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HOW A TIGER BECAME A PUSSYCAT: A COMPARISON OF ECONOMIC DEVELOPMENT OF TAIWAN AND MAINLAND CHINA

Based on capitalism and socialist measures, Taiwan not only achieved better results than Mainland China during the 1949-91 period, but also better results than any other country in the world in promoting economic growth. A lack of market was the main disadvantage of Mainland China during this period of time. However, its successful pro-market reforms and unsuccessful reforms in Taiwan (based on privatization), reversed the tide. During the last quarter of the century, Mainland China has more efficient economic system than Taiwan. As a result, Mainland China became the world's leading economic power in 2014 and it continues to have higher rates of growth than Taiwan.

Keywords: Taiwan, China, development, economic growth, privatization

1. Introduction

The best method for a scientific research is through experimentation. The situation, in which a researcher controls all of the variables and can investigate the influence of a single variable, is optimal for research. Unfortunately, it is almost impossible to conduct such experimentation in political science. However, accord-

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ing to Nagel (1961, p. 542), “every branch of inquiry aiming at reliable general laws concerning empirical subject matter must employ a procedure that, if it is not strictly controlled experimentation, has the essential logical function of experiment in inquiry.” In other words, even if such experimentation is not possible, the logic of experimentation should be applied.

Several cases enable implementation of the logic of experimentation. These cases were Germany from 1945-89, Korea (since 1945) and China (since 1949). In all these three cases a capitalist economy was established in one part of the country and a socialist economy in another. This situation permits the partial isolation of one variable – the economic system - and the investigation of the influence of economic system on economic and social development.

This does not mean that the two parts of China were identical at the moment of partition. In 1895, a military defeat forced China’s Qing Dynasty to cede Taiwan to Japan, which governed Taiwan for 50 years. Furthermore, Taiwan had more developed economy than Mainland China at the moment of partition. Certain differences existed between the two parts concerning infrastructure, human resources and a level of industrialization. Nevertheless, it is very likely that the economic system was the most important factor that caused different rates of growth in Taiwan in comparison with Mainland China during the 1949-2017 period. Therefore, this article compares the economic systems of Taiwan and Mainland China and the influence of these systems on economic development of these two entities. Furthermore, this article tries to explain why Taiwan had faster economic growth during the 1949-1991 and why Mainland China has had faster economic growth since 1992.

The next section compares the economic development of Taiwan and Mainland China during the entire 1949-2017 period. The third section explains why Taiwan was more successful than Mainland China in promoting economic development during the 1949-91 period. The fourth section presents the economic reforms in Mainland China since 1976 as well as the most important reforms in Taiwan since 1990 (democratization and privatization). The fifth section explores why China has been more successful than Taiwan since 1992. On the basis of analyses in this article, policy prescriptions are presented in the sixth section. A short conclusion summarizes the main ideas of this article.

2. A comparison of economic development of Taiwan and Mainland China

There is no doubt that, in one calculation for the entire 1949-2017 period, Taiwan was more successful than Mainland China in promoting the economic

growth. However, it is not possible to precisely calculate how much more successful Taiwan was, because the data about the level of GDP in these two countries in 1952 differ significantly. To illustrate, according to Cheng (1983), in 1952 Taiwan had just 11 percent higher GDP per capita than Mainland China. In contrast, according to Maddison (2002, p. 304), in this year Taiwan had almost two times higher GDP per capita than Mainland China.¹ According to Feenstra et al. (2015), Taiwan had 1.84 times higher GDP per capita at that year.² Still, since Taiwan today (2017) has 2.81 times higher GDP per capita³ than China, Taiwan developed faster than China during the 1952-2017 period, no matter which data one uses for 1952. However, Taiwan did not develop faster than China during this entire period. On the contrary, during the 1992-2017 period China developed faster than Taiwan. According to Feenstra et al. (2015), the gap between Taiwan and China was the highest in 1991. In that year, a total GDP of China was just 8.73 times higher than GDP of Taiwan. Today China has 20.89 times higher total GDP than Taiwan. Similarly, Taiwan had 6.55 times higher GDP per capita in 1991. Now, Taiwan has, as stated above, just 2.81 times higher GDP per capita than Mainland China. In other words, China was much more successful in promoting the economic development than Taiwan during the last quarter of the century. From this analysis, two questions logically emerge:

1. Why did Taiwan have faster rates of economic growth than Mainland China during the 1949-91 period?
2. Why has Mainland China had faster rates of economic growth than Taiwan since 1992?

The main hypotheses, which will be elaborated in the next sections, are the following:

1. The absence of market caused lower rates of economic growth in Mainland China before 1992. Since 1976, Mainland China has gradually introduced the market reforms that have gradually increased the economic growth of People's Republic of China. As a result, the economic growth of Mainland China and Taiwan were similar at the end of the 1980's.
2. Excessive privatization of state-owned enterprises (SOE) caused lower growth rates in Taiwan during the 1992-2017 period. Accordingly, Mainland China has been more successful than Taiwan in promoting economic growth in the last 25 years.

¹ Maddison uses 1990 international Geary-Khamis dollars.

² Real GDP at constant 2011 national prices (in mil. 2011US\$).

³ CIA, *The World Fact Book* (official exchange rates), see <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (accessed on 16 May 2018).

In short, the role of the state and market and the role of SOE's in Taiwan and Mainland China will be in the focus of this article.⁴

3. Why was Taiwan more successful than China during the 1949-1991 period?

According to Wan and Thorbecke (1999, p. 411), “the Taiwanese economy qualifies as a role model [because] it is inferior to none: no other economy with the same per capita income level enjoyed a faster growth rate, and no other country with the same growth rate had a higher per capita income.” Similarly, according to Yu (1999, p. 142), „from 1952 through 1995, the average growth rate of Taiwan’s GDP was 8.7 percent, the highest in the world.” Therefore, it is very important to identify causes of this miraculous growth and to identify factors that caused Taiwan’s economy to be more successful than economy of Mainland China during the 1949-1991 period. In order to do that, this article will first present the factors that are common in the literature about Taiwan’s economy⁵ and, then, it will focus on arguments that are less stressed in explanations of Taiwan’s extraordinary economic achievements.

