

The Genealogy of Neoliberalism in Taiwan: A Neo-Polanyian Approach

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Abstract

This article explores the question of how the market regime was constituted and emerged in Taiwan's developmental state in late 1950s. Since "market" is the core concept of neoliberalism, this exploration would also make clear the social condition and/or historical origin of the rise of neoliberalism in Taiwan.

This article also exhibits the usefulness of a neo-Polanyian approach for understanding the genealogy of neoliberalism in Taiwan by introducing the concept of a "reverse double movement". Two forces dominated the evolution of Taiwan's economy in 1950s, in which a movement of social protection---aim at protecting the special interests of Party State-Mainlander conglomerate and excluding societal, mainly Taiwanese, interests---represented by *the Conservatives* (宮廷派). Against this, a movement striving for economic freedom---but not political freedom---also emerged, spearheaded both by *the Nationalists* (強國派) and *Neoclassical Economists* in academy. In the balance of force, both movements constitute the defining characteristics of developmental state and market regime in this period, known as "export-oriented industrialization"(EOI), or "partial liberalization".

Keywords: Neo-Polanyian, neoliberalism, double movement, developmental state, market regime.

The core claim of this article is that a neo-Polanyian approach can be useful in understanding the rise of neoliberalism in Taiwan. In *The Great Transformation* (2001 [1944]), Karl Polanyi argued that the dynamics of contemporary market societies are characterized by a double movement. On the one hand, the movement of *laissez faire* continually expands the scope of a self-regulating market utopia, penetrating into whole society. On the other hand, the birth of the movement of social protection is also guaranteed, reacting almost instantly and automatically to the former, to insulate the fabric of social life from the destructive impact of market pressures.

But Polanyi's double movement formulation has been criticized for being functionalist or for reifying an abstract entity called "society" that somehow knows how and when to protect itself (Block and Somers 1984; Block 2008: 2). Polanyi also thought the defeat of market ideology in the 1930s was permanent (Burawoy 2003: 240), he would be startling to see the straitjackets that constrained markets since 1950s and 1960s onward were untied during late 1970s and 1980s. Furthermore, it would be hard to explain that people used to be protected from the ravages of the market now actively embrace the ideology of market fundamentalism.

What Is Neo-Polanyian Approach?

Although a Polanyian Framework has great value for making sense of the revival of the free market utopia that has occurred over the last forty years (Block and Somers 2014; Blyth 2002), it is in need of a revamp. First, it needs to explain the shifting political tide of the time, especially the return of market ideology. According to Burawoy (2003: 221), Polanyi was working with an antiquated notion of class formation in which disorganization miraculously leads to organization. For Burawoy, the solution would be to bring Antonio Gramsci back to complement Karl Polanyi. Gramsci used the notion of "Hegemony" to explore the way that ruling class actively manipulate the value system and mores of a society to win "consent" to its rule from those it subjugates. For Block, it is the concept "ideational embeddedness", which

means the power of ideas to shape, structure, and change market regimes, finish the job (Somers and Block 2005: 260). Second, the details still need to be figure out about how to adapt the Polanyian Framework to analyze the current neoliberal situation. In contrast to Gramsci, who held that Hegemony transform and absorb all resistance to stabilize the status quo, Polanyi's "fictitious commodity" thesis powerfully point out that every classes has motive to resist an ever expanding market for self-protection, thereby providing a solid basis to the establishment of "counter-Hegemony", especially for understanding the world in which Post-Fordism and Financialization hold sway.

In Brief, the Neo-Polanyian Approach based on "double movement" thesis, provide a double angle to analyze the current neoliberal moment: on the one hand, to formulate a "reverse" double movement, explaining why market fundamentalism perished since 1930s was back again like Phoenix from ashes of late 1970s, in which marketization as a political project need to be legitimatized, and People's "consent" extracted. On the other hand, to explain how a contemporary anti-market movement is possible, especially focused on the political-cultural question of agency construction.

The Social Construction of Export-Oriented "Market Regime" ¹

I would shift time/ space focus from western societies to an East-Asian one, appropriate the "reverse double movement" framework to explore the genealogy of neoliberalism in Taiwan. The "market regime" of Taiwanese developmental state can be characterized as export-oriented, which means that it depends on the ultimate consumption market of core countries to complete the economic cycles from production to consumption, or transform commodities to make "valorization" of Capital, to use a Marxist term. This is far contrast to Fordism in which mass consumption and production reinforce each other and complete mainly within the

¹ The usage of this term is adopted from Somers and Block(2005), including policies, rules and customs that govern the operations of markets, social and political institutions embedding, regulating and stabilizing markets, and most importantly, ideas that shape, structure, and transform markets.

same boundary of one country.

