

In Dire Straits

American Diplomacy and Export-Oriented Industrialization on Taiwan

James Lee¹

Ph.D. Candidate

Department of Politics

Princeton University

Draft. Please do not cite or circulate without the permission of the author.

Abstract

Scholars have pointed to the period 1958-1962 as marking Taiwan's transition to export-oriented industrialization. Although the Chinese Nationalist Party (KMT) had traditionally favored protectionist trade policies and the dominance of state-owned enterprises, the KMT oversaw economic reforms beginning in the late 1950s that set Taiwan on the course of a capitalist and export-oriented development strategy. Previous studies have explained these reforms either as an internal decision of the Nationalist government or as the product of American coercion. Using historical case studies based on original archival research, I argue that the reforms reflected a U.S. diplomatic strategy of persuasion that altered the political balance between competing factions in the Nationalist economic bureaucracy. American officials claimed that a new development strategy would enable the party to pursue its core interests: an autonomous existence in the Cold War and the eventual reunification of China under Nationalist rule. These arguments created political support for a reform-oriented faction at the highest levels of the Nationalist leadership, ensuring a rapid transition to an outward-oriented development strategy. I conclude that the KMT's decision to pursue export-oriented industrialization can only be understood at the intersection of domestic and international politics.

¹ I would like to thank Christina Davis, Thomas Christensen, Helen Milner, Atul Kohli, Christopher Achen, Ethan Kapstein, Dalton Lin, Rory Truex, Keren Yarhi-milo, and Melissa Lee for their advice and guidance throughout the course of this research. Tai-chun Kuo, Hsiao-ting Lin, Chen Hongmin, Lin Tongfa, and Alastair Iain Johnston were generous in offering advice on the historical case studies. The Lynde and Harry Bradley Foundation provided generous support for language study and archival research. All errors are my own.

Introduction

Scholars have pointed to the period 1958-1962 as a critical juncture in the history of Taiwan's political economy. The end of that decade marked a transition from an inwardly-oriented, socialist development model to an outwardly-oriented, capitalist development model that has been widely credited with Taiwan's postwar economic miracle.² The government of the Republic of China (as Taiwan is officially known)³ acted decisively to liberalize the trade regime, promote exports, establish private enterprises, encourage foreign investment, and elevate economic development as a political priority of the Chinese Nationalist Party (Kuomintang, or KMT).⁴ By the end of this process, Taiwan had completed its transformation into a developmental state: state-led development would henceforth be primarily driven by private firms rather than state-owned enterprises, and the state was positioned to expose those firms to competition on international markets.⁵ As Robert Wade has noted, "the liberalization is normally presented as a move from darkness to light, from error to sense."⁶ Yet however much these reforms may be considered rational or welfare-enhancing from an economic perspective, they are politically puzzling.

In spite of its hostility to Communism, the Nationalist Party had never favored capitalism when it ruled mainland China. The Kuomintang was a warfighting party whose paramount goal was military victory – first against the warlords, then against Imperial Japan, then against the Chinese Communists. It favored state ownership of industry to ensure that critical resources would be allocated to the military.⁷ As William Kirby argues, the KMT created an economic model on the mainland that was close to Chalmers Johnson's conception of a plan-ideological state: a state that controlled the means of production not as a means to an end but as an end in itself.⁸

² See Balassa (1988) and World Bank (1993) for a neoclassical interpretation of how these reforms contributed to Taiwan's developmental success. See Wade (2004) and Haggard (1990) for an interpretation of how the reforms contributed to Taiwan's developmental success in conjunction with persistent state intervention.

³ After 1949, the territory under the control of the Republic of China (ROC) was truncated to Taiwan, the Pescadores, Quemoy, and Matsu (the ROC also briefly maintained control of the Dachen islands in Zhejiang Province but abandoned them after the First Taiwan Straits Crisis). Using the name "Taiwan" to refer to all of the territory governed by the ROC is not strictly correct but is consistent with conventional usage.

⁴ Wade (2004), 117-119; Kuo and Myers (2012), 84-86, 92-102; Wang (2006), 135-145, Jacoby (1966), 134-135

⁵ An account of the theoretical significance of these reforms for the formation of the developmental state can be found in Wade (2004), 26-27, and, by implication, Johnson (1987), 141-142. The encouragement of foreign investment is not generally characteristic of a developmental state but is specific to Taiwan. The other reforms brought Taiwan to a similar model as Japan and South Korea.

⁶ Wade (2004), 392

⁷ See Zanasi (2006)

⁸ Kirby (1990), 125-126; Johnson (1982), 18

Even toward the end of the Second World War, when victory against Imperial Japan was within sight, the Kuomintang maintained its support for a socialist development model. Consider for instance the following passage in *Chinese Economic Theory*, an economic manifesto written in 1943 in the name of Chiang Kai-shek to outline the party's vision for postwar reconstruction.

China has long been tied down by the Unequal Treaties, [leading to]⁹ backward industries that cannot compete with the industries of developed countries. As a result, [China] must employ protectionist policies with regard to international trade; with regard to the development of industry, [China] must employ a planned economic system. If industrial development is entrusted to private capital, then [industries] will not have enough capital to establish a [sufficiently] large scale to compete with large foreign trusts or state enterprises. This is the most important reason why the theory of economic liberalism is not suitable for use in China.¹⁰

The contrast between the traditional Kuomintang view of economic policy and Taiwan's export-oriented development model could not be more striking. Although Chiang Kai-shek had favored a protectionist and socialist development model in 1943, by 1958 Chiang and his senior officials had decided to embrace international trade and private capital as the bases of economic growth.

This paper explores the changing political circumstances in the decade after the Nationalist retreat to Taiwan to explain this about-face in the party's development strategy. I focus on U.S. economic diplomacy as the underlying cause of the reforms. I present documentary evidence that Nationalist officials persuaded Chiang Kai-shek to support their reforms by employing arguments that originated in the U.S. aid agencies. The appeal of those arguments caused Chiang to promote reformers to prominent positions in the Nationalist government, ensuring a rapid transition to export-oriented industrialization.

Existing explanations of Taiwan's economic transition are polarized on the relative importance of domestic and international factors in explaining this phenomenon. Scholars who emphasize domestic conditions argue that the reforms reflected the internal politics of the Nationalist government, with some claiming that the reforms reflected changing views in the realm of economic ideas¹¹ and others claiming that the reforms were a side effect of a personnel change that

⁹ Throughout this paper, bracketed insertions in quotations indicate parenthetical statements provided by the author in the interest of clarity.

¹⁰ Jiang (1951), 56. Translated by this author.

¹¹ Haggard (1986); Haggard (1990); Kuo and Myers (2012)

occurred after the Second Taiwan Straits Crisis.¹² These explanations restrict U.S. influence to the realm of economic ideas and downplay the political dimensions of American diplomacy. However, convincing a particular set of elites of the need for reform was not sufficient for realizing those ambitions without also convincing Chiang Kai-shek. In fact, those elites had been politically marginalized until Chiang decided to lend his support to their program, raising the question of how the reformers were able to gain the sympathy of Nationalist China's paramount leader.