One thing is certain, Taiwan’s success is not the result of abundant natural resources. There are no significant mineral resources in Taiwan and the population density relative to arable land is among the highest in the world (Adelman, 1999). However, two geographical factors helped Taiwan’s economy. First, Taiwan is a subtropical island, with a climate suitable for multiple cropping (Adelman, 1999, p. 324). Still, much more important is Taiwan’s strategic position. Since Taiwan is just 180 kilometers away from Mainland China, this island was a very important part of the USA policy of containment of the communist bloc. Accordingly, the USA provided a huge economic aid to Taiwan and this was a crucial factor

⁴ This article is focused on comparison of economic development of Taiwan and Mainland China. However, social developments of both countries are also impressive. To illustrate, life expectancy in Taiwan was 59 years in 1952 (Adelman, 1999, p. 295). The same figure is now 80.2 years. Life expectancy in Mainland China is lower today – 75.7 years (CIA, *The World Fact Book*, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2102rank.html#ch>, (accessed on 16 May 2018)). However, since life expectancy in this country was just 35 years in 1949 (Wilenski, 1977, p. 7), it is obvious that Mainland China also achieved tremendous results in increasing life expectancy.

Similarly, Mainland China decreased illiteracy rate from 85-90% in 1949 (Li, 1992) to 3.6% today and Taiwan decreased illiteracy from 42% to 1.5% (data for the present time are from The CIA, *The World Fact Book*, 2018).

⁵ Thorbecke E and Wan H. (ed.). (1999) book is still the seminal book in this field.

at the beginning of Taiwan's economic miracle. According to Kuo (1999, p. 51), "U.S. aid started in 1951 and ended in 1965. The annual amount received during this period was, in total, US\$1,372 million." However, many other countries were also recipients of the U.S. aid but their achievements were much less impressive than the achievements of Taiwan. There is no doubt that Taiwan's economic policy and its economic system were much more important factors which contributed to Taiwan's success, than the aid itself. In fact, Taiwan had a high economic growth many years after the U.S. stopped giving aid to Taiwan. So which elements of the economic policy enabled a fast economic growth?

According to Yu (1999), there were three pillars of Taiwan's economic policy: a balanced budget, stable prices and full employment. According to this author (p. 144), "for most of the past four decades, the ROC government maintained a sound public finance system. Budget deficit occurred during only seven of the 36 years from 1952 to 1988." Why did Taiwan have such a sound public finance system? There were three reasons. The first one was already mentioned – the US aid. The second one has been discovered relatively recently. Chiang Kai-shek transferred the bank reserves of the entire China to Taiwan.⁶ It is estimated that these bank reserves contained between 113.6 and 115.2 tons of gold and these reserves undoubtedly contributed to the strength of Taiwan's currency.⁷ The third factor that contributed to financial stability was the fact that the government and the Central Bank used these initial resources effectively, keeping a balanced budget and a price stability.

The third pillar was almost full employment. According to Yu (1999, p. 144), "Taiwan average unemployment rate was 3.95 percent from 1952 to 1962, 2.14 percent from 1963 to 1980 and 1.93 percent from 1963 to 1980." How did Taiwan manage to keep such a low level of unemployment? According to Galenson (1999, p. 269), "intersectional shifts of manpower have taken place smoothly in responses to economic requirements." Two factors were important for these shifts – educational system (see note 5) and, later, the export orientation of Taiwan's economy (since 1960).⁸ Since Taiwanese companies sold products around the world, there were even some shortages of working force capable to produce enough wares in accordance with demands.

The above-mentioned facts are relatively well known (except for the bank reserves of the entire China) and elaborated in the literature. However, there were

⁶ See Office of the President of Republic of China (Taiwan), *Presidents since 1947*, <http://english.president.gov.tw/Page/83> (accessed on 16 May 2018)

⁷ Jan Skoyles, *How one man took China's gold*, <http://therealasset.co.uk/nationalist-china-gold/> (accessed on 16 May 2018)

⁸ For periodization of economic development of Taiwan, see National Development Council (2017).

also some other factors, connected with economic system of Taiwan which have been less elaborated or even misunderstood. To illustrate, according to Friedman and Friedman (1990, p. 57): “Malaysia, Singapore, Korea, Taiwan, Hong Kong, and Japan – all relying exclusively on private markets – are thriving.” So, did Taiwan indeed rely “exclusively on private market”?

Communist countries, including China, were criticized for nationalizing their means of production. Liberal economic theory argues that the state-owned properties are inefficient. Yet, Taiwan nationalized, after WWII, Japanese-owned factories. As a result, in 1952 the public enterprises supplied 56.2 percent of gross manufacturing output (Alam, 1989). In Taiwan, according to Evans (1995, p. 56), “the state enterprise sector not only makes a direct entrepreneurial contribution but is also a training ground for economic leadership in the central state bureaucracy.” According to Amsden (2001), the public enterprises were, in most cases, the “first movers” of the remarkable growth of East Asian countries.

A liberal dogma is that state intervention in the market leads to economic inefficiency. In contrast, Peter Evans’ book *Embedded Autonomy* (1995) shows that active, positive role of government could be a decisive factor for the rapid growth of newly industrialized countries. The author showed that the economic success of Taiwan, Japan and Korea have been the result of a very active role of the state in promoting economic and social development. In South Korea, the state bureaucracy recruited the most talented students from the best universities. This bureaucracy conducted various activities: financing of public education⁹ and public health, investing in infrastructure, constructing comparative advantages to compete in the world market, financing the irrigation systems and fertilizers, protecting the infant industries, financing science and technological development, etc. The governments even invested in the public enterprises. In Taiwan, the percentage of gross domestic investment originating in the public corporations and government enterprises was between 23 and 40 percent during the 1951-73 period (Alam, 1989). Actually, these figures were underestimated because they did not include the investments in enterprises in which the share of state ownership was less than 51 percent.¹⁰ In short, on the bases of market economy but also on the state interventionism and SOE’s, Taiwan was among the countries with the fastest economic growth in the world.

There were many other socialist measures in Taiwan. According to Thorbecke and Wan (1999, p. 15), “a series of land reform measures, starting in 1940s led to very equal distribution of land.” Equally important, “an educational system...

⁹ For example, at the end of 1980s, there were twice as many engineering students in South Korea as in the United Kingdom (Evans 1995, p. 147).

