Applying Punctuated-Equilibrium Theory to Analyze the Evolving Process of Socioeconomic Policies in Post-war Taiwan

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Abstract. This research paper investigates the evolving socioeconomic policies in post-war Taiwan. To better conceptualize and comprehend the dynamics of policy fluctuations and stability, this paper adopts the Punctuated-Equilibrium Model (PEM), which is a model to explain the process of policy stability and changes, to illustrate key variables in policymaking and make the historical review of Taiwan development more predigested. This study in a historical approach by applying the PEM to analyze the policy shifts in Taiwan is unprecedented, and extend the original theoretical model more applicable in a system with both authoritarian system, democratic system and a transition from underdeveloped economy to a modernized economy as the case of Taiwan have demonstrated. Both domestic empirical evidence and comparative researches will be applied to embed the theoretical model into the case. And the results showed that Taiwan’s socioeconomic policy development can be categorized into five different stages in accordance with the PEM, namely Equilibrium of Authoritarian Stability from 1950-1958, First Punctuation from 1958-1965, Equilibrium of Active Statism from 1965-1986, Second Punctuation from 1986-2000, and Equilibrium of Democratic Stability since 2000. In the first punctuation, the freeze of US aid, the incapacity of import substitution strategy and the need for further economic development reframed the government’s policy to be more active in advancing socioeconomic development. In the second punctuation, the imbalance between economic and social development, with the failed political agenda which encouraged the rise of Taiwanese nationalism, produced negative feedback to the policy framing. The policy venues consequently shifted from the government to the opposing groups and public arenas, which eventuated the liberalization and democratization.

Keywords: Punctuated-Equilibrium; Taiwan; Socioeconomic Policies; Policymaking.

1. Introduction

The evolution and dynamics of socioeconomic policies is a trending area of public policy research. Huge scholarly debate has been endeavoring to deconstruct the black box of policy making ranging from macro socioeconomic policies to specific areas of public policies. One notable concept in the previous literature is punctuated-equilibrium model drawn from the discipline of biology and was originally adapted to policy research by Baumgartner and Jones [1-2]. This concept can be said to be improved from Kingdon’s Multiple Streams model, which lay special emphasis on more particular stages of policymaking, such as dramatic policy instability or current policy making and implementation [3]. While the punctuated equilibrium is more competitive to explain policymaking in a longer duration. The initial illustrating case of PEM was the policymaking in the United States, which is a developed market economy and liberal democracy. However, recent studies have expanded the application into emerging democracies, non-democratic system, and authoritarian policymaking. In particular, some scholars suggest that authoritarian system is more susceptible to punctuated equilibrium. In Hungry, the autocracy or semi autocracy polity have shown more frequent punctuations than democratic polity in a duration of 155 years [4]. In the People’s Republic of China (PRC, Chinese Mainland), the policymakers are capable of ignoring the popular will and advancing radical policies, while the inability to acquire information from pluralistic and independent sources in authoritarian system have weakened the policymaker’s capacity and motivations to frequently
adjust policies in coordination with the development of socioeconomic status (Chan & Zhao, 2016) [5].

This article seeks to explore the evolving process of socioeconomic policies in Taiwan’s post-war development, which provides convincing evidence for policy dynamics in both democratic system and authoritarian system. Taiwan is an exemplary case of possessing a history of authoritarian governance and implementing successful transition into a developed liberal democracy. Previous literatures have been focused on particular areas of Taiwan’s policymaking using the PEM, while few scholars have managed to comprehensively conceptualize and summarize its socioeconomic policies [6-7]. With both distinct period of policy stability and oscillation, Taiwan can be a suitable subject for applying the PEM. The article is organized in the following sequence. The next section will explain the PEM in detail, including key notions and applicable elements. Then an overall description of Taiwan’s evolving socioeconomic policies will be presented. The subsequent main section will analyze the case using the PEM in depth, with identifying five core stages of Taiwan’s development and detailed casual stories. The following part will extend the previous analysis and briefly discuss the formation of Taiwan’s policies, with stressing the limits of the analysis. The conclusion will give a general recap of the socioeconomic policies using the PEM.