At the opposite end of the spectrum are studies that claim that Taiwan's transition was the result of American coercion. Arguments in this category point to the fact that Taiwan was dependent on the United States for its security, so when U.S. officials called for more liberal economic policies in 1959, the Kuomintang had no choice but to comply.¹³ For instance, Thomas Gold argues that "the Chinese government did not have final say over its economy, as the Americans, through AID, had de facto veto power through their control of the Nationalists' economic life-line."¹⁴ A variant of this argument can also be found in Neil Jacoby's study *U.S. Aid to Taiwan*, which claims that reformers cited American pressure to gain approval from the Nationalist leadership.¹⁵

There are reasons to be skeptical about both types of claims. On the one hand, it seems to be more than mere coincidence that Taiwan underwent its transition to export-oriented industrialization at approximately the same time as South Korea, another U.S. client that received enormous volumes of American economic assistance in the early Cold War. On the other hand, it is not plausible to suppose that U.S. power would translate to near-dictatorial influence over the economic policies of its ally. On issues in which the stakes for the United States were far higher, such as the Taiwan Straits Crises, Chiang Kai-shek had shown an uncanny ability to resist American pressure. The claim that Chiang would submissively yield to the United States in the economic realm does not seem to be consistent with his defiance of the United States in the security realm.

In this paper, I argue that Taiwan's reforms in the late 1950s did indeed reflect U.S. preferences. However, the ability of the United States to realize those preferences was due not to the fact that Washington was Taipei's paymaster nor to the fact that Taiwan was dependent on the

¹² Wade (2004); Tucker (1994)

¹³ Cumings (1984), 26

¹⁴ Gold (1986), 68

¹⁵ Jacoby (1966), 131

United States for its security. Neither was the “transmission of policy-relevant knowledge”¹⁶ from U.S. aid agencies to Nationalist technocrats sufficient for steering economic policy toward export-oriented industrialization. In other words, I dispute both the claim that the aid agencies limited themselves to a technical and advisory role and the claim that the United States relied on coercive diplomacy. Instead, I argue that the U.S. relied on a strategy of persuasion that centered on the political economy of national security.

The United States achieved its goals by appealing to the core political interests of the Chinese Nationalists. American officials argued that economic reform would prevent Taiwan from becoming dependent on American aid, a goal that cohered with the Kuomintang’s interest in attaining an autonomous existence in the Cold War. U.S. officials also argued that reform would enable the KMT to prevail against the Chinese Communists by showcasing the prosperity of Taiwan and enhancing the prestige of the Nationalist regime. The joint appeal of these arguments caused Chiang Kai-shek to support the reformers in 1958, sidelining officials who favored the continuation of import substitution. Once the reformers were in power, they oversaw a rapid transition to export-oriented industrialization.

In the remainder of this paper, I shall describe the main features of U.S. economic diplomacy in the context of American strategic interests in the Cold War. Then, I shall outline the debates within the Kuomintang in the 1950s on the subject of economic policy. A subsequent section will present evidence that American diplomacy persuaded the KMT to adopt a new economic strategy.

¹⁶ Haggard (1990), 98-99. Haggard places primary emphasis on “new developmental alliances between executives and reforming technocrats” (99), but he does not attribute this alliance to U.S. diplomacy. Instead, he limits the U.S. role to the “transmission of policy-relevant knowledge” (98).

ROC Economic Policy and American Strategic Interests

The American Interest in Economic Reform

Although the United States avoided directly wading into factional struggles within the Kuomintang, the U.S. was not simply a neutral bystander to these debates. There were compelling reasons for the aid agencies to hope that the reformers would prevail. First and foremost, the United States placed a generally high importance on the strength of Taiwan's economy because of the threat from Communist China. As stated by Under Secretary of State James E. Webb in 1951:

On June 27 [1950] the President ordered the U.S. 7th Fleet to prevent any attack on Formosa [Taiwan] and called upon the Chinese National Government to cease all air and sea operations against the mainland...this decision further imposes a necessity of continuing and expanding the U.S. program of economic assistance not only to assist in maintaining political stability but also to help Formosa develop an economy capable of supporting these modernized forces through rehabilitation and modest expansion of key industrial, transport, communications, and power facilities.¹⁷

This statement explains the logic behind American support for the economic stabilization of Taiwan. In the discussion below I shall demonstrate that the U.S. also sought to promote development after the island's economy stabilized. The importance of the statement above lies in the fact that it shows that American officials believed that the condition of Taiwan's economy was directly linked to the national security of the Republic of China and, by implication, American strategic interests.

Another concern of the United States was that preparation for a counteroffensive at the expense of development (a strategy that many Nationalist officials supported) represented a significant risk that the Kuomintang would drag the United States into a war with the Communist bloc. As shown in the 1954-1955 Mutual Defense Treaty, Washington had to find a way to maintain its commitment to the security of Taiwan without providing so much support as to encourage the Kuomintang to attempt a military venture.¹⁸ In the economic realm, this entailed providing assistance to develop Taiwan's productive resources without allowing funds to be diverted to the

¹⁷ "The Under Secretary of State to the Director of the Bureau of the Budget." 17 April 1951. *Foreign Relations of the United States, 1951, Korea and China, Volume VII, Part 2*. 1631-637.

¹⁸ Christensen (1996), 196-197

military. It is worthwhile to note that the United States did not attempt to exercise aid conditionality until 1959, when it explicitly tied additional allocations of economic assistance to a reduction in the defense budget and the ROC armed forces.¹⁹ Although their general goal was to strengthen Taiwan against Communist coercion, American officials repeatedly emphasized to the Nationalists that effective defense required a stable economic foundation. Excessively high military spending would yield only short-term benefits for the island's security and would jeopardize the viability of the island's economy in the long term.

This highlights two critical points: first, the United States had an interest in encouraging the KMT to focus less on a counteroffensive and more on economic development; second, the United States did not primarily rely on coercive diplomacy to achieve this goal. The use of threats and assurances emerged comparatively late and was limited to the narrow question of Nationalist military spending. As this paper will discuss below, the aid agencies couched the general need for a reform program in 1959 in terms of achieving self-reliance, which had been a central plank of their strategy of persuasion since the beginning of the decade.

Even if the Kuomintang did not actually initiate a war, the determination to prepare for one (and the neglect of development that it entailed) would likely lead the Nationalist government to become dependent on American economic aid. As such, the U.S. interest in Taiwan's economic development can also be understood from purely fiscal considerations. The following selection from the U.S. Embassy's assessment of Taiwan's economy in 1959 summarizes the implications of Taiwan's economic policy for the United States.

The authorities might, after examining the odds, still decide to stake everything on the risk that they will be able to return to the mainland within a short time – say within less than a decade. For such a period, the economy could support the Government in its present policies. However, if after some years they turn out to have been wrong, the island's economic and social plant will have deteriorated, the investments will not have been made, and the plant will not exist from which increased production could come. In such a case, the only hope for continued stability would probably lie in American economic aid far broader than anything yet considered. By the nature of things, the aid needed would increase annually.²⁰

¹⁹ Kuo and Myers (2012), 92

²⁰ "Semi-Annual Assessment of the Economy of Taiwan," 20 May 1959, 1955-1959 Central Decimal File, Department of State, Box 5073. NA.

The emphasis on a military recovery of the mainland would impose a high cost on the United States. Given the troubled history of American aid being wasted by the profligate Nationalist military machine on the mainland, there were compelling reasons for Washington to fear that Taipei would adopt this course.