¹⁰ See Antić (2003).

stressed equality of access and opportunity.” According to Galenson (1999, p. 272-4), very fast economic growth was accomplished “by maintaining a distribution of income that was among the least concentrated in the world, which meant that all strata of society shared in the growing prosperity.” Furthermore, “the welfare funds are devoted to a wide range of activities... Included are educational programs, gifts at the time of marriage or childbirth, recreational activities, and hobbies... Special attention is given to women who are supporting their families, older workers, the handicapped, and the indigenous population of the country.” As a result, “income distribution became even more equal during this period: the ratio of income of the richest 20 percent to that of the poorest 20 percent declined half of its 1959 level [in 1969] (Adelman, 1999, p. 303).” Briefly, contrary to Friedman and Friedman’s (1990) claim (see above), a combination of socialist measures and market caused rapid growth of Taiwan during the 1949-91 period rather than the market itself. However, Taiwan achieved much faster economic growth than Mainland China not only because of appropriate economic measures in Taiwan, but also because of the weaknesses of Mainland China’s economic system and the economic policy of this country. So, what was worse in Mainland China than in Taiwan?

After 1949 the socialist measures were also implemented, even on much higher scale, in Mainland China. Land reform started in 1950¹¹ and the government nationalized modes of production (see Thompson, 1979). Furthermore, Mainland China also established model of universal education and universal health care for free, and tried to decrease social inequality to a minimum.¹² So, why did not these socialist measures produce economic growth similar to Taiwan’s growth during the 1949-91 period?

In the literature, it is possible to find claims that during the presidency of Mao Zedong (1949-76) China experienced the economic disaster. According to the Nobel Prize winner in economy Coase and Wang (2012), “disastrous economic record of Mao’s socialism” (p. 129) was later replaced by economic success of China’s capitalism (after 1976). However, data do not support their claim. The average economic growth during Mao’s rule was 4.71 percent and that was slightly above the world average (4.67).¹³ Furthermore, Mainland China (in contrast to Taiwan) was involved in Korean War (1950-3) where it faced a coalition of 17 countries, led by the world’s strongest superpower (the USA), and this war certainly exhausted Mainland China.¹⁴

¹¹ See China.org.cn. *1950: The Land Reform*, available at http://www.china.org.cn/features/60years/2009-09/15/content_18530605.htm (accessed on 16 May 2018)

¹² For health care system in Mainland China, see Wei (2013). For history of Mainland China since 1949, see Coase and Wang (2012).

¹³ See Maddison (2002).

¹⁴ See Cumings (2011).

Nevertheless, there is no doubt that the economic system was a crucial advantage of Taiwan in comparison with Mainland China during the 1949-91 period. In other words, Mainland China lacked the market during the 1949-76 period. All the disadvantages of Mainland China were most evident during the “Great Leap Forward”. This was an attempt of the Communist Party of China to rapidly transform the country from an agrarian economy into a socialist society through rapid industrialization and collectivization. However, this attempt was based on a pure voluntarism rather than on a sound economic policy. As a result, it ended with “Great Leap Backward”. In 1960, GDP of China dropped for almost 30 percent (Feenstra et al, 2015). According to the most conservative estimates, 23 million people died because of famine that occurred in that period (Peng, 1987). At the same time, Mainland China exported food to Africa and Cuba (Dikotter, 2010), which shows how irrational its economic policy at this time was.

Nevertheless, why was the absence of market so important? According to Coase and Wang (2012, p. 22), “had a free market been allowed, private enterprises would have developed to buy grain from less affected areas where prices were low and sell it in the most affected areas where prices were higher.” Obviously, Chinese experience, during the 1949-76 period, shows that Hayek (1937) was right claiming that the critical advantage of a market lies in its allocative efficiency, and in its free flow of information.

To be sure, Mao’s China achieved tremendous results in increasing the life expectancy and in the eradication of illiteracy (see note 5). However, without the market, this country was not able to compete with Taiwan in the field of economic development. Yet, after Mao’s death, Mainland China started with the economic reforms that spurred the economic growth. Furthermore, Taiwan implemented, during the 1990’s, reforms that decreased the economic growth of this country. The next section presents these reforms and their consequences.

4. The economic reforms in Mainland China and Taiwan

Mainland China has started with the comprehensive economic reforms since 1976.¹⁵ Of course, some changes occurred earlier, but since 1976 the reforms have changed the economic system of China from a pure socialist one to a mixture of socialism and capitalism. Here, the most important reforms¹⁶ are presented. The

¹⁵ This section is based on Coase and Wang (2012).

¹⁶ The most important reforms in China were land reform and nationalization after the revolution (1949). The second, and most disastrous one, was The Great Leap Forward (from 1958 to 1962). These and other reforms are presented in the body of the text. However, this article argues

first step in the reforms was the opening of China to modern science, culture and technology. The second step was to transfer decision-making to the managers of SOE's and to give them more independence. Thirdly, since 1982, the government has allowed private farming and that has significantly increased the agricultural production. At the same time, township and village enterprises started to emerge. The number of people employed in these enterprises grew from 28 million in 1978, to 135 million in 1996 (Coase and Wang, 2012, p. 52). Since 1992, market economy has officially been recognized as a part of Chinese socialism. Moreover, since 1979 special economic zones have started to emerge throughout Mainland China, where later the foreign direct investments were allowed. Furthermore, the number of self-employed household businesses increased from 140,000 in 1978 to 2.6 million in 1981. China joined the World Trade Organization in 2001 and, with this, Chinese economy started to be fully integrated in the global economy. The stock market has also developed gradually. In April 1984, a state owned shopping center in Beijing was allowed to sell stocks to the public. By the end of 1986, China had more than 6000 joint-stock companies. (Coase and Wang, 2012, p. 79). Later, private companies were also allowed to list at the stock market (see Business Monitor, 2000). All these reforms have thoroughly changed the economic system of Mainland China.

Does it mean that China has become a capitalist country (as Coase and Wang claim)? The answer to this question is negative. China's economic system drastically differs from the modern capitalist countries at least in one respect – SOE's are still the backbone of Mainland China's economy. On the most recent Fortune Global 500 list (July 2017), 98 out of 500 biggest companies in the world are from China. Seventy-six, out of these 98, are state owned. Furthermore, 12 biggest China's companies are state-owned.¹⁷ In other words, the state-owned enterprises (SOEs) still dominate China's economy and their revenues increase faster than the growth of GDP.