The fortune of export-oriented market regime depends on world market is clear. When world market is in slump, Taiwan's economy will not perform well either, it is hypersensitive to fluctuation of outside world. This also means that domestic demand won't be the engine of economic growth, which in turn heavily depends on export (Boyer: 2002: 234). Therefore, the social and political institutions regulated and supported this market regime must be very flexible in order to adapt constantly to changing world economic circumstances. These include a undervalued currency, tight fiscal policy, a very flexible labor regime (putting-out system, temporary employment), a highly commodified land and house market, and a social security policy emphasizing self-help or family and employer's responsibility, etc.

The naturalness of this market regime has been well established, warranted by the necessity of economic laws, which are in turn based on so-called "natural endowments" like population, geographical size and climate, etc. Taiwan is doomed to be a small and open economy because of scarcity of its resources, and the strategy of export-oriented industrialization is the corollary of its natural limits.

But the social constructiveness of this market regime will be laid bare, when an international comparison of similar "small states" is made. Based on Katzenstein's typology(1985),² I pick 5 European "small states"(Norway, Denmark, Swiss, Austria and Sweden), compared with East Asian 4 "little dragons"(Taiwan, Singapore, Hong Kong and South Korea), plus Germany and Japan, both also known for their export. These 11 countries have the following common traits: 1. small market size (in terms of population); 2. open to world market; 3. per capita GDP in excess of Taiwan.

² Writing in the background of neoliberal triumph and breakdown of Welfare State, Katzenstein's *Small State in World Market: Industrial Policy in Europe* raised a question reflecting the hot ideological debate and political conflict of the time: Between state and market which is better? The "small states" of which he studied, exhibit a third way beyond the deadlock of "Liberalism" and "Statism." On the one hand, these small states rely on world market very much owing to their size, but on the other hand, It is their small size bestowed on them a distinctive fragility under fickle international political economy that differentiate them from big states which have many ways to cushion the impacts of free trade policy. In a nutshell, small states cannot afford to ignore the distribution problem and social solidarity while open to world market. For Katzenstein, it is an effective choice beyond neoliberalism.

If the domestic demand is the function of market size (in terms of population), then 5 European “small states” would have a higher foreign trade degree of dependence than Taiwan. On the contrary, Table 1 shows, all 5 European states have lower foreign trade dependence than Taiwan, despite of their far smaller population, which means their domestic demand is out of proportion with, and not determined by their population or “natural endowments”.

Table 1 The relationship between market size and domestic demand

Country	Foreign trade degree of dependence (%)	Population (per thousand)	Per capita GDP (USD)
Norway	67.5	5084	100822
Singapore	366.2	5399	55184
Denmark	102.6	5614	58927
Hong Kong	432.5	7188	38121
Swiss	92.6	8081	80532
Austria	109.7	8474	49073
Sweden	87.7	9593	58161
Taiwan	139.8	23374	20925
Korea	103.2	50220	25977
Germany	96.6	80622	45085
Japan	33.6	127339	38492

Source: WTO website.

The difference between European countries and their East Asian counterparts is systematic, and best explained by political regime and social institution. As shown by Katzenstein, these European small states are “democratic corporatism” of a Social Democracy type. The upshot of this comparison is that we need not consider export-oriented market regime as product of necessity, dictated by economic law. It is

not. Once the arbitrariness of this market regime is revealed, there would be more opportunity to correct the systemic tendency of exported-oriented accumulation regime, emphasizing more on the moral embeddedness of economics and domestic demand, without fear violating any economic law.