2. Theoretical Foundation

Based on bounded rationality of policymaking, the PEM is designed to explain the long-term stability and continuity which may be disrupted by short-term instability and intense transformation. According to PEM, policy makers may internalize the legitimacy of certain policies in consequence of disproportionate attention attributed on a series of problems, and also based on ideological or other pragmatic concerns. Therefore, policy monopolies are established and can be further institutionalized. The successors in the policymaking venues may take the policies and institutions for granted, notwithstanding some modifications can be made in accordance with the improvement of specific problems, the political or policy foundation will not be shaken, thus producing equilibrium. Occasionally, there are punctuations to describe the dramatic policy changes and correspondingly generate new equilibriums. Several elements can be introduced to explain these changes, the first is the alteration of framing, which is how groups compete to influence the problem definition, or how the related issues can be categorized and understood. Positive attitudes towards framing will have positive feedback to strengthen current equilibrium, while negative framing is productive to challenging the existing equilibrium and policies. The behavior influential groups compete to challenge the monopoly in one venue is called venue shopping, which will eventuate the reevaluation of existing policies by policymakers, who are capable of putting an end on the monopoly. As Figure 1 presented, the PEM presents a circulation of equilibrium and punctuations in policymaking.

![Figure 1. Punctuated-Equilibrium Model (PEM) [1-2]](image-url)
3. Case description

The role of state and government socioeconomic policy making in Taiwan’s post-war development is a dynamic process. After the end of WWII, Kuo Min Tang (KMT) was defeated in the Chinese civil war and retreated to Taiwan in 1949. Confronted with the socioeconomically devastated island and grave security threats from mainland China communist regime. The KMT government established a one-party authoritarian system in Taiwan, with strong emphasis on protecting domestic industries and planned economy. With the assistance from the United States since the 1950s, the KMT government was able to sustain a basic level of defense and economic recovery in Taiwan. As the US aid approaching to an end in the beginning of 1960s, the KMT government were forced to launch a series of economic policies including 5-year plans of economic development to give impetus to Taiwan’s exports and foreign outward investment. This export-oriented strategy enabled Taiwan to accumulate substantial industrial capacity and achieve strong economic growth. However, the oil crisis in the 1970s propelled the KMT government to reconsider its role in Taiwan’s national capitalism, and then became more positively engaged in transforming industrial structure and state intervention in the economy by introducing infrastructure plans and heavy industries, while also encouraging public investment. With the political climate changing internationally and the domestic dissenting groups developing in the 1980s, the KMT government has to reconsider its role in Taiwan and whether to put socioeconomic reforms on the agenda. Finally, the KMT government introduced significant policies aimed at transforming the highly state-dominated economy into a liberal market economy in 1986, including the massive privatization of public sectors, relaxation of foreign exchange control and non-tariff barriers. The government also lifted a series of political prohibitions and martial laws in 1987. These policies are accompanied by the strategy to advancing capital-intensive and knowledge-based industries, such as electronic and semiconductor industries. The socioeconomic liberalization did not destabilize the KMT government nor the economy. It continued to be the ruling party in Taiwan’s liberalization and globalization until the nascent Democratic Progressive Party (DPP) came to power in 2000’s election. The DPP continued to promote democratization and take the advantages of both neoliberal policies and state regulation since its enrollment in the World Trade Organization. The DPP also put the construction of welfare government on the political agenda to mitigate the expanding wealth gap. Apart from its domestic policies, despite Taiwan had recovered its economic ties with mainland China and participated in a number of cross-strait trade agreement since the 2000s. The DPP begun to keep away from China’s influence and political complex. The dynamic development of the socioeconomic policies of state in Taiwan involves different stages of policy stability and continuity, and also the dramatic shift as previously mentioned. These constitute proper elements for equilibrium and punctuation in the PEM. The subsequent section will apply the PEM to analyze the equilibriums and punctuations in the case. In general, this article identified for stages in Taiwan’s postwar socioeconomic policies. The first stage is the Equilibrium of Authoritarian Stability from 1950 to 1958. With the upcoming end of US aid, the first punctuation appeared in 1958 to 1965. Then the KMT government changed its policies and the Equilibrium of Active Statism emerged from 1965 to 1986. The Second Punctuation apparently can be argued to start from 1986, the time point when KMT announced economic liberalization, and ended when the DPP came to power in 2000. This was a period of ponderous transformation when the powerful conservative venues are in competition with the emerging progressive venues. The socioeconomic policies in the new Equilibrium of Democratic Stability since 2000 have been adapted and institutionalized to politically promote democracy and welfare government, and economically advancing globalization and industries with competitive advantages, while the issues of cross-strait relationship are increasingly deteriorated.