The U.S. Strategy for Promoting Economic Reform

To persuade the KMT to focus on economic development, American officials advanced two claims. First, they argued that development would prevent the Nationalist government from becoming dependent on American aid. In April of 1951, in a meeting between the Under Secretary of State James E. Webb and the Director of the Bureau of the Budget, Webb stated that “the long-term economic objective of the United States with respect to Formosa [Taiwan] is to contribute to a situation of economic self-support, thereby removing the need for grant aid.”²¹ This general policy of encouraging an attitude of self-reliance was reflected in a memorandum circulated among U.S. officials.

Economic stability is the product of psychological as well as strictly economic factors. In consequence, ECA [Economic Cooperation Administration] should attempt to engender on Formosa [Taiwan] confidence in the long term viability of the Island, a will to assume true responsibility for the operation of the economy, a desire to engage in modest, medium term, balanced development of its resources and productive facilities...²²

This statement provides further evidence for the argument that the United States relied primarily on persuasion to achieve its economic goals on Taiwan. Coercive diplomacy may have been effective at producing a change in the Nationalist government’s policies, but it would not have been effective at producing “a will to assume true responsibility for the operation of the economy.”

The more subtle means of negotiation and suasion were necessary for producing that will. When outlining a concrete reform program in 1959, aid officials repeated the exhortation for Tai-

²¹ “The Under Secretary of State to the Director of the Bureau of the Budget.” 17 April 1951. *Foreign Relations of the United States, 1951, Korea and China, Volume VII, Part 2*. 1633.

²² Rusk, Dean. 2 March 1951. “Policy Assumptions and Questions for Meeting with ECA Regarding Economic Aid Program for Formosa: Fiscal 1952.” *Policy Affecting Aid*. 40.

wan to be economically self-reliant in anticipation of the eventual termination of American assistance.²³ The exhortation to self-reliance reached the highest levels of the Nationalist leadership through technocrats like K.Y. Yin and K.T. Li who collaborated with American officials in programming American aid. The Kuomintang interpreted this exhortation (and the developmental policies associated with it) as an opportunity to reduce its political dependence on the United States and attain a more autonomous existence in the Cold War.

The second plank of the United States' economic diplomacy was to persuade the KMT to conceive of development as part of a larger strategy of ideological competition with the Chinese Communists. Recognizing that the Nationalists would not abandon the sacred goal of recovering the Chinese mainland, American officials sought to divert that determination toward policies that were less likely to produce a military conflict over the Strait of Taiwan. They argued that economic development served the political purpose of demonstrating the superiority of capitalism to the socialist model on the mainland.²⁴ During the First Taiwan Straits Crisis, Secretary of State John Foster Dulles met with Chiang Kai-shek to express the opposition of the United States to the attempt to use military means to recover the mainland. In Dulles' own words:

In the conclusion of my presentation, I dealt with the role of Free China. I said that in my opinion, the Republic of China did have a continuing and important role to play but it minimized this role to be constantly talking about an armed reconquest of the Mainland...there was in fact a bigger role for the Republic of China, and we hoped that the President could find it possible to explain that to his people.²⁵

The "bigger role" that Dulles referred to was the creation of a successful alternative model right on the doorstep of Communist China. While this was partly a tactical measure for restraining Chiang's irredentism, the United States also had a sincere desire to compete with the international Communist movement for influence among developing nations.

In the mid-1950s, the United States government was alarmed at the achievements of the Chinese Communists under the First Five-Year Plan. Although these accomplishments on the eco-

²³ Kuo and Myers (2012), 94

²⁴ Jacoby (1966), 137-138

²⁵ "Telegram From the Secretary of State to the Department of State." 4 March 1955. *Foreign Relations of the United States, 1955-1957, Volume II: China*. 323

conomic front were subsequently overshadowed by the catastrophic events of the Great Leap Forward, the Communists exerted severe competitive pressure on the United States in the 1950s through their ability to oversee rapid industrialization. Even as late as 1960, American officials were not aware of the famine conditions that plagued the mainland, and the image of Communist China was one of breathtaking modernization.²⁶ For instance, W.W. Rostow, a prominent economist and adviser to Kennedy and Johnson,²⁷ later reflected on the urgency that Communist achievements imparted on American economic assistance to the developing world:

The short-run momentum of the P.R.C. was real and suggested to some that the Chinese Communists had hit upon a formula for the rapid modernization of poor, underdeveloped nations that might exert great attractive power as a model to be emulated throughout Asia, the Middle East, Africa, and Latin America.²⁸

The creation of a successful capitalist model on Taiwan would simultaneously reduce the likelihood of a military confrontation between the rival Chinese states and serve the United States' larger strategic goals in the Cold War. As a result, the connection between Taiwan's economic development and competition with Beijing was a consistent feature of American diplomacy. When the United States began negotiations with Nationalist officials to formulate an accelerated development program, the U.S. Deputy Chief of Mission Joseph Yager said that "a great economic success would deal a heavy blow to Communist countries."²⁹

Factional Politics in the Kuomintang

I argue that the United States had an impact on the KMT's development strategy by convincing the highest levels of the Nationalist leadership of the need for reform. American officials drew a direct connection between economic development and the core interests of the government of the Republic of China: attaining an autonomous existence after its defeat in the Chinese Civil War and having a means of recovering the mainland at some point in the future. The reforms

²⁶ Rostow (1985), 203

²⁷ "Persons." *Foreign Relations of the United States, 1961-1963, Volume VIII, National Security Policy*. Accessed 8/1/2016 <https://history.state.gov/historicaldocuments/frus1961-63v08/persons#p_RWW1>.

²⁸ Rostow (1985), 22

²⁹ Quoted in Wang (2006), 136

became a lasting feature of Taiwan's political economy because the United States allied itself with a developmentally-oriented faction in the economic bureaucracy, and this reformist faction gained substantial influence because Washington convinced the Nationalist leadership to support its desired program. To understand why American support was critical for strengthening the hand of the reformers, it is necessary to examine the controversy about economic development on Taiwan in the 1950s. There were prominent and often acrimonious debates about economic policy that reflected larger debates about the future of the KMT.

On one side of this debate was a faction that was concentrated in the financial agencies (which I shall refer to as the socialist faction) and supported a multiple exchange rate system and the dominance of public enterprises. The policies that the socialists advocated also favored the armed forces by granting the military a larger share of government revenue. On the other side was a faction that was concentrated in the industrial agencies and was more developmentally focused and more capitalist in its orientation. It placed its priority on industrialization driven by greater private sector activity, and it considered the multiple exchange rate system to be inimical to this end.³⁰ Another way to conceptualize the debate between these two groups is to conceive of the socialists as favoring more status-quo policies (in the sense that they wished to continue the import-substitution model), whereas the capitalists considered the existing system to be detrimental to Taiwan's economy and were generally reform-oriented. In this paper, I use the term "reformers" to refer to the capitalist faction.