It is not easy to assess the exact contribution of SOE's to economic development of China because of different types of these enterprises. However, it is possible to assess that a share of GDP owned and controlled by the state is approximately 50 percent.¹⁸ According to Encyclopedia Britannica, capitalism is an

that appropriate balance between state interventionism (coupled with high percentage of SOE's) and market mechanism (which has been gradually introduced since 1976) has caused extraordinary growth of China. The same balance also had Taiwan but it was lost after privatization. China had had a modest economic growth before the market reforms. After the market reforms had started, the rates of growth were about 10 percent all the time, in spite of different policy changes.

¹⁷ See: Scott Cendrowsky, *China's 500 Global companies are bigger than ever – and mostly state-owned*, <http://fortune.com/2017/07/22/china-global-500-government-owned/> (accessed on 16 May 2018)

¹⁸ According to Szamosszegi and Kyle (2011, p. 1), “the state sector in China consists of three main components. First, there are enterprises fully owned by the state through the State-owned

economic system in which “most of the means of production are privately owned.” In contrast, socialism is “economic doctrine that calls for the public rather than the private ownership or control of property and natural resources.”¹⁹ Accordingly, China’s economic system is a mixture of capitalism and socialism.

What is much more important for this article, than the definitions themselves, is the fact that China’s economic system today is very similar to the system of Taiwan prior to the economic reforms in this country during the 1990s. Even the percentage of SOE’s in Mainland China today is similar to the percentage of SOE’s in Taiwan prior to privatization.

According to National Development Council (2017), there were seven phases of development of Taiwan and the differences were great. Each one was a result of a new development strategy and economic policy of the government. The economic fundamentals of these phases were the following: in the 1950s the main goals were land reforms, the increase of food production, and the import-substitution industry (in order to prepare for a possible war with mainland China). In contrast, in the 1960s the focus shifted to export oriented industry. During the 1970s, the government stimulated a development of basic and heavy industries. Policy packages during the 1980s stimulated the technology-intensive industries, while in the 1990’s they focused on development of the IT industry. The 21st century started with a goal of promoting knowledge economy. In the last eight years, the government has been promoting the economic innovations and implementations of structural reforms. However, there is no doubt that the main reform that occurred during the last seventy years was a privatization. Not only did the privatization change the economic system of Taiwan, but it also changed the rates of economic growth of this country.

It has already been mentioned that Taiwan was, during the 1949-1991 period, the most successful country in the world in the field of economic growth (see page 3). In other words, all policy packages during 1949-1990 were successful. However, none of the policy packages after the privatization succeeded in returning the rates of growth which Taiwan had prior to privatization. In other words, it was the change of economic system rather than policy package(s) that

Assets and Supervision and Administration Commission (SASAC) of the State Council and by SASACs of provincial, municipal, and county governments. Second, there are SOE’s that are majority owners of enterprises that are not officially considered SOEs but are effectively controlled by their SOE’s owners. Finally, there is a group of entities, owned and controlled indirectly through SOE subsidiaries based inside and outside of China. The actual size of this third group is unknown. Urban collective enterprises and government-owned township and village enterprises (TVEs) also belong to the state sector but are not considered SOEs.” These authors assess that 50 percent of the economy of Mainland China is state-owned.

¹⁹ *Encyclopedia Britannica*, available at <https://www.britannica.com/> (accessed on 16 May 2018)

changed the economic development of Taiwan. So, why did Taiwan start with the reforms of such a successful economic system and what were the consequences of these reforms?

There were two main reasons for comprehensive privatization of Taiwan's SOE's during the 1990's.²⁰ Firstly, democratization and privatization occurred almost simultaneously. According to Liou (2010, p. 10), „with the progress of the political democratization movement, the old ideology faded. Privatization is viewed by the public as a right direction because, if democratization is good politically, then privatization, in both forms (denationalization and deregulation), will also benefit the society because it represents democratization in economic activities.” The main opposition party, the Democratic Progressive Party (DPP), was the strongest supporter of privatization. Book *Disintegrating KMT-State Capitalism: A Closer Look at Privatizing Taiwan's State- and Party-Owned Enterprises*, written by six economic liberals (in 1991), was a kind of manifesto for the privatization of SOE's in Taiwan, and some of the authors (Shih-meng Chen and Chung-cheng Lin) were important members of DPP.²¹ This party had its own interest in this privatization. Kuomintang (the KMT) had a monopoly of power in Taiwan for 50 years. Accordingly, this party had a strong influence on SOE's. The DPP logically assumed that the privatization should decrease the power of the KMT and, therefore, the DPP strongly argued in favor of privatization of SOE's.

However, the privatization did not occur only because of pure political pragmatism. At the end of 1980's and at the beginning of 1990's, the general mood was in favor of privatization. A collapse of the Soviet Union was a sign that a state is less efficient than the market in promoting the economic growth. According to Sue (2008, p. 124), “influenced by neo-liberal economic theories and the international wave of privatization, the DDP elites believed that the efficiency of private enterprises was superior to that of public enterprises.” Indeed, the privatization was the most important global economic phenomenon during the 1990's.²² Taiwan just followed this global trend and privatized the most important branches of its economy during the 1990's.

So, what were the consequences of reforms in Mainland China and Taiwan?

²⁰ According to Seidenstat (1996), privatization is „the transfer of ownership, control, or operation of an enterprise from the government/public sector to the private sector.”

²¹ See Sue (2008, p. 123).

²² For an overview of privatization around the world, see Piketty (2014).

5. Why has China been more successful since 1992?

The previous section showed that both Mainland China and Taiwan conducted the pro-market reforms. However, the consequences were not the same. Mainland China increased its economic growth after reforms but Taiwan decreased it. Why is that? The main hypothesis is that after the reforms Mainland China established a balanced system that not only included the market, but also the strong SOE's and state interventionism. In other words, today China has a system that combines the advantages of capitalism and socialism. Before the reforms, Mainland China lacked the main tool of capitalism – a market. Without the market, it was not possible to allocate resources in an appropriate way, which was the most obvious during “The Great Leap Forward”. Therefore, Mainland China needed the pro-market reforms. The situation in Taiwan was different: for 40 years Taiwan had a balanced system that combined the advantages of capitalism and socialism (see above). Taiwan was, because of this system, the most successful country in the world in promoting the economic development. Actually, Taiwan did not need reforms of such a successful economic system. After the reforms, a new economic system, based on liberal dogma that the private enterprises are always more efficient than SOE's, was established. Contrary to predictions of a liberal economist, the new system became *less* efficient. Simply, Taiwan lost a balance between the socialist and capitalist elements, which characterized its economic system previously. On the other hand, Mainland China established the economic system very similar to the system of Taiwan during the 1949-91 period. Interestingly enough, this system is now equally successful in Mainland China as it used to be in Taiwan during the 1949-91 period.