Since the retreat to Taiwan in 1949, the KMT carried out institutional reforms on its party organs and administrative institutions based on the operational patterns of the Chinese Communist Party (CCP), making it a quasi-Leninist political party [8]. The KMT established a sophisticated system of
party branches and subordinate bureaus in public sectors and administrations [9]. The elections of local governance are manipulated by the central government, or they are directly appointed. There are minor opposing factions locally or in the legislative institutions. The Republic of China, Taiwan became an authoritarian province of ROC under the governance of the KMT, despite its superficial standpoint was democracy.

The main policy focus of the KMT in Taiwan was primarily military aspects, of which the main goal was to counterattack the CCP and regain dominance in the Chinese mainland. The central government formulated Temporary Provisions against the Communist Rebellion in 1948, and Martial Law in 1949 to impose political censorship and centralized authority [10]. The main purpose of these regulations was to maintain the political security of the party-state, by means of suppressing personal freedom and control of social activities. In terms of the economic policies, the KMT did not follow the Soviet or CCP approach of entirely nationalizing means of production and industries. On the contrary, the KMT allowed private ownership. Meanwhile, having been both fighting alongside and defeated by the CCP, Chiang Kai-shek and the KMT learned lessons from it and enacted land reform lowering rents charged by the landlords and redistributing the commons returned from Japan occupation to the poor peasants, which never occurred when the KMT was ruling the mainland. This policy was able to strengthen the mass base of the KMT and facilitate agricultural production. This measure was essentially one significant way of maintaining political stability and legitimacy of the KMT. Apart from this, the KMT adopted an import substitution strategy by implementing protectionist measures and 4-year economic development plans, transferring agricultural output and income to labor-intensive light industries which laid foundation for further industrial progress. One indispensable element that contributed to the swift economic recovery and rudimentary development was the aid from the United States since 1951. The US aid, including both foreign exchange assistance and production equipment assistance, enabled the KMT to sustain national defense and economic security. The US aid was also the contributing factor to the punctuation which shall be mentioned in the next section.

The socioeconomic policymaking of Taiwan in the 1950s can be properly argued to have no policy subsystems. All policies were made from a top-down KMT leadership, or even by the continuity of the authority and political preferences of Chiang’s family and trusted elites from Chinese mainland. During this period, the political security of the KMT and the stability of the ROC Taiwan were paramount to any prompt issues, constructing an isolated framing of the policymakers. The socioeconomic policies were to reinforce the KMT dominance in Taiwan and aggregating military capacities to counterattack the CCP. The policies venues were limited to the supreme decision-making bodies inside the KMT, with few attempts to make opposing voices and soon repressed.

3.2 First Punctuation: 1958-1965

As previously mentioned, the US aid significantly contributed to the postwar economic development in Taiwan. According to the report by the Bureau for the Far East Agency for International Development [11], the US aid to Taiwan occupied the largest proportion in US aid in the Far East, with annually 15% to 25%. The aid reached to 47% in 1954, after the truce of Korean War. The US aid to Taiwan occupied 43% of central government expenditure from 1955 to 1965, and 90% of the total foreign aid received by Taiwan [12]. Therefore, it cannot be denied that the US aid fundamentally contributed to the implementation and applicability of KMT’s socioeconomic policies in the previous equilibrium.