Before 1958, the reformers were unable to exert significant influence over economic policy because they held a weaker position in the Nationalist government. Yu Hongjun,³¹ the leader of the socialist faction, held the office of the Premier,³² whereas Chen Cheng, the leader of the capitalist faction, held the office of the Vice President prior to 1958. The office of the Premier was much more powerful than the office of the Vice President, and Yu Hongjun had placed his deputies in positions of considerable influence. Moreover, as a purely practical consideration, any effort to promote industrialization required funds that only the financial agencies could provide.³³

³⁰ Wade (2004), 389-390

³¹ His name is usually Romanized as "O.K. Yui" in the literature, but in Pinyin, it would be Yu Hongjun.

³² This office (行政院院長) is typically rendered in English as "Premier" and sometimes as "President of the Executive Yuan"; the latter is a closer word-for-word translation from Chinese but is likely to lead to confusion with the office of the President (總統). In the political system of the Republic of China, the President directly chooses the Premier to lead the Executive Yuan (Copper (2009), 120).

³³ Wade (2004), 390

The debate about economic policy on Taiwan in the 1950s fell along similar lines of division as the debate about the Nationalists' larger strategic objectives: whether to focus on returning to mainland China or to accept that the Kuomintang would have to remain on Taiwan for the long term. Broadly speaking, the socialists favored policies that were consistent with the goal of recovering mainland China, earning them the support of the military.³⁴ While an actual military campaign would surely be met with failure, the appearance of preparing for a counteroffensive would have paid substantial political dividends by maintaining morale among the exiled Nationalists. On the other hand, Chen Cheng and his faction (most notably the technocrats K.Y. Yin, C.K. Yen, and K.T. Li) were the leading proponents of the view that the government should place immediate focus on the development of Taiwan and defer the counteroffensive against the Chinese Communists to an indefinite point in the future.

Chiang Kai-shek had to decide between these two factions, and, by implication, whether he wanted to direct the policies and resources of his government toward the recovery of mainland China or the long-term development of Taiwan. There were good political reasons to do both, but Chiang initially believed that he could not accomplish one without sacrificing the other. Economic policy was consequently at an impasse for most of the 1950s, with Chiang Kai-shek giving free rein for Yu Hongjun and Chen Cheng to compete with each other.³⁵

By the late 1950s, there was still no consensus within the KMT about the desirability of development, leading Chiang Kai-shek to personally intervene in the debates. As irrational as it may appear in retrospect, many Nationalist officials preferred to devote the resources of the KMT regime to that immediate military goal instead of preparing to remain on Taiwan for the long term. For instance, consider the following assessment by the economic division of the American Embassy in Taipei in 1959:

For many of the politically powerful mainlanders, economic growth on this island is at best a secondary goal, and for them a division of troops seems far more direct than a factory as a means of realizing their dream of return to the mainland...for the few mainlanders who are doing well here, interest in going back may be only pro forma, but the argument against diverting funds from military use remains a shibboleth, almost immune to direct attack.

³⁴ Wade (2004), 390

³⁵ Wade (2004), 389

The proponent of investment says: “There will not be enough food in ten years.” His opponent answers: “there will be enough on the mainland;” and the argument either stops or proceeds by indirection.³⁶

After Yu Hongjun resigned during a bitter dispute with the Control Yuan³⁷ (an oversight body that was modeled on the Imperial Censorate),³⁸ Chiang finally gave Chen Cheng the authority to implement his desired policies by promoting him to the premiership. The capitalist faction was now in political ascendance. Chen proceeded to install his favored technocrats in the financial and industrial agencies, which meant that he now had the necessary influence in the bureaucracy both to embark on new industrial projects and to ensure that those projects would receive sufficient financing.³⁹

The promotion of Chen Cheng in 1958 coincided with U.S. calls for a new economic strategy. When Wesley Haraldson (the Director of the Mutual Security Mission), outlined a reform program in December 1959, Chen Cheng and the technocrats accepted the proposals and incorporated them in a set of policies known as the Nineteen-Point Project for Economic and Financial Improvement. This led to the end of the multiple exchange-rate system, liberalization of foreign exchange controls, state support for private enterprise, the creation of incentives for exporters, and the establishment of export-processing zones.⁴⁰ The support of the reformers for development, their emphasis on the private sector as the engine of growth, and their push for export-led growth all meant that their economic program aligned closely with the interests of the United States.

This raises a familiar problem for causal inference: was Taiwan’s reform program the result of American diplomacy (especially the American proposal of December 1959) or was the promotion of Chen Cheng in 1958 the true cause, with the United States relegated to having merely proposed policies that the Nationalist government wanted anyway? I argue that Chen Cheng’s promotion was the immediate cause of the reforms, but underlying his promotion and Chiang’s endorsement of his favored policies was an American diplomatic strategy of persuasion that produced a re-orientation of the Nationalists’ priorities by the late 1950s.

³⁶ “Semi-Annual Assessment of the Economy of Taiwan,” 20 May 1959, 1955-1959 Central Decimal File, Department of State, Box 5073. NA.

³⁷ See Chen (2011) for a detailed account of the dispute.

³⁸ Copper (2009), 126

³⁹ Wade (2004), 388-392

⁴⁰ Kuo and Myers (2012), 90-102

American Persuasion and Export-Oriented Industrialization

The two planks of U.S. economic diplomacy – self-reliance and ideological competition with Beijing – were effective at securing a developmental orientation in the Nationalist government because they cohered with the KMT's political priorities. Self-reliance would ensure a greater measure of autonomy from the United States, which was desirable in the context of the strained and often confrontational relations between Taipei and Washington in the 1950s. Ideological competition with Beijing would enable the Nationalist government to demonstrate that it was still striving to achieve Chinese reunification by undermining the appeal of Communism. As this section of the paper will demonstrate, these U.S. arguments featured prominently in bilateral diplomacy and were reflected in the appeals of the reformers to Chiang Kai-shek, and the documentary record shows that it was on the basis of these arguments that Chiang decided to lend his support to their economic program.

Chen Cheng and the technocrats were closely aligned with the United States in the realm of economic policy. They shared the American concern with shifting the priorities of the Nationalist government away from a military counteroffensive and toward economic development. Chen Cheng had overseen a phenomenally successful land reform program in which the American aid agencies had served in a technical and advisory role.⁴¹ However, although his faction received the support of the United States, Chen himself did not openly court favor with Washington. As a member of the political elite, and especially as a possible contender with Chiang Kai-shek's son Chiang Ching-kuo for the succession to the presidency, Chen would have invited suspicion and possibly retribution if he had asserted himself as an ally of the United States government. Others who had walked this route had met with political misfortune because their sympathies to American interests had caused Chiang Kai-shek to consider them a threat.⁴² As such, the wisest political strategy for Chen Cheng to gain Chiang's approval for his desired reforms was to frame them as Nationalist policies that would secure Nationalist interests.

The technocrats, however, faced less of a political risk in being associated with the United States. There was a mandate for them to coordinate with the aid agencies through institutions like

⁴¹ See Chen (1961)

⁴² Tucker (1994), 73-74

the Council on U.S. Aid (CUSA) and the Economic Stabilization Board (ESB). In meetings of the CUSA, representatives of the United States government played a key role in the formulation and implementation of aid proposals.⁴³ Through these interactions, American advisors were able to convince the technocrats of the need for market-oriented reforms to secure a capitalist basis for Taiwan's development.⁴⁴ The transmission of economic ideas from the U.S. aid agencies to the Nationalist technocrats has been discussed so extensively elsewhere that it is not necessary to review them here.⁴⁵ What previous studies have omitted is that the transmission of economic ideas alone was not sufficient for steering the Nationalist government toward reform, especially when the socialist faction could justify the continuation of import substitution in terms of the sacred goal of recovering the Chinese mainland. To compete with and ultimately prevail over the socialists, the technocrats who favored capitalism needed a way to justify their proposals in terms of the core political interests of the Kuomintang.