However, it is possible that some other factors have caused the slowdown of Taiwan's economic growth and the rise of Mainland China's growth. Therefore, it is important to include the control variables in the research, especially the economic law of diminishing returns. According to this law, “we will get less and less extra output when we add successive doses of inputs while holding other inputs fixed” (Samuelson and Nordhaus, 1989, p. 33). Accordingly, the economic slowdown of Taiwan could be a result of a high level of GDP per capita. It was much easier to achieve a very high rate of growth during the period when Taiwan was a poor country than today. Similarly, it is easier for Mainland China, which still has GDP per capita below the world average, to have higher rates of economic growth than Taiwan.

Still, Taiwan had, during the entire 1949-2017 period, a higher level of GDP per capita than China. In spite of this, Taiwan had faster economic growth than Mainland China for more than 40 years. Taiwan had faster economic growth even when GDP per capita of Taiwan was 6.55 times higher than GDP per capita

of Mainland China (in 1991, see Feenstra et al., 2015). Therefore, it is unlikely that only the level of GDP per capita caused the differences of economic growth between Taiwan and Mainland China, although it is true that it has been easier for Mainland China to have high rates of growth than Taiwan. However, it is obvious that some other factors also caused a faster economic growth of Taiwan during the 1950-1991 period and a slower economic growth during the 1992-2017 period.

There is another very important control variable – a type of political system. Taiwan held its first direct presidential election in 1996. Until then, Taiwan was a dictatorship.²³ Hence, it is possible to compare the economic development of this country during the period of dictatorship with the growth during the period of democracy. According to Przeworski et al. (1995, p. 16-7),

we are told to proceed quasi-experimentally, to look for a case that is exactly like Chile in all aspects other than its regime and, possibly, its rate of economic growth – a “Chile 1985” that is democratic – and then to compare the authoritarian Chile with the democratic “Chile.” If we then find that this democratic “Chile 1985” has a positive rate of growth, we conclude that democracy is good for growth. If decay is more profound, we discover that democracy is bad for growth.

If the same method is applied to Taiwan, one may conclude that democracy is “bad for growth” because on average, during the 1950-96 period, Taiwan had the rates of growth of 8.71 percent a year. Since democracy was established, during the 1996-2017 period, Taiwan had the average rates of growth of 3.87 percent.²⁴ With the democratic political system, Taiwan has not been as successful as it used to be during the period of dictatorship (Mainland China has been a communist dictatorship since 1949).

Of course, it is not possible to generalize on the basis of a one single case about the relationship between the type of political regime and economic growth. However, according to Peters (1998, p. 138), “a single case, if properly constructed and researched, can be used to expand the analytic knowledge of political science and to illuminate, and even test directly, theories commonly used

²³ Democracy is a regime “in which those who govern are selected through contested elections” whereas “dictatorships are regimes that are not democracies (Przeworski et al., 2000, p. 15, 18).” Cheibub et al. (2010) also classify Taiwan as democracy since 1996. Their classification is available at: <https://sites.google.com/site/joseantoniocheibub/datasets/democracy-and-dictatorship-revisited> (accessed on 16 May 2018)

²⁴ Source: for year 1950 Maddison (2002), for the 1951-2014 period Feenstra et al. (2015), and for the 2014-7 period CIA, *The World Fact Book*, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html> (accessed on 16 May 2018)

in the discipline.” Therefore, it is possible to include Taiwan’s case in a general discussion about the advantages of democracy and dictatorship in promotion of economic development.

It should be noted that the previous researches have not provided a definitive answer to the question whether democracy or dictatorship enables faster economic growth. In the literature, it is possible to find theoretical arguments why a dictatorship is better for the economic growth, but there are also arguments why a democracy can produce a faster economic growth than a dictatorship. So, what does a theory say? How can democracy and democratization have a negative influence on the economic growth? Galenson (1959), De Schweinitz (1959), Huntington (1968) and Rao (1984-5) argue that dictatorships are more effective than democracies in mobilizing the resources for investment. An additional argument in favor of a dictatorship is the ability of a dictatorship to force the firms to invest and export, refusing the particularistic pressures for the unproductive uses of resources (Haggard 1990). Furthermore, the dictatorships may promote the stability. Hewlett (1980) argues that repression, imposed by a military regime, prevented a social unrest in Brazil in the 1960s and stabilized the economy. For Huntington (1968), the democratic political systems can be effective in developed countries. In contrast, a democracy frequently produces anarchy in developing countries. Briefly, the authors who argue that the dictatorship fosters development, claim that the dictatorship provides more stability and mobilizes more resources. In contrast, the authors who think that democracies produce a faster economic growth claim that democracies allocate the economic resources better than dictatorships.²⁵

However, the empirical studies also have not provided a definitive answer to a question whether democracies or dictatorships are more successful. As Sirowy and Inkeles (1990, p. 137) pointed out: “Overall, these studies present a very mixed and confusing picture with regard to the effect of democracy on economic growth.” Even the best book in this field, written by Przeworski et al. (2000) does not provide an unequivocal answer to the question which type of regime is more successful. According to these authors, dictatorships had higher annual rates of growth of GDP than democracies (during the 1950-90 period). However, an average annual growth of GDP per capita was higher in democracies.