However, with the dismiss of the US economic stabilization board in 1958, the KMT had to face the truce that the US aid would in the near future, approaching to an end, while Taiwan’s domestic industries is still vulnerable to international competition. The policy framing was then gradually changing for the KMT given the circumstances. At this point, there are also progressive voice outside the KMT, the representative figure from which was the Hayekian economist Tsang Sho Chieh, a member of the Academia Sinica. He proposed floating exchange rate system in the hope to curb inflation while gradually abandoning industrial protectionism and liberalizing economy. The
conservatives are bureaucrats from the administration and foreign exchange trade departments of Taiwan. They believe that economic policies cannot undergo drastic changes and import substitution should be continued [13]. When it became clear that the island's limited ability to achieve economies of scale, and rapidly growing population could not continue to support a new round of import substitution, Chiang and its policymakers, eventually adopted the progressive advice. The central government formulated reforms on foreign exchange rate in 1958 and Investment Incentive Act in 1960 to stimulate private investment and promote industrial transformation. These policies set the broad course of Taiwan’s development before the cessation of American aid in 1965. Figure 2 provides a simplified overview of the punctuation.

![Figure 2. First Punctuation](image)

### 3.3 Equilibrium of Active Statism: 1965-1986

Although the Executive Yuan issued new economic reform policies in 1958, this paper still defines 1965 as the beginning of a new policy equilibrium for the following reasons. First, the US did not formally terminate until it recognized that Taiwan had entered a new stage of economic development and had sufficient export capacity in 1965. The focus now should be cultivating Taiwan’s integration into the international market (Jacoby, 1966) [11]. Secondly, stimulating private sectors and export-orientation strategy were still controversial in Taiwan academia and the KMT after 1958. It is not fair to say that the KMT government had finally settled down its future economic blueprints for Taiwan until the symbolic Kaohsiung Export Processing Zone (EPZ) was established in 1965. Meanwhile, the KMT government began to rely on the light industrial accumulation in the 1950s, with the advantage of low-cost labor force to promote investment and savings and vigorously develop the export-oriented economy. Different from the relatively passive role of the state in maintaining political stability and restoring people's livelihood in the 1950s, the KMT government proactively engaged as a coordinator between the market and stability in the 1960s and 1970s, creating a favorable environment for sustainable economic development [14]. The KMT government continued to shift its attention allocation from military-political aspects to socioeconomic development. Two new EPZs were established in Kaohsiung and Taichung respectively in 1968 and 1971. A series of positive statism interventions mentioned above ignited rapid growth of Taiwan's export-oriented economy, with an annual average economic growth of 10.1% from 1960 to 1973.

The energy crisis of 1970 made huge impact on Taiwan's economy, but there was no severe policy punctuation during this period. Under the advice of economists represented by Tsiang, the KMT government continued to maintain an export-oriented strategy, while initiating industrial sectoral transformation of establishing steel and petrochemical industries. The government also introduced Ten Major Construction Projects to advancing infrastructure construction. These measures were successful in building a comprehensive economic structure, with both light and heavy industries [15]. In the late 1970s, in response to the second oil crisis and the declining labor advantage, the KMT government once again made adjustments from labor-intensive industries to develop high value-added, knowledge-based industries such as electronics and communication, and in 1980 established the Hsinchu Science Park, offering generous tax exemption, good working conditions for employing competent and talented personnel, and relief of foreign investment restrictions.
Although Taiwan's economy flourished in the 1960s and 1970s, and was known as one of the four Asian Tigers, an authoritarian system dominated by the KMT is still restricting the development of Taiwan’s societies, with trade protectionism and restrictions on private access to key industries still existed. Social groups such as the trade union movement were banned under the Martial Law. However, Empirical evidence shows that Taiwan's rapid industrialization in the 70s has brought about incremental changes in the way of social organization and political isolation [16]. The rapidly growing living standards in the material sense conflicted with the traditional organization of societies and conservative morality, which to some extent foreshadowed the need for political reform. First, with the intervention of the United Nations, the Executive Yuan to promote community development and citizen livelihood since 1965, which to some extent laid a practical foundation for the development of civil society. In addition, the rise of Taiwanese nationalism provoked the local Taiwanese to not only question the KMT's failed political propaganda of liberating the Chinese mainland for over 30 years, but also to impugn whether the KMT, as an alien political party not Taiwanese party whose members were predominantly elites from other provinces in the Chinese mainland, was legitimate to hold authority over the Taiwan island. In addition, according to Liao [14], a large number of nascent middle classes emerged during the rapid economic growth of Taiwan in the 1970s became the backbone of political reform and improvement of living standards after the 1980s. They faced a gradually rigid, aging and conservative KMT elite group. Since Chiang Ching Kuo became president of the Executive Yuan in 1972, he gradually relaxed control on activist groups and political freedom, and the status of Taiwanese in the KMT political system gradually increased [17]. The atmosphere of liberalization went viral, giving negative feedback to the policy framing of Taiwan society. The opposition social movement in Taiwan is also growing, and the policy venues extended and expanded uncontrollably from the top of the hierarchy. According to an overview of the history of Taiwan's democratization by Commonwealth Magazine [18], an independent newspaper founded in 1981. A few symbolic incidents to illustrate the change of policy framing. First, the Kaohsiung Incident happened in 1979 where opposing activist groups seeking democracy and freedom were violently repressed by the KMT military and police, causing international scandals. Second, in 1981, Friedman, a Nobel Prize winner in economics who advocated market economy, had a public debate on market economy and planned economy with the chairman of the state-owned Sinosteel Corporation. In the same year, previously mentioned Hayekian economist Tsiang openly argued in the newspaper with a Keynesian government economist and bureaucrat Tso-Yung Wang. These incidents show that policy framing had changed whether inside and outside the KMT government. This led to negative feedback to the existing policy monopoly. Finally, the KMT introduced a drastic socioeconomic and political change at the Third Plenary Session of the 12th KMT Revolutionary Committee in 1986, breaking the long-standing policy rigidity and monopoly. In the same year, the Democratic Progressive Party (DPP), the first opposition party in Taiwan's history, was founded.