This was an especially acute concern because it became clear over the course of the 1950s that without high-level political support, the technocrats were vulnerable to political reprisals. They may have had greater latitude than Chen Cheng to associate themselves with the American advisors, but they could not operate effectively without a strong political mandate. Although K.Y. Yin had widely earned respect and fame as the Minister of Economic Affairs, he was forced to resign in a scandal in 1955 that many suspected to be politically motivated. A legislator named Guo Zijun accused Yin of having engaged in wrongdoing when he had been the Director of the Central Bank of China. As Kuo and Myers (2012) observe, it was not unusual for members of the legislature to make these kinds of accusations; but what was unusual was that the Premier, who was none other than Yu Hongjun, swiftly transferred the case to the Procurator of the Supreme Court. In the course of the investigation that followed, Yin resigned from all of his government posts. Tellingly, Yin's replacement as Minister of Economic Affairs was a staunch socialist, and Yin's resignation occurred in the context of a three-year period of rising socialist inclinations among Nationalist officials. As Yin was eventually exonerated, some contemporary observers speculated that the accusations against him had been part of an attempt to humiliate Chen Cheng.⁴⁶

⁴³ Kuo and Myers (2012), 115

⁴⁴ *Ibid.*, 115-117

⁴⁵ C.f. Kuo and Myers (2012), 115-117; Jacoby (1966); Tucker (1994), 53-62

⁴⁶ Kuo and Myers (2012), 70-71

What this episode demonstrates is that the technocrats could not afford to limit their proposals to claims about the economic merits of particular policies. Given the fact that the socialists held critical posts that they could use to stifle reform, the technocrats had to defend a capitalist development strategy in terms that would appeal to Nationalist leaders at the highest level. This inevitably meant a political appeal, for leaders like Chiang Kai-shek and even Chen Cheng had risen to power through the armed forces and possessed a limited capacity for evaluating technical arguments about economic policy. The technocrats had gained Chen Cheng's support early on, but that support did not guarantee political protection because Chen only held the largely honorific post of Vice President before 1958.⁴⁷ To prevail over the socialist faction, it was necessary to appeal to Chiang Kai-shek himself. The transmission of political arguments began with 1) American advisors and then extended to 2) technocrats, and then to 3) political elites, and then finally 4) to the president.

There are strong indications that American arguments shaped Chen Cheng's understanding of the political significance of economic development. One can detect evidence of this in Chen's memoirs and correspondence with Chiang Kai-shek. In his memoirs – which he wrote around the time of the reforms – Chen underscores the dangers of becoming dependent on foreign aid and stresses the virtue of self-reliance.

Ultimately, it is those who are capable of helping themselves who are qualified to help others or to receive help from others. If the economic life of the country receiving aid becomes inseparable from economic assistance, then the spirit of self-reliance will exist in name only.⁴⁸

Crucially, Chen argues that the United States shared the goal of enabling Taiwan to achieve self-reliance. He cites the emphasis in the China Aid Act of 1948 on requiring the Chinese government to “carry out an effective self-help plan,”⁴⁹ as well as the emphasis in the Mutual Security Program on “stimulating Taiwan's self-reliance, employing planned development, and reducing or eventually eliminating American economic aid.”⁵⁰ To some extent, Chen understood the American position through a reading of U.S. legislation and official statements, but he also learned about the

⁴⁷ Wade (2004), 391

⁴⁸ Chen (2005), 409. Translated by this author.

⁴⁹ *Ibid.*, 409

⁵⁰ *Ibid.*, 409

United States' favored policies through the technocrats who were allied with Chen and interacted regularly with American advisors.⁵¹

Chen was also one of the leading proponents of the view that the Kuomintang should utilize economic development to engage in ideological competition with the Chinese Communists, though his interpretation of what this meant was somewhat more militant than what the United States advocated. Chen Cheng sought to reassure other Nationalist officials that focusing on development in the near term did not have to entail abandoning the possibility of a military counteroffensive in the long term.

In this period of “waiting,” although it is impossible to engage in a military counteroffensive, we can accomplish much in a “political counteroffensive,” an “economic counteroffensive,” and a “cultural counteroffensive” – why not refer to these counteroffensives as a counteroffensive in spirit? ...[if our] economy is more prosperous, if our culture is more advanced, if the livelihood of our people makes daily progress toward wealth and prosperity, then our mainland compatriots will look to Taiwan as [those experiencing] a great drought look to the clouds and rainbows.⁵²

It is understandable that Chen, as a senior Kuomintang official, would not openly advocate abandoning a military counteroffensive. To have done so would have challenged the legitimacy of the Nationalist government's claim to being the government of all of China, of which Taiwan was an integral part, and by implication the legitimacy of the Nationalist (and mainlander) presence on the island. Nevertheless, in spite of the difference in interpretation and emphasis, Chen's argument about the desirability of economic development clearly aligned with one of the key planks of American economic diplomacy.

There is also evidence that these arguments influenced Chiang Kai-shek, who, as the paramount leader of Nationalist China, held the final verdict over all of the major decisions of the Kuomintang. Although Chiang could not judge the merits of technical arguments, he was acutely sensitive to the political questions that were implicated in the different development strategies. Since the socialist faction received the support of the military and favored an imminent counteroffensive against Communist China, Chiang's decision to support the capitalist faction effectively amounted to an acceptance of the fact that the recovery of the mainland was a long-term prospect

⁵¹ Kuo and Myers (2012), 94, 116

⁵² Chen (2005), 285-286

and that the economic development of Taiwan had to be the KMT's immediate priority. One of the most important decisions that Chiang made in this regard was to promote Chen Cheng to the premiership in 1958. There are alternative views in the literature about precisely what Chiang's motives were, so I shall review existing arguments in light of the historical evidence.

The conventional wisdom about Chiang Kai-shek's appointment of Chen Cheng as Premier in 1958 is that it was a response to the Second Taiwan Straits Crisis.⁵³ The most extensive elaboration of this thesis is in *Governing the Market*. Relying on research by Robert Silin, Robert Wade argues that Chiang promoted Chen because of his military background, which would deter aggression from the Chinese Communists by bolstering the image of Taiwan's military preparedness. Wade also acknowledges that during the Second Taiwan Straits Crisis, the United States pressured Chiang to prioritize development instead of a counteroffensive, but he concludes that Chiang accepted a new economic strategy "mainly because he wanted to change his leading personnel for reasons not closely connected with economics, and the change in strategy came along with the change in personnel."⁵⁴