But how was this export-oriented market regime constructed socially and historically in the late 1950s and laid the foundation for the rise of neoliberalism? This is the subject of remaining article. In the following, this article is organized in three parts. The first would layout my key theoretical and methodological concepts. The second would present a “reverse double movement” for the period of 1950s in Taiwan’s economy, in which a movement of social protection---aiming at protecting the special interests of Party State-Mainlander conglomerate and excluding societal, mainly Taiwanese, interests---represented by *the Conservatives* (宮廷派). Against this, a movement striving for economic freedom---but not political freedom---also emerged, spearheaded both by *the Nationalists* (強國派) and *Neoclassical Economists* in academy. In the balance of force, both movements constitute the defining characteristics of developmental state and market regime in this period, known as “export-oriented industrialization”(EOI), or “partial liberalization”. The third as conclusion would draw the implication and meaning of neoliberalization for Taiwan as a polity.

Basic theoretical premises

The first theoretical building block is “policy paradigm”. According to Hall (1993: 279), the deliberation of public policy takes place within a realm of discourse, which is a framework of ideas and standards specifying not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing. As Thomas Kuhn describe, it is like a *Gestalt* through which policymakers communicate about their work, and it is influential precisely because so much of it is taken for granted. “policy paradigm”

originated from sociological institutionalism, also bear family resemblance to Block's "ideational embeddedness".

Secondly, I conceive institutional change alternates in equilibrium and disruption. Institutions typically do not change rapidly---they are sticky, resistant to change, and generally only change in path-dependent ways. But in rare times, major exogenous shocks and crises that disrupt the status quo and trigger fundamental institutional changes. The notion of punctuated equilibrium conveys this kind of change where institutions are stable until disrupted suddenly by a shock, which triggers a major institutional adjustment and eventually a new equilibrium (Campbell 1998, 2004). Neoliberalism in Taiwan rose in this kind of critical junctures.

Thirdly, for sociological institutionalism, institutions comprise not only formal rules, procedures or norms, but also the symbol systems, cognitive scripts, and moral templates that provide the "frames of meaning" guiding human action (Hall and Taylor 1996: 947). Central to the question of whether organizations adopt a new institutional practice is what confers "legitimacy" or "social appropriateness" on some institutional arrangements but not others. Therefore, this study employs "legitimacy struggle" as a core theoretical mechanism to explore how neoliberalism rose from a peripheral doctrine to become the dominant ideology and economic organizing principles in Taiwan, by focusing on a few important historical crises at which different state bureaucratic sects or actors responded by trying to interpret it differently, offer different solutions, mobilize support, and struggle to win political power, eventually cause policy paradigms shift and revolution, bringing Neoliberalism to fruition.

1950s: The prehistory of Neoliberalism

From the standpoint of institutionalism, neoliberalism bases on the principle of individualism. "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address

ourselves, not to their humanity but to their self-love,” wrote Smith (1994: 15) in one of the most cited passages of the *Wealth of Nations*. Neoclassical economists like Von Hayek or Milton Friedman also justified market capitalism by associating it to personal freedom and choice. It is free markets that allow needs and desires to be satisfied and help make people happy that constitute the best possible economic arrangement ever. On the other hand, the developmental state, which is the dominant institutional form in the 1950s in Taiwan, is very much at odd with neoliberalism. For the economic technocrats, “development” has meaning beyond satisfying personal material interests. It is national survival and security that make “economic development” the first priority, and legitimize state’s interference in the economic sphere. So when the evolving institutions and policies of the developmental state in Taiwan lay the foundations for neoliberal thinking and policies, it was not a natural---as most of economists say---but twisting, dialectical process, a puzzle that must be answered.

The answer must be found in the peculiarities of Taiwan’s developmental state. There are three characteristics that separate Taiwan from Japan and South Korea. First, Unlike Japan and South Korea in which large private enterprises (Zaibatsu or Chaebol) dominate the economy, Taiwan’s industrial order is dualistic, with a large sector of small-scale firms and another large sector of large-scale firms (Wade 1990: 70). A peculiar industrial structure had emerged: the state-owned enterprises (SOEs) monopolized the upstream industries, the large private enterprises (LEs) were entrenched in the intermediated-stream industries, and the small and median enterprises (SMEs) focused on the downstream activities. Further, the SOEs and LEs jointly monopolized the domestic market, whereas the SMEs had free run in the export markets (Wu 2005: 2).

Second, a much more conservative macroeconomic policy than Japan and South Korea, emphasizing high interest rates, price stability and austere fiscal policy, especially contrast to South Korea.