In short, finding that the economic growth of Taiwan was 2.3 times higher during the period of dictatorship, than during the period of democracy, is not inconsistent with theoretical and empirical research in this field on a global scale. Of course, the case of Taiwan is not a proof that dictatorships are more efficient than democracies in general. However, it is valid to state that Taiwan’s example does not prove a hypothesis that democracies are more successful than dictatorships in pro-

²⁵ For an overview of this theoretical debate, see Przeworski and Limongi (1997).

motion of economic growth. Adelman (1999, p. 315-6) explains very persuasively a connection between dictatorship and the economic growth in Taiwan:

Both government [South Korea and Taiwan] felt that national survival critically depended on achieving economic viability and outdoing their respective political rivals, North Korea and Mainland China... In addition, even authoritarian governments require internal legitimacy for leadership survival. The presidents of both countries firmly believed that their legitimacy in the eyes of their citizens depended on raising standards of living, reducing poverty and sharing the fruits of economic development widely. Both leaders therefore used shared development strategies to maintain their legitimacy with their citizens... Finally, the leaders of both countries believed that economic power led to national security... How was government accountability maintained? After all, until very recently both countries had authoritarian governments in the Chinese Imperial tradition. Opposition was repressed, union leaders were jailed and liberals were subjected to government surveillance and harassment. One answer is that technocrats had a great deal of influence and autonomy. Second, the meritocratically recruited bureaucracy and the Confucian values of communitarianism have provided checks upon the government in the performance of its functions.

In contrast, “one byproduct of the democratization of the political system common to both countries is that imposes constraints on the ability of their governments to pursue and industrial policy. Some Korean and Taiwanese intellectuals are therefore wondering whether a reduced rate of economic growth is a price they must pay for their democratization (ibid., p. 312).”

Extensive quotation above best summarizes the advantages of dictatorship and possible disadvantages of democracies for the promotion of economic growth in Taiwan. However, the experience of some other countries (Poland, for example), which increased the economic growth after democratization, shows that Taiwan’s (and Korean) experience cannot be generalized. On the contrary, democracy as such increases accountability. Therefore, although democratization did not contribute to the economic growth of Taiwan, it is almost certain that a change of political regime was not the main cause of decline of the economic growth of Taiwan. So, what was the main cause of decline of the growth rates in Taiwan?

The above analysis shows that two processes in Taiwan happened almost simultaneously – democratization and privatization. Therefore, this article will present a possible link between the privatization and a decrease of growth rates.

Political motives for the privatization were explained above. However, the economic theory also strongly argued in favor of privatization. Dunsire (1990, p. 40-1) summarizes arguments in favor of privatization:

Privatization increases efficiency, both at the macro-economic level and at the level of firm, due to the fact that nationalized industries do not fear bankruptcy or takeover and their managers have little incentives to maximize the effectiveness of the resources available to them..., privatization encourages employee identification with their firms through shareholding, and thus generates greater productivity. Finally, privatization promotes greater public identification with the capitalist system through wider ownership of shares.

General mood at the end of the 1980's and the beginning of the 1990s was in favor of privatization. It was almost taken as undisputable that privatization increases the government performance and efficiency.²⁶ However, a privatization process in Taiwan went relatively slowly. Overall, the government privatized only four SOE's before 1996. A comprehensive privatization occurred at the end of the 1990s (Sue, 2008).

So, has the process of privatization in Taiwan confirmed the theoretical assumptions? Has privatization increased the government performance and efficiency? Not at all. After privatization Taiwan had a growth rate of GDP per capita of 3.08 per cent a year (during the 2001-17 period).²⁷ Furthermore, during the last three years (2015-7), the rates of growth of Taiwan are far below the world average (just 1.4 percent a year, on average). The country that used to be a world champion in promotion of economic growth for 40 years was on the 157th place in the world (concerning the rates of growth of GDP) in 2016. At the same time, Mainland China, which refused to privatize the key sectors of its economy, is among the countries with the highest rates of growth.

However, is Taiwan just an exception? What happened with the other countries that privatized their economies? First, it is important to mention that the privatization occurred worldwide. In a way, Taiwan followed trends in the world. According to Piketty (2014, p. 99), two important processes occurred in the world after WWII: "the accumulation of significant public assets in the industrial and financial sectors in the period 1950–1980, followed by major waves of privatization of the same assets after 1980. Both phenomena can be observed to varying degrees in most developed countries, especially in Europe, as well as in many emerging economies."²⁸ Almost all the countries followed the theories that argue that the private companies are more efficient than SOE's. As a result, "in France and Germany, where net public wealth represented as much as a quarter or even a third of total national wealth in the period 1950–1970, whereas today it represents just a

²⁶ See, for example, Heald (1985), Delion (1990), Pack (1987).

²⁷ Sources: Feenstra et al. (2015), and for the 2014-7 period CIA, *The World Fact Book*, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html> (accessed on 16 May 2018)

²⁸ For an overview of privatization around the world, see Guriev and Megginson (2007).

few percent (public assets are just enough to balance public debt) (ibid., p. 133).” So, did practice confirm the theories about the advantages of private enterprises over SOE’s? Once, again, the answer is negative.

Continental Europe and especially France have entertained considerable nostalgia for what the French call the *Trente Glorieuses*, the thirty years from the late 1940s to the late 1970s during which economic growth was unusually rapid... Throughout the *Trente Glorieuses*, during which the country was rebuilt and economic growth was strong (stronger than at any other time in the nation’s history), France had a mixed economy, in a sense a capitalism without capitalists, or at any rate a state capitalism in which private owners no longer controlled the largest firms (Piketty, p. 73, 100).

The process of privatization in many Eastern European countries was frequently a form of robbery.²⁹ For a minimum amount of money, the state-owned enterprises became the private property of people with political connections. Corruption was omnipresent. An investigation of privatization in Croatia showed that 94 percent of the privatization cases were connected with criminal activities. In the privatized firms, 60 percent of workers were fired (Antić, 2010, p. 68) and a Croatian case was rather a rule than an exception.³⁰ In short, it is very difficult to find a country in which the general population was satisfied with the consequences of privatization and a country in which privatization achieved the desired and proclaimed expectations. One of the problems was that privatization increased inequality.³¹ Furthermore, privatization may increase the probability of economic crises. Antić (2010, p. 103) found that, during the first ten years of comprehensive privatization, the former communist countries had, on average, negative rates of GDP per capita growth (-.93 percent). In addition, according to The World Bank (1999, p. 7), 168 million people in Eastern Europe lived in poverty at the end of the 20th century, in contrast to 13.6 million before the fall of communism. Negative consequences of privatization were much lower in Western Europe. Nevertheless, privatization did not prevent the outbreak of economic crisis in 2008. To quote Piketty (2014, p. 331) once again: “the crisis of 2008 was the first crisis of the globalized patrimonial capitalism of the twenty-first century. It is unlikely to be the last.”

²⁹ See Antić and Vlahovec (2010).