There is a chronological issue with this claim: the Second Taiwan Straits Crisis began with the shelling of Quemoy and Matsu by the Chinese Communists on August 23rd, 1958,⁵⁵ but the nomination of Chen Cheng as Premier had already been confirmed by the Legislative Yuan on July 4th, 1958.⁵⁶ Chen Cheng's diaries indicate that Chiang had stated his intention to promote Chen as early as June 6th, 1958.⁵⁷ There is a remote possibility that the Nationalists predicted the eventual PLA attack. If this were true, then Chiang could have chosen Chen as Premier in anticipation of the shelling of Quemoy and Matsu for the reasons that Wade describes. Mao later told the Soviet ambassador that in the fall of 1957, Chiang Kai-shek had *requested* a shelling of the islands, probably as an attempt to strengthen the Nationalists' case in their request for nuclear

⁵³ Haggard (1990), 91; Tucker (1994), 56; Wade (2004), 392. Haggard (1990) adds that in addition to the onset of the crisis, Chiang's decision reflected his confidence in Chen Cheng's competence in economic policy and his conclusion that development would serve larger political objectives. The argument in this paper agrees with these aspects of Haggard's claim, but it differs on the crucial point that Chiang was personally convinced of the need for reform, so his appointment of Chen Cheng did not only reflect his trust in Chen's competence. Moreover, Haggard does not explain what political objectives Chiang had in mind, and most critically, he does not argue that the connection between Chiang's political objectives and economic development originated in American arguments.

⁵⁴ Wade (2004), 392

⁵⁵ Christensen (1996), 195-196

⁵⁶ "Record of Approval of the President's Nomination of Chen Cheng as Premier." *Assembly Affairs Museum, The Legislative Yuan*.

⁵⁷ 6 June 1958. *Chen Cheng's Diaries*. 887.

weapons from the United States.⁵⁸ However, there are reasons to doubt this claim. It does not seem likely that the Chinese Communists would have attacked Quemoy and Matsu if they had reason to believe that a conflict would lead to the stationing of nuclear weapons on Taiwan. Moreover, if Chiang had in fact made this remark in the fall of 1957, and if Chiang had chosen Chen to be the Premier in anticipation of the Communist bombardment, it seems strange that he would have waited until the summer of the following year to make the appointment.

Moreover, the theory that Chiang promoted Chen in order to deter military aggression by the Chinese Communists is implausible because Chiang understood that Mao never intended to actually capture Quemoy and Matsu. Those islets were part of Fujian rather than Taiwan, and the fact that all of the islands were under Kuomintang rule provided a political link between Taiwan and mainland China. Such a link was important because of the fear that the Taiwanese would view the Nationalist government as an alien regime. Taiwan had been a Japanese colony ever since China's defeat in the First Sino-Japanese War in 1895, and it was not "returned" to China until 1945. In the four years between retrocession and the retreat of the Nationalists from the mainland, Taiwan had been under the rule of a corrupt and inept governor. This resentment boiled over in the tragic events of February 28th, 1947, in which Chiang Kai-shek ordered a bloody crackdown on the local Taiwanese in response to a mass uprising against the Nationalist government. After the government of the Republic of China relocated from Nanjing to Taipei in 1949, there was a perceived danger that tensions would erupt again and lead to a concerted challenge to Kuomintang rule.⁵⁹

In an attempt to rationalize its presence on the island, the Nationalist Party maintained its claim to being the rightful ruling party not just of Taiwan, but of a Chinese nation-state of which Taiwan was an integral province. Quemoy and Matsu represented the last foothold of the ROC government on mainland territory. A Nationalist loss of the islands would have meant that there was a government that only ruled Taiwan and another government that only ruled mainland China. This would have led to the effective separation of Taiwan from mainland China and hence would have been anathema to the interests of both the Nationalists and the Communists.⁶⁰ The United

⁵⁸ The U.S. eventually did station nuclear-armed Matador missiles on Taiwan, but they were manned by an American crew. Taylor (2011), 493-494, 500

⁵⁹ See Chen (2011), 665-666 for a discussion of how the 2/28 Incident influenced Chiang's thinking even as late as 1958

⁶⁰ Christensen (2011), 141

States was largely unaware of these concerns and regarded the Communist bombardment as an existential threat to the Nationalists' security. However, Chiang Kai-shek understood that Mao shared his aversion to the separation of Taiwan from China,⁶¹ so it seems unlikely that Chiang would have promoted Chen to the premiership in order to deter a threat that he privately knew never really existed.

Even if one were to account for the inconsistency in the chronology by arguing that Chiang had anticipated the conflict over Quemoy and Matsu, Chen Cheng would have been an odd choice for the premiership if Chiang had been focused on burnishing the image of the Kuomintang's military effectiveness. In the factional struggles prior to 1958, Yu Hongjun and his supporters had advocated policies that received the support of the armed forces. If the selection of the Premier had in fact been motivated by military considerations, it would have been more logical to replace Yu with someone in the socialist faction rather than Chen Cheng. Wade simply remarks that this was an ironic decision, and he says that Yu had lost the favor of the mainlander group because they did not consider him to be "sufficiently martial," while Chen Cheng had been a distinguished general.⁶² I think that this argument places too much emphasis on symbolic gestures. If one were to consider the concrete policies that the various factions advocated, the clear choice of the military for a successor to Yu Hongjun would have been a socialist instead of Chen Cheng.

Rather, the weight of evidence suggests that Chiang's main motive for appointing Chen Cheng was his desire to bring about economic reforms. Chen had been petitioning Chiang in the year prior to his appointment to beware of the dangers of import substitution. The following is a selection from a letter that Chen wrote to Chiang Kai-shek in June of 1957.

[Only when we] do our utmost to cultivate economic enterprises and support economic development [can this be said to be] the basis of supporting the people and supporting the military and managing public finances. But this is not happening now; [we] are often indulgent in [managing] revenues and expenditures, repressing the economy. The economy is like the spring, and public finances are like the stream; how can we do this and yet hope that the spring will continue to flow and the river to run? With regard to foreign exchange and trade, [our] measures are inappropriate, and there are those in the debate who [welcome] the pain of restricting exports and encouraging imports.⁶³

⁶¹ See Taylor (2011) for a discussion of the evidence showing the secret coordination between the Nationalists and Communists to prevent Taiwan from being politically separated from China.

⁶² Wade (2004), 392

⁶³ "Letter with opinions on three issues: policies, the system, and party affairs." 6 June 1957. *The Letters of Chen Cheng: Correspondence with Chiang Kai-shek*. 778.

Chiang was well aware of Chen's position in the policy debates, which means that Chiang must have understood that promoting Chen after the resignation of Yu Hongjun would have an impact on the economic strategy of the Nationalist government. Although it is certainly possible that other factors influenced Chiang's decision, the fact that Chen had clearly stated his position in favor of an export-oriented strategy in his private correspondence with the President meant that his promotion was implicitly an endorsement of his favored policies.