Third, a distinctive industrial policy also stood out. Cheng (1990: 142) observed

that, in the pursuit of export-oriented industrialization (EOI), South Korea centralized various policy instruments, in particular, the power to allocate domestic and foreign credit. Taiwan, on the other hand, employed a more decentralized approach using fiscal incentives and attracting foreign direct investment. In EOI deepening (or second stage import substitution), South Korea intensified its highly discretionary industrial policy to transform itself into a heavy-industry based economy (a “big push” approach), while Taiwan strengthened the existing light industries. In sum, the logic of the Korea approach is hierarchical, unbalanced, and command-oriented; the logic of the Taiwan approach is horizontal, balanced, and incentive-oriented.

These differences usually attributed to political calculus of the ruling regimes. For example, Cheng (1990: 143) argued, in Taiwan, the separation between political power and wealth roughly parallels to sub-ethnic cleavage the Mainlanders and the Taiwanese. Hence policy choices inevitably favor those measures that would fragment business, disperse economic power, and expand the latitude for economic distribution in order to buttress the state’s power bases in society. Following this line of reasoning, Wu(2005) also argued, the KMT, a émigré regime that had lost the civil war on mainland China, winning political support from large firms was critical for the continuance of its rule on an island populated mostly by native Taiwanese. On the other hand, KMT’s insecurities about its rule led it to restrict the large firms in order to prevent the rise of political rivals. Because of their size and fragmentation, the SMEs had little political might and presented no threat to KMT’s rule. Their treatment by the state matched to their political and economic status: They were neither promoted, nor restricted.

In contrast to both, I would add a cultural dimension. How were those political calculi justified and thinkable in the first place? From what political culture and cognitive roadmap did those “rational choices” derive their meaning? On the other hand, there is a parallel between political culture and industrial culture. Both are rationalized, institutionalized meaning systems, the matrix that providing conceptions of what is appropriate agency, policy instruments, cause-effect connections, efficiency,

and what is appropriate solutions...etc. to policymakers (Dobbin 1997). Many elements of industrial culture derived from political culture.

The character of Taiwan's developmental state must to be found in the policy paradigms of developmental bureaucrats. The cultural motive of developmental state, according to Chalmers Johnson, is Nationalism. "The Japanese case is actually one of an economy mobilized for war but never demobilized during peacetime," said Johnson (1999: 41). Taiwan, like Japan and South Korea, chose economic development as the means to combat Western imperialism and ensure national survival (Woo-Cumings 1999: 6). But the idiosyncratic historical conditions of Taiwan's developmental state are very different from both Japan and Korea. As a émigré regime that had no social connection with Taiwanese society, KMT monopolized political and economic resources, excluded the participation of broad Taiwanese society, conducted political violence (the event of Feb 28) and white terror in order to consolidate its rule. Therefore, the mobilizing power of the KMT state was controversial, to say the least. No wonder its coordinating role between public and private sectors for economic development was in a smaller scale than Japanese and Korean state. It is my thesis that Nationalism cannot be the sole basis for mobilizing Taiwanese people to pursue economic development and national glory, and thereby legitimize KMT's ruling, just because Chinese Nationalism was stained too much blood on this land. So, for the legitimacy of this regime, the economic bureaucrats in KMT must find sources other than Nationalism, and to deploy some discursive relationship among Chinese Nationalism, developmental strategies and modernity imaginary.

The policy paradigm of KMT's economic bureaucrats in Mainland China is *Command Economy* (統制經濟) or *Planned Economy* (計畫經濟), the model imitated from Imperial Prussia (Kirby 1984, Bian 2005). For the following three reasons, this policy paradigm must be revised to adapt to new external and internal circumstances. First, owing to its monopolization of all resources in the state, this model must be held responsible to the tragedy of Feb 28. Second, after 1949, while

KMT fled to Taiwan, the world was restructured into two camps under Cold War. The KMT was reassigned a new role of anti-communist stronghold and representative of *Free China*(自由中國). It would be politically incorrect that state control everything in the economy, and it is imperative to show some elements of freedom in political and economic affairs. In exchange for U. S. aid, American model of liberal capitalism had important influence on the KMT. Third, the economy exhibited serious difficulties in international payment imbalance, fiscal deficit, inflation and trade deficit at that time. The most urgent question for KMT reformers is to restore production, curb inflation, earn foreign exchange and maintain defense expenditures (Wu 2005: 48-9). They must somehow to foster private enterprises for these purposes.

