

A Political Explanation of Economic Growth: State Survival, Bureaucratic Politics, and Private Enterprises in the Making of Taiwan's Economy, 1950–1985. *By Yongping Wu.* Cambridge: Harvard University Press, 2005. x + 410 pp. Figures, tables, bibliography, notes, index. Cloth, \$49.95. ISBN: 0-674-01779-X.

Reviewed by J. Megan Greene

Scholarship on Taiwan's economic development has overwhelmingly described the Nationalist (KMT) state of Taiwan as a developmental one, emphasizing such features as institutional design, economic policy, and state planning. This literature generally assumes a rational bureaucracy operating within strong and stable institutions working together to generate planned policy that effectively guided development. Until the recent publication of Yongping Wu's *A Political Explanation of Economic Growth*, relatively little scholarship has challenged the impression conveyed in this literature that Taiwan's developmental state was a well-oiled monolith. Wu uses the case of Taiwan's small and medium-sized enterprises (SMEs) to challenge the assumptions made by scholars who have described the KMT state as developmental and to propose a politics-centered, rather than a statist, interpretation of the part played by the state in Taiwan's economic growth.

Enough work has been done on the role of SMEs in Taiwan's economy that most scholarly work takes their importance to Taiwan's export economy as a given. Most of this work, however, assumes that either intentional state policy or Taiwanese entrepreneurship (or some combination thereof) explains the success of the SMEs. Moreover, most of this literature fails to consider the period before the mid-1970s. Though Wu agrees that state policy did help to promote SMEs from the mid-1970s on, he also argues that this policy was the result of political, rather than economic, decision-making, and that its impact was largely accidental. Why, Wu asks, did Taiwan's SMEs succeed even though prior to the late 1970s the state had formulated no industrial policy to support them? "The key to their success," he argues, "was Taiwan's singular industrial structure" (p. 2), which originated in the 1950s and resulted from political rather than economic concerns.

Politics, Wu argues, shaped Taiwan's economic development in a variety of ways. In the first place, throughout the period Wu considers, political goals always took priority over economic goals, although by the late 1970s some economic goals had become political goals. Taiwan's industrial structure, in particular, resulted from KMT attempts to balance necessary economic growth against its desire to rein in the political power of private economic actors. In its

early years on Taiwan, the KMT regime was deeply insecure. It was a minority émigré regime that sought, above all, to hold onto power. As a result, all decision-making was subject to political consideration, and the parts assigned to various economic actors were defined in accordance with political concerns. Hence, Taiwan developed a three-tiered industrial structure, in which state-owned enterprises, many of which were built on the foundations of the Japanese colonial legacy, controlled upstream industries; large private enterprises dominated midstream industries; and SMEs came to dominate the export market. Privately owned large enterprises were both necessary and threatening to the KMT, which sought, on the one hand, to woo their support, while, on the other hand, it tried to control their growth by limiting, in particular, their expansion into exports. SMEs, by contrast, were not large enough to threaten the state, and, as a consequence, the state did not develop an industrial policy either to control or to encourage them. Even when, in the 1960s and 1970s, Taiwan's SMEs began to expand into the export market, they did so as an unintended consequence of the state's campaign to encourage large enterprises to entrench themselves in the domestic market. It was not until a convergence of domestic and international political events in the mid-1970s that it became politically expedient for the KMT to develop an industrial policy to encourage and support SMEs in some industries, such as semiconductors and computers.

Political actors, however, were just as important as political goals and events in shaping economic policy. Wu argues that Taiwan's economic institutions were, in fact, quite weak and that their success or failure hinged upon the political clout and managerial effectiveness of their leadership. Strongmen not only dominated the KMT party-state but were the force behind its successful economic institutions as well. These strongmen were of critical importance to solving problems of coordination within government and between government and industry and enabling successful implementation of industrial policy. The state was able to guide economic development only to the extent that its bureaucratic strongmen "mobilized networks to initiate, design, and implement policy" (p. 320). In cases where there was no such bureaucratic strongman, policy failed. People rather than institutions, therefore, were responsible for Taiwan's successful economic policies.

Although the narrative of this book is just as state centered as those of most works on Taiwan's economic development, Wu's careful, detailed, and well-written treatment of the subject produces a compelling argument that sheds new light on the nature of the state's involvement, an argument that emphasizes politics rather than the state. Wu has consulted a variety of important new archival and interview materials to propose a well-thought-out interpretation of the role of the state that is much more satisfying than the conventional

explanations found in the developmental state literature. The state remains the major actor, but its successes are often accidental and unintended consequences of policies aimed at very different goals. Moreover, the state's choice of policy is political, and its ability to implement policy is highly dependent on the authority of both the political leadership and leading bureaucrats. This book makes a major contribution to the literature on Taiwan's economic development, and it both broadens and deepens our understanding of the role played by the state.

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