Chen Cheng's own reflections on his promotion indicates that economic policy was one of the main issue areas over which he had exercised responsibility. In 1960, Chen wrote a letter to Chiang Kai-shek in which he stated that after Yu Hongjun resigned in the summer of 1958, "although I knew the environment was difficult, the only thing [to do] was to face the danger and do my best."⁶⁴ Following that statement was a description of the economic situation in 1958 which Chen Cheng believed he had been tasked to manage:

When I accepted [the promotion] in 1958, it was in the middle of an economic depression, there was widespread bankruptcy, and gold and U.S. dollars and price levels were unstable. Because of our diligence in regulating finance and improving foreign exchange [reserves], trade, and price levels, the economic situation temporarily stabilized, and fortunately the effects were not serious.⁶⁵

Chen Cheng seems to be exaggerating how weak the economy had been in 1958. Haggard points out that by the mid-1950s, Taiwan had begun experiencing market saturation, lower rates of economic growth, the pernicious effects of corruption, and balance of payments problems;⁶⁶ but the economy had not experienced anything nearing the severity of a depression. Chen may have decided to describe the circumstances at the time of his appointment in hyperbolic terms in order to

⁶⁴ "Letter to request [permission to] resign from the joint position of Premier." 21 May 1960. *The Letters of Chen Cheng: Correspondence with Chiang Kai-shek*. 789. There is some ambiguity in this letter about what precisely Chen meant by a "difficult environment." The interpretation I have chosen is that the "difficult environment" facing Taiwan was the economic crisis. Another plausible interpretation is that the "difficult environment" referred to the controversy surrounding Chen simultaneously holding the offices of Vice-President and Premier. If this latter interpretation were correct, then it meant that Chen was willing to court political controversy in order to steer Taiwan out of its economic crisis. In either case, the argument of this paper still holds.

⁶⁵ "Letter to request [permission to] resign from the joint position of Premier." 21 May 1960. *The Letters of Chen Cheng: Correspondence with Chiang Kai-shek*. 789-780.

⁶⁶ Haggard (1990), 90-91

highlight his accomplishments. Even so, he evidently drew a connection between his assumption of the premiership and the need to take immediate action on economic policy.

There is still further evidence that Chiang Kai-shek was personally convinced of the benefits of reform in that he personally reviewed and approved the reform package that Chen Cheng and the capitalist faction proposed in 1960, and he had personally agreed to place primary emphasis on development in 1958. Chiang's approval was critical for ensuring a successful transition to export-oriented industrialization because the reformers' repackaging of the American proposal became much more authoritative after it received the personal support of the Nationalist leader.⁶⁷ The specific reasons why Chiang decided to support a new development strategy reflected American diplomacy. The arguments of the United States reached Chiang through two main channels. Chen Cheng and the technocrats played a leading role in transmitting the argument about development leading to political independence from U.S. aid, whereas direct bilateral diplomacy was the main channel for transmitting the argument about building up Taiwan as an alternate model for China.

After the United States proposed a reform program in 1959, Chen Cheng and the technocrats met with Chiang Kai-shek on January 7th and January 8th, 1960 to explain the content of the proposals and gain the president's approval. One of the technocrats who attended those meetings later shed light on Chiang's thinking. According to Luta Wang's biography of K.T. Li, which was based on interviews with Li himself, "although Chiang received a large amount of US Aid, he always worried that Taiwan had become too dependent upon the US. The economic policy-makers were therefore able to persuade Chiang by arguing that Taiwan could eventually achieve economic independence by using US Aid effectively."⁶⁸ In other words, Chiang had an existing belief that it was in the interest of the Nationalist government to reduce its dependence on the United States, and the contribution of the reformers (which, as we have seen, was indirectly the contribution of the American aid agencies) was to emphasize that economic development would enable the Nationalists to achieve that goal.

Throughout the 1950s, the United States consistently communicated its belief that the proper role of the Nationalist government on Taiwan was to be an alternate political and economic model for the rest of China. As discussed above, the United States reiterated this point during the

⁶⁷ Wang (2006), 138, 140

⁶⁸ *Ibid.*, 138-139

First Taiwan Straits Crisis in an attempt to dissuade the Nationalists from attempting a military venture against the Chinese Communists. Chiang's response during the meeting with John Foster Dulles in 1955 sheds light on the appeal of the United States' arguments.

The President replied that he fully shared my view regarding the future role of his government...he said, however, that he had had to give due consideration to another important problem; namely, the public handling of these matters in order to bolster morale and keep hope alive regarding a return to the Mainland.⁶⁹

It appears that Chiang had agreed with the U.S. position as early as 1955 but could not yet concede the point in rhetoric or in practice. This is not to say that the U.S. had planted this argument in Chiang's mind. As early as 1950, Chiang had stated in a meeting of the Kuomintang Central Reform Committee that one of the goals of the Nationalist Party was to make Taiwan a "model province of the Three Principles of the People." At the same meeting, however, Chiang stated that the reconstruction of Taiwan would also serve the purpose of creating a base with which to counterattack the Chinese mainland.⁷⁰ Kuomintang policies in the early 1950s were much more consistent with the latter goal than with the former. I would argue that the role of the United States was to reverse the relative weight of these two goals and to convince Chiang to build up a capitalist model on Taiwan and to conceive of the counteroffensive as a long-term prospect.

The second time that this issue came to the fore in U.S.-ROC relations was during the Second Taiwan Straits Crisis. In October of 1958, Dulles visited Taipei in an attempt to persuade Chiang to renounce the use of force against Communist China. Chiang refused, and the final language of the Joint Communiqué did not preclude the possibility of a counteroffensive.⁷¹ However, the United States did secure Chiang's agreement not to rely primarily on military means to recapture the mainland.

The Government of the Republic of China considers that the restoration of freedom to its people on the mainland is its sacred mission. It believes that the foundation of this mission resides in the minds and the hearts of the Chinese people and that the principal means of

⁶⁹ "Telegram From the Secretary of State to the Department of State." 4 March 1955. *Foreign Relations of the United States, 1955-1957, Volume II: China*. 323-324.

⁷⁰ Chen, Zhao, and Han (2010), 171

⁷¹ Taylor (2011), 498-500

successfully achieving its mission is the implementation of Dr. Sun Yat-sen's three people's principles (nationalism, democracy and social well-being) and not the use of force.⁷²

The expression "social well-being" in the English version of the Communiqué is not an adequate rendering of the Chinese, for the original expression for the third of Sun Yat-sen's Principles is *minsheng zhuyi*, which literally means the Principle of the People's Livelihood and effectively means economic welfare or (more loosely) development.⁷³ Jay Taylor interprets the inability of the U.S. to persuade the KMT to renounce the use of force as a "total capitulation,"⁷⁴ but the Communiqué reflected compromises by both sides. Chiang's refusal to preclude the possibility of a military counteroffensive should not obscure the fact that the United States had convinced the Kuomintang to assign highest priority to development by winning "the minds and hearts of the Chinese people" – in effect, a stated determination to engage in ideological competition with the Chinese Communist Party.

Conclusion

Scholars have pointed to 1958-1962 as the period of Taiwan's transition to export-oriented industrialization. The reforms of those years established the foundations of a capitalist model under the existing state-led system, concluding the process of the extended formation of Taiwan's developmental state. Although that model eventually proved to be remarkably successful in producing rapid industrialization, its creation was attended by significant resistance from conservatives who favored a socialist system dominated by state-owned enterprises. As a revolutionary movement, the Chinese Nationalist Party had traditionally subordinated the abstract goal of economic progress to the concrete goal of achieving military victory against the warlords, Imperial Japan, and the Chinese Communists. During its tenure on the mainland, the Kuomintang had sought to bring economic resources, especially heavy industry, under the control of the state to strengthen its capacity to engage in warfighting. The fact that the KMT eventually created a model of trade-oriented capitalism on Taiwan is a striking phenomenon that deserves closer scrutiny.