The KMT reformers who mostly came from Council for U. S. Aid (CUSA) are *Nationalists*, they act as cultural intermediaries, whose experiments are a process of *bricolage*, that is, judged from their own circumstantial needs, reformers selectively adopted, imitated, even mistranslated western economic knowledge and technologies taught by U. S. aid agency, improvised with their own policy paradigm heritage---*command economy*---to handle crises in the new environment.

The new policy paradigm is called “*planned free economy*”(計畫自由經濟), an apparent oxymoron. It oscillates between two extreme: One is the orthodoxy of *planned economy* steadfastly guarded by the Conservatives, with whom the Nationalists also partly share. Since the privilege of Party State-Mainlander conglomerate constitutes the basis of KMT’s power, the Nationalists cannot altogether ignore it. For example, one of the goals K. Y. Yin would pursue as the head of the *Taiwan District Production Business Management Committee* (TDPBMC) was to identify strong state enterprise winners from within the command economy and put them in charge of state enterprises. But their reform vision also demanded to restrict these privileges, let private enterprises play bigger roles in economy without damaging the social bases of KMT. So, Yin also picked potential profitable industrial areas for promising private enterprises to enter, using entry limits and fiscal and credit policy as incentives.

The other extreme is *free economy* upheld by neoclassical economists in academy and oppositional liberals. While the former believed that policies shouldn't violate universal economic laws, which is the only way to development, the latter fought for economic freedom in order to achieve the ideal of political freedom (for example, the writers and editors of *Free China Magazine*). The Nationalists learnt from U.S. aid official economic planning models, and theorem, formula and technologies of developmental economics. With the insistence and assistance of U.S. official, KMT also initiated an accounting revolution (with the opposition of Conservatives). Together with fostering private enterprises, these policies coincided with economists' and liberals' interest, but they also strongly criticized Nationalists for their lackluster reform. On the contrary, the Nationalists regarded neoclassical economists as bookworms in ivory tower, not knowing reality.

An interesting example appeared in the Chinese journal *Financial and Economic Monthly* (財政經濟月刊), which criticized K. Y. Yin (尹仲容) for his supposed lack of clarity in outlining his vision of Taiwan's future trajectory. The journal editor insisted that Yin had contradicted himself when he had spoken of the state's vital role as a participant in, and supervisor of economic affairs, whilst simultaneously calling on it to expand private enterprises and develop a spirit of private enterprise (Kuo and Myers 2012: 62).

From the viewpoint of the Conservatives and neoclassical economists, the Nationalists didn't have consistent policy thinking. They, like bilingual, constantly switch between two languages or meaning systems, sometimes pro-market, sometimes pro-state regulation, regardless any contradiction that may spring out of their words. But the Nationalists thought themselves as pragmatist, as men who really push things going, not just sit and talk.

In one sense, the ambivalence and self-contradiction of Nationalists, if any, doesn't appear peculiar but universal situation of post-coloniality. In the words of Chatterjee (1986: 2): "It is both imitative and hostile to the models it imitates....It is imitative in that it accepts the value of the standard set by the alien culture. But it also

involves.... two rejections, both of them ambivalence: rejection of the alien intruder and dominator who is nevertheless to be imitated and surpassed by his own standards, and rejection of ancestral ways which are seen as obstacles to progress and yet also cherished as marks of identity.” There is a dislocation between the Scientific Knowledge, which is the only way to Truth, Development and Salvation, and the lived experiences and good sense in which they find themselves and guide action. In fact, what the Nationalists really do is like cultural intermediaries, constantly switched between *Planned Economy* and *Free Economy* (or developmental economics), treated them as tool kits (Swidler 1986), freely selected and improvised any suitable means to questions at hand, without any concern for long term consistency.

The evolution of *Planned Free Economy*: the first stage

The evolution of *Planned Free Economy* went through two stages. The first is about 1949-1955, the second 1956-1960. In the first stage, the primordial goal was to increase production to meet the basic needs of the enlarged population (estimate 1 million refugees from mainland China). The main strategy was to use various policy instruments, including foreign exchange control, import control, credit policy, allocation of U. S. aid, fiscal policy...etc., to select winners and promote targeted industries. The subsidized enterprises included SOEs and LEs, but the majority was the latter. The reason for choosing these industries was to save precious aid funds and foreign reserves. Import substitution was a natural and logical policy choice. The canonical case was the famous “textile contract policy” (代紡代織計畫) (Kuo and Myers 2012: 46-47).

