

Book Reviews

Yongping Wu. *A Political Explanation of Economic Growth: State Survival, Bureaucratic Politics, and Private Enterprises in the Making of Taiwan's Economy, 1950–1985*. Cambridge, MA: Harvard University Press, 2005. Pp. xviii+410.

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- q1 This volume is favored by an intriguing title and an even more tantalizing subtitle. Unfortunately, it turns out that you cannot judge a book by its titles. Wu's avowed purpose is to carve a middle road between the essentially neoclassical economic or World Bank assessment of Taiwan's successful development experience and that of less orthodox commentators à la Robert Wade who give most of the credit to industrial policy "governing the market." In addition, Wu wants to convince us that political objectives dominated, with economics as a constraint, rather than the more conventional reverse. These are eminently worthwhile objectives; it is too bad that the execution is substantially flawed.
- q2 Wu lists seven main "hypotheses" that he promises to pursue in the course of the volume. These range from the state having noneconomic as well as economic goals—with the latter often being unintended by-products of the former—and bureaucracies not being monolithic (both of these are sensible propositions) to the superiority of "interplay" between government and the market over "coordination," and strong men over institutions" as prime movers (the latter two assertions are much harder to follow or fathom). But the difficulty with all seven ~~examinations~~ ^{from} ~~is~~ ^{to} is that there is an absence of the necessary minimal analytical bite or empirical support.
- q3 Wu rightly focuses on the changing relationships over time between the state and the market with respect to the three components of the industrial sector on Taiwan: the SOEs (state-owned enterprises), mainly taken over from the Japanese at the end of the war; the LEs (large private enterprises), initially émigré capital from the mainland; and the SMEs (small- and medium-sized enterprises), largely Taiwanese in origin. He rightly points out that, in the early import substitution era (1950–70), government attention in the form of official cheap credit, protection, and so forth was focused on the SOEs and LEs, leaving the SMEs to fend for themselves and, as an unintended conse-

quence of such benign neglect, be virtually forced into rapidly expanding manufactured exports, ranging from food processing to textiles.

Wu further points out that once import substitution had been exhausted—actually in the 1960s, not the 1970s as he has it—the state began to notice the contribution of the SMEs and to actively support them via specialized credit institutions, tariff rebates, and the like. Finally, in the 1970s and 1980s, as the economy moved to produce and export more technology-intensive goods, that is, microchips, computers, and so forth, the state assisted the SMEs even further by creating science parks and R&D institutes and by subsidizing the return of engineers and entrepreneurs from such places as Silicon Valley.

This story rings true; Taiwan is one of the few recorded cases where employment in the largely rural SMEs grew faster than in the largely urban SOEs and LEs between the 1950s and 1980s. But it is a story that is also well documented in what Wu calls the “traditional” or orthodox economics literature. When it comes to causal analysis, he is, of course, entitled to emphasize political rather than purely economic elements. But he goes further; he virtually ignores the impact of the famous 19 points of reform in the early 1960s; the exhaustion of cheap unskilled labor by the early 1970s; the importance of changes over time in the state’s educational emphasis—from primary to vocational secondary to applied tertiary; and the steady, if gradual, liberalization of the foreign trade regime. Instead, he relates the move toward direct SME assistance to the U.S. recognition of the People’s Republic of China in the early 1970s and the felt need to increasingly “Taiwanize” both the bureaucracy and industry. And he continuously emphasizes the role of the small number of political “strong men” dominating the ministries and ensuring that Taiwan does not qualify as a “developmental state” in which the bureaucracy is relatively autonomous and insulated.

These are interesting observations that indeed have the potential to provide a welcome addition to the existing literature, which, while heavily referenced, is, however, hardly referred to. As a consequence, Wu finds it difficult to implement his main thesis, that is, politics as the driving force, with economics as a constraint. The effort is also not helped by a number of ambiguities and assertions that blur the picture. For example, Wu places heavy emphasis on what he calls “societal goods”—a concept that is clearly much broader than public goods and that is apparently intended to include private institutional and cultural dimensions but that is not well defined and thus is sufficiently fuzzy as not to be useful. Additionally, with respect to U.S. aid, which gets quite a lot of attention, most of that was in the form of program or nonproject aid, not, as Wu claims, directly supportive of the SOEs and LEs. Moreover, the announcement by the United States of future cessation of economic aid

(P.36) CHECKED 3

by 1965, putting pressure on behalf of liberalization policies, was made in 1961 and not in 1965. There are other puzzles. In chapter 2, Wu states that "the island had almost no industry ^{in 1949}"; ~~in chapter 2, he takes pains to~~ ^{in 1949} discuss the substantial postwar takeover of Japanese SOEs. Also, with so much emphasis on the role of successive political "strong men" in running ministries and the latter's internecine bureaucratic struggles, why is so much space devoted to the continuously changing—but always relatively weak—planning agencies? Indeed, the volume is marred throughout by seemingly irrelevant meticulous detail and excessive repetition, even in areas that are seemingly quite irrelevant to its major themes.

✓ ^{q5} But, when all is said and done, Wu's main points do stand up. He rejects Wade's emphasis on industrial policy, for example, the bureaucracy opted for the establishment of an automobile industry on Taiwan and against one in Japan! And he places appropriate analysis on the major contribution of decentralized SMEs to the outstanding growth and export performance of Taiwan's industrial sector—initially assisted by the state's benign neglect and later by its active support. Even if, by essentially neglecting the economic side, Wu has not been able to keep his promise to "explain economic growth" by incorporating politics into the story, he has provided some useful raw materials and insights for others to evaluate and utilize in building a more integrated analytical account of Taiwan's successful industrialization effort.

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