⁷² "Joint Communiqué." 23 October 1958. *Foreign Relations of the United States, 1958-1960, Volume XIX: China*. 443-444

⁷³ Copper (2009), 143

⁷⁴ Taylor (2011), 500

In accounting for this change in Taiwan's development strategy, some scholars have emphasized "cognition change"⁷⁵ and "the economic ideologies prevailing among political elites and their technocratic allies,"⁷⁶ while others have emphasized American coercion. I have argued in this paper that an American diplomatic strategy of persuasion was the fundamental cause of Taiwan's economic transition. In addition to transmitting economic ideas, the United States made political appeals to the Chinese Nationalists to place primary emphasis on economic development. These political appeals fell under two categories: first, that development would reduce the Nationalists' dependence on U.S. aid; second, that development would strengthen the prestige of the Kuomintang in the competition with Chinese Communism. Only rarely and comparatively late in the aid relationship did the United States engage in coercive diplomacy; American relations with the KMT in the economic realm were characterized more by suasion than by the use of threats and assurances. The reliance on persuasion was successful at creating political support for the United States' desired policies at the highest levels of the Nationalist leadership, ensuring the survival of the capitalist developmental state long after the departure of the aid agencies.

⁷⁵ Kuo and Myers (2012), 119

⁷⁶ Haggard (1986), 345

References

Archival Collections

The National Archives (NA)

2.500.002 *Policy Affecting Aid (1951)*. 1951. Records of the Office of Chinese Affairs, 1945-1955 Collection. U.S. National Archives. *Archives Unbound*. Web. 19 July 2016. <<http://go.galegroup.com.ezproxy.princeton.edu/gdsc/i.do?&id=GALE%7CSC5101249929&v=2.1&u=prin77918&it=r&p=GDSC&sw=w&viewtype=fullcitation>>.

United States Department of State, Record Group 59 (RG 59), Decimal Files (1955-1959).

Microfilm Collections

United States Department of State and Davis, Michael C. (ed.). 1986. *Confidential U.S. State Department central files. Formosa, Republic of China, 1950-1954 internal affairs, decimal numbers 794A, 894A and 994A, and foreign affairs, decimal numbers 694A and 611.94A*. Frederick, MD: University Publications of America.

Published Collections

Chen, Cheng. 2005. *Chen Cheng xian sheng hui yi lu* (The Memoirs of Chen Cheng). Taipei Xian Xindian Shi: Academia Historica.

Chen, Cheng. 2015. *Chen Cheng xian sheng ri ji* (Chen Cheng's Diaries). Taipei Shi: Institute of Modern History, Academia Sinica.

Chen, Cheng and He, Zhilin (ed.). 2007. *Chen Cheng xian sheng shu xin ji: yu Jiang Zhongzheng xian sheng wang lai han dian* (The Letters of Chen Cheng: Correspondence with Chiang Kai-shek). Taipei Xian Xindian Shi: Academia Historica.

Foreign Relations of the United States, 1950-1963. Washington, D.C.: U.S. Government Printing Office.

Secondary Sources

Balassa, Bela. 1988. "The Lessons of East Asian Development: An Overview." *Economic Development and Cultural Change* 36(3) Supplement: S273-S290.

Chen, Cheng. 1961. *Land Reform in Taiwan*. Taiwan: China Publishing Company.

Chen, Hongmin. 2011. "Jiang Jieshi yu 'tanhe Yu Hongjun an' de chuzhi" (Chiang Kai-shek and his Handling of the Yu Hongjun Impeachment Case) in *Chiang Kai-Shek's Diaries and the Study of Republican Chinese History, Volume 2* by Lu Fangshang (ed.). Taipei, Taiwan: Shijie Datong Chuban Youxian Gongs. 659-670.

Chen, Hongmin, Zhao, Xingsheng, and Han, Wending. 2010. *Jiangjieshi houban sheng* (The Later Life of Chiang Kai-shek). Zhejiang: Zhejiang University Press.

Christensen, Thomas J. 1996. *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947-1958*. Princeton, NJ: Princeton University Press.

- Christensen, Thomas J. 2011. *Worse than a Monolith: Alliance Politics and Problems of Coercive Diplomacy in Asia*. Princeton, NJ: Princeton University Press.
- Copper, John F. 2009. *Taiwan: Nation-State or Province?* Boulder, CO: Westview Press.
- Cumings, Bruce. 1984. "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences." *International Organization* 38(1): 1-40.
- Gold, Thomas B. 1986. *State and Society in the Taiwan Miracle*. Armonk, New York: M.E. Sharpe, Inc.
- Haggard, Stephan. 1986. "Review: The Newly Industrializing Countries in the International System." *World Politics* 38(2): 343-370.
- Haggard, Stephan. 1990. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Ithaca, NY: Cornell University Press.
- Jacoby, Neil H. 1966. *U.S. Aid to Taiwan: A Study of Foreign Aid, Self-Help, and Development*. New York, NY: Frederick A. Praeger.
- Jiang, Jieshi. 1951. *Zhongguo Jingji Xueshuo* (Chinese Economic Theory). Taipei, Taiwan: Yangming Shan Zhuangyin.
- Johnson, Chalmers. 1982. *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford, CA: Stanford University Press.
- Johnson, Chalmers. 1987. "Political Institutions and Economic Performance: the Government-Business Relationship in Japan, South Korea, and Taiwan" in *The Political Economy of the New Asian Industrialism* by Deyo, Frederic C. (ed.). Ithaca, NY: Cornell University Press. 136-164.
- Kirby, William C. 1990. "Continuity and Change in Modern China: Economic Planning on the Mainland and on Taiwan, 1943-1958." *The Australian Journal of Chinese Affairs* 24: 121-141.
- Kuo, Tai-Chun and Myers, Ramon H. 2012. *Taiwan's Economic Transformation: Leadership, property rights and institutional change 1949-1965*. New York, NY: Routledge.
- "Record of Approval of the President's Nomination of Chen Cheng as Premier." *Assembly Affairs Museum, The Legislative Yuan*. 2015. Accessed 8 August 2016
<http://aam.ly.gov.tw/pages/P000051_03.action;jsessionid=920C00791D32653E5A30788EB52B2649?key=989>.
- Rostow, W.W. 1985. *Eisenhower, Kennedy, and Foreign Aid*. Austin, Texas: University of Texas Press.
- Schelling, Thomas C. 1966. *Arms and Influence*. New Haven, CT: Yale University Press.
- Taylor, Jay. 2011. *The Generalissimo: Chiang Kai-shek and the Struggle for Modern China*. Cambridge, MA: Belknap Press.
- Tucker, Nancy Bernkopf. 1994. *Taiwan, Hong Kong, and the United States, 1945-1992: uncertain friendships*. New York, NY: Twayne Publishers.
- Wade, Robert. 2004. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization, Second Edition*. Princeton, NJ: Princeton University Press.
- Wang, Lutao Sophia Kang. 2006. *K.T. Li and the Taiwan Experience*. Hsinchu, Taiwan: National Tsing Hua University Press.
- World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. World Bank Research Report. New York: Oxford University Press.
- Zanasi, Margherita. 2006. *Saving the Nation: Economic Modernity in Republican China*. Chicago, IL: University of Chicago Press.