K. Y. Yin used U.S. aid to import cotton yarn and ordered the Central Trust of China (CTC) to contract with local textile manufacturers to weave yarn into clothes, meanwhile, the CTC sold the finished cotton clothes through state-sponsored agricultural and business associations. The textile industry thus grew fast with less capital than before. When problems of overproduction arose, the government’s

response was to end the system of comprehends support and encourage vertical integration and economies of scale.

In the words of Robert Wade (1990), this is typical of “Governed Market” (GM) model, “a whole battery of market-distorting and even market-replacing methods was used to establish the industry quickly.” But in eyes of marketer, they read the sign of respecting mechanism of competition and market.

I would stress the continuation of this policy with *Planned Economy*. Influenced by the management thought in U. S., KMT had used administrative means to create incentives for SOEs, which strapped in the mire of inefficiency, bureaucratism, eating from the same pot...etc., in order to increase efficiency and quality, mainly through competition, in late 1930’s and early 1940’s (Bian 2005: 125-152). This line of strategy is similar to “textile contract policy”. But, no matter “Governed market” or “Free market” controversy, the important question is: What is “market”? Both Developmental State tradition and free marketers didn’t ask this question. In other words, they didn’t problematize “market”. Whatever antagonism between them, both of them presupposed the same idea of market, that is, the equilibrium model of supply and demand conceived in neoclassical economics.

The irony is, whatever idea of market Yin had in his mind, it cannot be in the neoclassical sense. If the “textile contract policy” were based on neoclassical sense of market, then it would contradict entire price control system about foreign exchange and trade, embodied in the multiple exchange rate system. In fact, before 1955, Yin stood firmly with multiple exchange-rate system, arguing it has many merits worth preserving, despite inconvenience. Only after he doubted the necessity of price control, the idea of “self-regulated market” and ensued much more radical reform became possible.

So, what concept of market is implied in the “textile contract policy” anyway? I suggest it is the very intuitive market view that had occurred to Yin: more competition, more efficiency and quality. This is a conception that ordinary customer in marketplace is also acquainted with.

The evolution of *Planned Free Economy*: The second stage

The second stage began when Yin felt that price control originally designed to curb inflation now obstruct further economic development.

Most studies attributed the foreign exchange and trade reform between 1958-60 to the pressure of American advisors. Anticipated that U. S. aid would be ended in the early 1960s, KMT government was informed that reform must be accelerated in exchange for further funds. In 1959, Wesley C. Haraldson, Director of the Mutual Security Mission to the Republic of China gave a speech to local media. He urged to reduce government expenditure, privatization, liberalization, and encourage foreign investment to accelerate economic development, but never mention foreign exchange and trade system. In reality, it is the successful persuasion of neoclassical economists S. J. Jiang(蔣碩傑), D. Z. Liu(劉大中), M. H. Xing(邢慕寰)to, and the acceptance of self-regulated market by the Nationalists, especially the chief architect K. Y. Yin that determined the blueprint of this reform.

The neoclassical economists had different policy proposals than U. S. advisors. They shared with Nationalists the productionist inclination, the main goal of which is to expand export. They proposed government should abolish many existing foreign trade regulations, including high custom tax and import quantity control, devalue the NTD, adopt a floating exchange-rate between the NTD and U. S. dollar and a unitary exchange-rate system.

Although the influence of neoclassical economists was important, the reform between 1958-60 cannot be described either as *free market* reform or *governed market* reform. It is much more complicated. For *free market* model, this reform occurred in the broader framework that remained for a long while a strong *dirigisme* characteristic, which cannot be explained by free market model. More importantly, the success of EOI policy turned out not depending on the free running of market, but on government's conscious actions and social capitals that embedded the market. For

governed market model, it failed to explicate the “market ” concept that made this reform possible, and how market mechanism was constructed in the first place.

As early as 1954, K. Y. Yin had paid considerable attention to the “externality” of entire price control/ multiple exchange-rate system. Rather than the stance about the necessity of multiple exchange-rate system he previously maintained, he now noticed many unintended consequences that control had produced to the detriment of economic development. But the solutions he proposed were adding still more control to rectify the many deficits control had made.