It can be observed that from 1965 to 1986, Taiwan's socioeconomic strategies showed an active incrementalism of statism. Authoritarian politics interfered with policy makers' information allocation on focusing events, making them limited to known problems and insensitive to new issues, and formed path dependence. This enabled the accumulation of problems and increased the intensity of punctuation [19]; However, at the same time, the authoritarian governance of the KMT government showed a new developmental model of socioeconomic development to some extent, combining centralization with neoclassicism, emphasizing the coordination and complementarity between the public sector and the private sector, and adopting appropriate government intervention to create a favorable economic and commercial environment [20-21]. The centralized system also effectively ensured the reliability of policy implementation and economic stability, which is also important for the equilibrium to be maintained. Therefore, it is fair to say that, on both sides of the coin, authoritarian system dramatically promoted democratization, the end of authoritarian governance and second policy punctuation in Taiwan. However, it is worth noting that the formation of the punctuation is also related to the consideration by the KMT of sustaining political legitimacy. This
may be explanatory to the internal shift of policy framing in the KMT. In conclusion, it is feasible that PEM was proper to explain the organic interaction and policy incentives between authoritarian regimes and a gradually privatized and open socioeconomic system.

3.4 Second Punctuation: 1986-2000

Since 1986, Taiwan’s democratic reform was progressing slowly, and its socioeconomic policies were in a general status of instability. First of all, according to Wang & Shih [22], although KMT had introduced a series of central government institutional reforms, most of which are counterproductive. In this reform process, not only KMT’s internal conservatives and actors with vested interests in various industries opposed it, but also the opposition party and social activists were capable of obstructing KMT’s promotion of the reform. As a result, the size and structure of the central government turned out to have expanded after 2000, with the creation of new institutions to ensure the functioning of the democratic system. Second, due to the previous rise of local nationalism in Taiwan, the DPP, which had lost the first-mover advantage of agenda-setting in democratization, seized the opportunity to put the one-China problem and the issue of Taiwan’s national identity on its political agenda to confront the KMT [23]. The DPP managed to advocate the independence of Taiwan, as a new sovereign state rather than as a part of ROC or PRC. This issue belongs to a high politics dimension for the KMT, and it is difficult for the KMT to make concessions [24]. Meanwhile, when carrying out political reform, KMT tried to leave some subtle space for the KMT to manipulate Taiwan in the future, for example, by electing the National Assembly instead of directly electing the president. All these contributed to the political violence and policy instability during the period.