³⁰ Almost all enterprises in Eastern Europe were, prior to 1990, state-owned. Therefore, it is more appropriate to compare the consequences of privatization in Taiwan with the consequences of privatization in Western Europe.

³¹ Piketty’s book (2014) provides an excellent set of data about the rise of inequality around the world and about the influence of privatization on inequality.

However, what is the causal link? Why is privatization bad for growth? Gu-riev and Megginson (2007, p. 252) summarize the arguments against privatization claiming that “private ownership may involve substantial cost: there can be market failures related to externalities, market power, and public goods. These market failures provide a rationale for public ownership.” In addition, Shleifer (1998) argues that excessive emphasis on profit maximization, which is a consequence of privatization, may have a negative influence on other important social goals and that may cause a long term negative economic consequences. Hart, Shliefer, and Vishny (1997) explained the problems with privatization with the example of private prisons – they may cut costs but this cutting can be harmful for the convicts. Accordingly, Taiwan’s case is a prime example that confirms theoretical arguments in favor of public ownership:

For the past decades, SOE’s have made great contribution to Taiwan’s economic development. SOE’s contributed in the following major areas. First, SOE’s helped economic growth during the early stages of Taiwan’s economic development... Second, SOE’s assisted in promoting successful changes in Taiwan’s economic structure (i.e., from agriculture to industry in the 1950s and 1960s)... Third, as protectors of the “people’s livelihood,” SOE’s have contributed to Taiwan’s national economic stability. SOE’s have helped reduce inflation at critical moments (e.g., the oil shocks of the 1970s and the 1980s) and served as important sources of employment and countercyclical stimuli of growth... Specifically, SOE’s aid in the short-term stabilization of the economy (including maintaining national growth, controlling inflation, and leading in capital investment) and provided state managers the means to carry out a significant portion of the longer-term structural changes (e.g. SOE’s role in Taiwan’s Ten Major Projects) (Liou, 2010, p. 7-8).

Keeping in mind the rates of growth, which Taiwan had during the period when SOE’s were a backbone of Taiwan’s economy, it is difficult to understand why policy makers accepted the plans for complete privatization of SOE’s so easily. Surely, Taiwan’s case does not confirm the theories which argue that SOE’s are less efficient than private enterprises. Recent researches question a validity of these theories. For example, according to Florio (2014, p. 4), SOE’s on Fortune Global 500 list have 11% higher revenue, 35% higher profit, 64% more valued assets and 34% higher market value compared to top 500 average. SOE’s also have better results in return on sales, and slightly better results in return on equity indicators.

One additional advantage of SOE’s should also be mentioned. Paradoxically, they may help a private initiative. For, if profit of SOE’s goes to the state budget, the government may lower the taxes, and a low level of taxation stimulates private

investments.³² Furthermore, the profit of SOE's stabilizes the state budget.³³ It is not a coincidence that the debt crises erupted after privatization around the world. In situation when a tax evasion and tax havens deplete the state budgets from revenues, a lack of profit from SOE's makes a balance between the state expenditures and the state revenues even harder to achieve. Here comes the main point of this article – Mainland China, a country that rejected privatization of its key branches of its economy, became the world's largest economy in 2014 according to the World Bank.³⁴ However, Mainland China's success is not impressive just in the absolute but also in the relative terms. To illustrate, China's GDP per capita (PPP) was 7.6 times lower than South Korea's GDP per capita (PPP) in 1990. Today, China's GDP per capita (PPP) is just 2.4 times lower than South Korea's. In 1990, China's GDP per capita (PPP) was 22.5 times lower than GDP per capita (PPP) of Singapore. Today, it is 5.5 times lower.³⁵ Narrowing the gap was not just the result of a tremendous economic success of Mainland China, during the last 27 years, but also a consequence of lower growth rates of these countries after privatization. To illustrate, in 1990 before privatization Singapore had the rate of growth of GDP of 11.4 percent. The same figure in 2017 was 2.5 percent. In 1990, South Korea had the annual growth of 10.3 percent. The same figure in 2017 was 3 percent. In short, GDP growth of these Asian tigers slowed down after privatization, like in Taiwan.³⁶ In other words, the former "Asian tigers" became "Asian pussycats" after privatization.

It was already mentioned that before privatization, in West European countries, SOE's significantly contributed to the economic growth of these countries. Has privatization enhanced the economic growth? Not at all. From 1963-1990,

³² Of course, more and more companies may be linked to a better economic picture and more favorable labor market conditions (higher employment and lower unemployment), which may be associated with a better budget picture (higher taxes, less unemployment benefits, sustainable pension system, etc.). In other words, privatization *may* stimulate the economic growth (I am grateful to anonymous reviewer for this comment). However, this has not happened in Taiwan.

³³ Of course, the precondition is that state companies' profits (if any) are transferred to the state budget, but this is not the case in all countries.

³⁴ The United States is still the leading economy (\$19,360,000,000,000), based on current USA dollars (overall GDP of China is, according to this indicator, (\$11,940,000,000,000). Furthermore, GDP per capita is much higher in the USA (\$59,273) than in Mainland China (\$8,657). However, purchase power parity (PPP) is a much more accurate indicator. On the basis of this indicator, Mainland China's GDP is higher (\$23,120,000,000,000) than GDP of the USA (\$19,360,000,000,000), source: CIA, *The World Fact Book* (accessed on 17 May 2018).

³⁵ Source: for year 1990 - *The World Bank*, <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD>; for 2017 – CIA, *The World Fact Book* <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html#ch> (accessed on 16 May 2018). The World Bank does not provide data for 2017.

³⁶ For privatization in Singapore see Tan (2007) and for privatization in South Korea see Kim, Kim and Boyer (1994).