Only after persuaded by neoclassical economists Tsiang, Liu, and Hsing about the truth of “self-regulated market”, Yin made three breakthroughs in thought that must be presupposed for the second stage reform to happen. First, he must have the conception that control wouldn’t be a good policy tool because of the unintended consequences control always incur. Second, he must recognize that all control have externality that it wouldn’t be possible to use control to rectify deficits control has made. Third, most importantly, he must consider all economic activities as an abstract and independent whole, in which all parts connect to other parts, subsumed by some unified and universal economic law called market mechanism. This conception of market is a highly abstract metaphor through which policymakers see society systematically. Only based on this market concept that made it possible to start the second stage reform.

In 1958, there occurred a fierce debate about whether to adopt unitary foreign-exchange rate and pursue free trade between Nationalists and neoclassical economists on the one side, and Conservatives on the other.

In contrast to Yin, who praised Tsiang and Liu’s recommendations, Minister of Finance P. Y. Hsu was highly critical of them. Hsu, as the architect of Taiwan’s foreign trade regime, doubted that abolishing import control and devaluing the NTD would be helpful for export. He argued overseas sugar and rice sales still accounted for 80 percent of Taiwan’s total exports. It is world-market sugar quota that determined the level of Taiwan’s sugar exports, and the price and quantity of rice

export depended on Taiwan-Japan bilateral governmental negotiation. Both didn't have any connection with foreign exchange and trade system. Still worse, if NTD were devalued and foreign exchange control loosened, existing low rice and sugar prices and the low income-elasticity of demand for exports would worsen Taiwan's terms of trade, make imports expensive, and generate inflationary pressure.

Chiang and Liu's response was that Taiwan was already producing hundreds of new cheap products of good quality, whose income elasticity of demand was higher than popularly believed. They reasoned that as exports increased in response to rising overseas demand for Taiwanese products, export earnings would rise more than the increase in the value of traded goods. If they were correct, Taiwan's terms of trade would improve, imports would increase and inflation would be suppressed. As Taiwan's exports increased, Liberalization of foreign trade would promote further export expansion, as well as import growth.

From the post-hoc perspective, the right-and-wrong about this debate is crystal clear. It is the unitary foreign-exchange system and free trade policy that established export-oriented industrialization, and create so-called "economic miracle" of Taiwan in 1960s. Respecting "market force" is at the center of this reform. But from the perspective of participants on the spot, there was no guarantee that EOI reform would be successful, as many failed country in the Third World testified (Payer 1991), and ISI remained a viable alternative. For those who didn't believe the illusion that such a complicated world can be subsumed in, and predicted by, a simple market rule, this policy experiment was indeed an "audacious gambling", as Conservatives then pointed out.

I suggest that a theory of "performativity" of market would be helpful to account for the hazardous processes of reform and explain its successful outcome at the same time. That is, to explain the market success without accepting market utopia.

"Market" needs infrastructures, that is, the social, cultural, and technical conditions that make it possible, and among many things, economics itself is a part of that. The term of "performativity" is meant to deliver the sense that, just like words

not merely describe the world but also partly perform or construct it, so economics doesn't external to market processes either, but is drawn on to provide "algorithms, procedures, routines, and material devices...etc." (MacKenzie 2008: 19) to "performs, shapes and formats the economy, rather than observing how it functions..." (Callon 1998: 2), to the effects that practical use of an aspect of economics makes economic processes more like their depiction by economics, in which the cause-effect relationship is similar to the "self-fulfilling prophecy".

I mention just one important case of "performativity" of market, which is the precondition of the successful free trade reform: The episode of Tangrong Iron Corporation.

Tangrong was the largest private firm in Taiwan. By 1960, it employed 4,500 workers, had over NT\$10 million in assets, and produced over 60 percent of the steel made in Taiwan. It was the island's fifth largest firm in terms of turnover and taxes (Wu 2005: 164).

As the unitary foreign-exchange system initiated in 1960, people's expectation and economic behaviors didn't follow the dictation of economic law, as neoclassical economists so confidently predicted. The main purpose of multiple foreign-exchange rate system was to save precious foreign reserves by distributing them according to a priority set by the different exchange rates, in which the more important items would get under-estimated rate, and the less important the over-estimated rate, letting the latter to subsidize the former. Once exchange rates were unified, the Conservatives worried, imports would rise, and inflation recur. But as long as exports expand, according to the market model, inflation would not happen, because export expansion would result in more foreign reserves and incomes, so imports rising wouldn't incur inflation, but bring price down.