In addition, privatization and market liberalization also faced resistance and instability. The KMT accumulated profound noninstitutional power through decades of authoritarian governance and established social networks whether in politics or businesses consisting of the emerging capitalist, which hindered the privatization of state-owned enterprises [25]. Despite it is much more difficult for the KMT to take possession of the national treasury in a gradually democratized Taiwan, there is no doubt that the KMT remained, apart from an enormous political party, arguably a business giant with invested in more than 400 companies ranging from variable industries [26]. While the KMT did not restrict much on its governmental budget and ambitious fiscal policies, namely another round of infrastructure construction plan. However, at the same time, the incapacity of state-owned enterprises in this period blocked the KMT government from investing in such infrastructure plans and a series of social welfare projects during the policy punctuation, as a consequence of the lack of sufficient national administrative power and fund mobilization capacity [27].

In summary, as figure 3 demonstrated, these socioeconomic policies generally represented social issues under intense transition with power struggles between the opposing powers and the ruling KMT, and more specifically, the KMT’s conservative forces attempted to maintain policy monopolies and power legitimacy, as well as the process of policy making that are continuously broken and balanced by the other political venues.
3.5 Equilibrium of Democratic Stability: 2000-Now

The new policy equilibrium began in 2000, with the election of DPP Chen Shui-bian as the president, ending the KMT’s 55-year rule. The DPP’s coming to power seemed to shoulder most of Taiwanese’s policy framing for future development, in particular, to build a new government that is efficient, clean, and streamlined [28], and lead Taiwanese towards a future of sustained democracy and socioeconomic development. On the whole, although there are some other parties, Taiwan has gradually evolved towards a stable biparty democracy after 2000, and the DPP has gradually gained the upper hand, and the influence of the KMT has gradually declined. Due to the gradual maturity of the democratic system, officials and politicians of both parties need to actively respond to social problems, reallocate their attention and make timely adjustments. From empirical observation, Taiwan has not undergone major punctuations and instability in socioeconomic policies since 2000: sustainable economic development and social equity, building and expanding welfare government, and promoting the development of high-tech industries. Politically, the government were focusing on promoting democratization, globalization, and Taiwan independence movement. During the term of DPP Tsai Ing-wen, the Taiwanese government denial of the 1992 Consensus between the PRC and ROC and took the initiative to drift away from the influence of Chinese mainland. The cross-strait hence relations fell to freezing point and became a source of controversy and international instability that may have huge consequences whether on the domestic policymaking of Taiwan or the international order.

4. Discussion

The evolution of Taiwan's socioeconomic policies showed a clear pattern of punctuated equilibrium. From the above analysis, it can be seen that in the process of breaking Taiwan’s first policy equilibrium into the second equilibrium period, there was no change in policy venues. The ability to influence policy formulation is still centered by the KMT. When transitioning from the second equilibrium to the third equilibrium period, there was a precipitous increase of policy venues, and the punctuation was much longer than the previous one. This is in line with previous literature’s remarks about a more severe discontinuity in authoritarianism system. At the same time, it should be pointed out that some external factors may be ignored in this study, such as the influence of the political and economic interaction between neighboring countries, especially the PRC’s influence on the discontinuous equilibrium of Taiwan's domestic policies, in particular, after the liberalization of Taiwan's economy. Taiwan’s economic development had been relied on China for a long time, and it is still a controversial topic in the democratic stability of DPP and KMT in the later period. Taiwanese people and the society have experienced a major shift in cultural, social, and identity aspects since
the 1980s. This article mainly discusses the direct impact of domestic dynamics on policy evolution but does not rule out that the punctuated-equilibrium of cross-strait relations has nothing to do with Taiwan's domestic socioeconomic policies.

5. Conclusion

In conclusion, this paper identified 5 key stages of Taiwan’s evolving socioeconomic policies in the post-war era applying the Punctuated-Equilibrium Model, namely Equilibrium of Authoritarian Stability from 1950-1958, First Punctuation from 1958-1965, Equilibrium of Active Statism from 1965-1986, Second Punctuation from 1986-2000, and Equilibrium of Democratic Stability since 2000. While this historical approach has demonstrated a quite comprehensive view of Taiwan’s policy dynamics and development, predominantly domestic elements relating to agenda setting and problem definition. It is worth mentioning that some other features, such as cross-strait relations may also be eligible to be taken into consideration.

References

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