribution until the drive for globalization.
- d. After the 1990's, more studies on the economic interactions with China

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- e. Political economy of development is more popular than pure economic study
- f. In terms of methodology, more quantitative than descriptive, this greatly contributes to empirical research but suffers from narrowing specific domain without less macro perspective.

IV. Problems and prospects of studying Taiwan economy outside Taiwan

- a. The study of Taiwan economy has to be put in the regional or even global context because Asian economic development was considered as a “linked development “path (Adam, 1998).
- b. Taiwan economy as a case study, its relevancy to developing countries for further economic development
- c. Standardize all statistical dataset to be compatible with those from the United Nations, IMF, and OECD.

V. Future research directions on the study of Taiwan’s economy

Political economy of development, economic integration and globalization will pre-dominate the research focus in the near future

- a. How to cope with the rise of China amid globalization
- b. Will Taiwan suffer from the “middle-income country” trap?
- c. Trade liberalization and industrial restructuring in the era of globalization
- d. Not just the promotion of export, but what export matters. So, more studies on the value-added in the global value chains (GVCs) are needed.
- e. Globalization and income re-distribution; distribution will override economic growth .How to balance the winners and compensate the losers of the globalization to reach an Pareto Optimality
- f. How to define Taiwan’s role in the emerging Asian trade blocs and economic integration

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