So, the critical point is: people see the opportunity the unitary exchange-rate system open up, and more resources invest in the export industry to grab that opportunity. But the reformers didn't anticipate the expectation of inflation still lingered on, and resources didn't chose to pour into export production (because of the

high risk people subjectively perceived), but anchored in the imports black market and private capital market for chasing higher rent there. The Tangrong Iron Corporation was just the most spectacular case.

Tangrong had borrowed heavily from private capital market to expand the company and to buy an excessive amount of real estate. In age of chronic inflation, the high interest rates in the private capital market would be offset by the high rate of inflation, and the value of real estate would rise in tandem with inflation. This strategy worked for many years and brought easy money for Tangrong, until inflation was reversed in 1960. Tangrong's debt piled up, and financial crisis surfaced with a shortage of working capital.

The government took the unprecedented step of taking over Tangrong, and transformed it into a publicly owned company, despite its strong political connection. It took this kind of decisive action that intimidated the debtors and creditors in the private capital market, and made the flow of funds from the private capital market back to the banks, and finally to the export industry.

Conclusion

It is the characteristic of the policy paradigm of *Planned Free Economy* that a conception of self-regulated market was introduced into, but circumscribed by policymakers in the export sphere, as an "exception" to the domestic economic order that was highly protective and regulative (Ong 2006). In the export sphere, SMEs had free hand to run, they were neither protected nor restricted by the state. But free export market itself must be constructed and performed. The *Planned Free Economy* has two-tiered spatial implication, both in symbolic and real sense: at a specific discursive level, and located in export sphere, it is market principle that predominated, and at a meta-discursive level, located in domestic sphere, it is Nationalism that is the ultimate justification. Planning, regulation and protection of Party State-Mainlander interests has the position of a general principle, free market principle is specific.

What's more, these two principles put in hierarchical order but complement each other. I have said in the beginning of this article, Chinese Nationalism in Taiwan was defective owing to political violence done in this island by KMT. As a consequence, it exerted a smaller mobilizing power for the state to play its coordinating role between public and private for economic development than Japanese and Korean state. But the political and economic order still needs to be legitimized. The best rescuer to strengthen, even "fix" Nationalism is market principle. It deployed some discursive relationship among Chinese Nationalism, developmental strategies and modernity imaginary, gave vent to Taiwanese suppressed energies in private pursuit of business, in exchange of political silence and obedience.

The 1950s was the prehistory of neoliberalism. Although the policy paradigms and worldviews of the developmental state were at odds with neoliberal values, reformers such as K. Y. Yin could partially incorporate neoclassical idea of market into the prevailing industrial order, just because the "at arm's length", "unbiased and evenhanded" nature of market relationship symbolically provided a "public" imagination to fix the defective political order, in which power and resources were monopolized by a Party-State centered conglomerate. In this explanation, "market" was established not owing to state's retreat, but because of its being an useful governing technology adopted by the state.

In the neo-Polanyian framework, this is the outcome of the compromise of two forces. I have suggested a "reverse double movement" for the period of 1950s in Taiwan's economy, in which a movement of social protection---aiming at protecting the special interests of Party State-Mainlander conglomerate and excluding societal, mainly Taiwanese, interests---represented by *the Conservative*. Against this, a movement striving for economic freedom---but not political freedom---also emerged, spearheaded both by *the Nationalists* and *Neoclassical Economists* in academy. In the balance of force, both movements constitute the defining characteristics of developmental state and market regime in this period, known as "export-oriented industrialization"(EOI), or "partial liberalization".

If so, we can see the really ironic part, that is, the upside-down of the ethical evaluation of Polanyi's framework. While social protection is good and market force is bad in Polanyian dichotomy, the former had been deployed to entrench the privilege of a minority in Taiwan, so much so that the majority had no other choice but equate the private freedom of satisfying material gains with common well being. When market idea served as surrogate for the defective political order, KMT had been implicitly and unconsciously in line with the "hidden transcript"(Scott 1990) of oppressed Taiwanese people: for the public(Party-State) is really private(monopoly), and the private(Market) is the only "public good" they can image and strive for. This is a really toxic consequence: the more the majority members of society distrust their government, turn the possibility of collective endeavors and mutual responsibilities to illusion, the more they believe market fiction and base politics on market principle.

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