France had the annual rate of growth of 3.6 percent. During the 1990-2017, which was a period after privatization, the average rate of growth dropped to 2.2 percent. In Germany, the economic growth dropped from 3.4 percent during the 1963-1990 period, to 2.5% during the 1990-2017 period.³⁷ To summarize, the data from developed countries do not support the theoretical assumptions that privatization should increase the economic growth. There is no wonder that, on the basis of its own experience and on the basis of assessments of consequences of privatization around the world, the government of Mainland China

increased state-control over key sectors and Party control over state-owned enterprises... In recent years, China has renewed its support for state-owned enterprises in sectors considered important to “economic security,” explicitly looking to foster globally competitive industries. Chinese leaders also have undermined some market-oriented reforms by reaffirming the “dominant” role of the state in the economy.³⁸

6. Policy prescriptions

Sport coaches claim that a team that wins should not be changed. Similarly, one of the main lessons of this article is that the governments also should not change successful economic systems. Taiwan’s economic system was the most successful one in the world for forty years. After the reforms, the economic system of Taiwan has been far less efficient than it used to be during the period when it was a mixture of capitalism and socialism. More precisely, privatization of SOE’s decreased the rates of economic growth. Therefore, the main policy prescription for Mainland China is that this country should not privatize the key branches of its economy.

Should Taiwan also learn something from its own experience? Piketty’s book (2014) showed that in Western Europe, after WWII, there was a tendency in which the governments nationalized banks and enterprises that were important for the national economy and this system was very efficient. Taiwan’s government also had a similar policy. Today, privatization seems to be an irreversible process. However, if Mainland China continues to outperform the countries that privatized their entire economies, the question of renationalization will become relevant once again.

³⁷ Source: for the 1950-2014 period: Feenstra, R. C., Inklaar R. and Timmer M.P. (2015); for the 2015-7 period: CIA, *The World Fact Book*.

³⁸ CIA, *The World Fact Book*, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (accessed on 31 August 2017)

Since Taiwan's gold and currency reserves are the sixth in the world,³⁹ it would not be so difficult to renationalize some important elements of Taiwan's economy. The research in this article suggests that this might be a sound policy because, on the basis of high percent of SOE's, Taiwan had the highest rates of economic growth in the world. According to Sue (2008), "Taiwan was able to avoid serious damage from the [Asian] crisis by virtue of successful state-led economic development policy. Under these circumstances, it is not easy to explain why the government vigorously promoted privatization after 1998, especially in the banking sector."

One may hastily conclude, solely on the basis of Taiwan's experience, that dictatorship enables a faster economic growth than democracy. However, a previous global statistical analysis showed that democracies are not, on average, less successful in promoting the economic growth than dictatorships. According to Olson (1993, 2000), dictatorships may produce economic miracles for a short period of time but only democracies produce a long lasting economic success. Therefore, it is not possible to make a general conclusion about the relationship between democracy and the economic growth solely on the basis of Taiwan's case. However, it is possible to have a negative statement: Taiwan's experience does not support a hypothesis that democracy enables a faster economic growth than dictatorship. Additionally, on the basis of dictatorships, both Taiwan's and Mainland China's miracles lasted (in Mainland China it still lasts) for decades and this is not "a short period of time" (as Olson claims).

Does that mean that China should keep its communist dictatorship? The answer to this question depends on the values. If somebody thinks that democracy is a value in and by itself, he/she would demand democratization no matter whether this system is more or less efficient than dictatorship. However, if one thinks that a political system is a tool for economic development, a prescription for Mainland China would be - based on Taiwan's experience - not to rush with democratization.

If dictatorship enables a very fast economic development, dictatorship could be a preferable solution, especially for a poor country. The individual and political rights might not mean much to the people who do not have enough to eat and for the people who sleep in the parks. For the majority of people in poor countries the economic well-being is the highest priority.⁴⁰ Moreover, when dictatorship enables a fast economic growth, not many people are willing to fight for democracy. To illustrate, as long as the former Yugoslavia had relatively fast economic growth (up until 1980) a great majority of people did not care much about democracy.

³⁹ CIA, *The World Fact Book*, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html#ch> (accessed on 16 May 2018)

⁴⁰ See Abramson and Inglehart (1998) and Inglehart (1988).

However, in the 1980s the economic crisis strongly intensified the demands for democratization in this country.

Paradoxically, economically successful dictatorships may even produce, in the end, favorable conditions for democratization.

A story told about country after country is that as they develop, social structures becomes complex, labor process begins to require an active cooperation of employees, and new groups emerge and organize. As a result, the system can no longer be effectively run by command: the society is too complex, technological change endows direct producers with some autonomy and private information, a civil society emerges, and dictatorial forms of control lose their effectiveness. Various groups, whether bourgeoisie, workers, or just the amorphous “civil society,” rise against dictatorial regime, and it falls (Przeworski and Limongi, 1997, p. 157).

Therefore, it can be concluded that, under certain circumstances, a fast economic growth could be a justification for dictatorship. Tremendous successes of Taiwan before 1996 and of Mainland China since 1976, are the prime examples for such a claim.⁴¹

7. Conclusion

A comparison between Taiwan and Mainland China has a much broader significance than a pure comparison of these two countries. People that belong to the same nation and the same culture have been exposed to different economic and political systems during the last 69 years. This situation was tragic from the standpoint of individuals. However, as it was stated at the beginning of this article, Taiwan and Mainland China are, in a way, “the laboratories” for comparison of two economic systems. So what are the main results of experiments in these laboratories?

The main lesson is that an appropriate balance between a state interventionism and a market yields better results than a communist system without the market, but also better results than the free market without state interventionism and without SOE’s. The comparison between Mainland China and Taiwan has shown that for a miraculous growth it is necessary to have both: an invisible hand of market but also a visible hand of state interventionism.

⁴¹ See Antić (2010), Conclusion.

Based on capitalism and socialist measures, Taiwan not only achieved much better results than Mainland China during the 1949-91 period, but Taiwan's economy was also the most successful one in the world in promoting the economic growth. The lack of market was the main disadvantage of Mainland China during this period of time. However, the successful pro-market reforms in Mainland China and the unsuccessful reforms in Taiwan (based on privatization) reversed the tide. During the last quarter of the century, Mainland China has had a more efficient economic system than Taiwan. As a result, Mainland China became the world's leading economic power in 2014 and it continues to have higher rates of growth than Taiwan. Therefore, the policy prescription is that Mainland China should not privatize the key branches of its economy as long as the present system enables such a fast economic growth. Mainland China should avoid the main mistake of Taiwan – i.e. it should not abandon the economic system that has been for decades the most successful one in the world.

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KAKO JE TIGAR POSTAO MAČKICA:
USPOREDBA EKONOMSKOG RAZVOJA TAJVANA I NARODNE REPUBLIKE KINE

Sažetak

Na temelju mješavine kapitalizma i socijalističkih mjera, Tajvan nije samo postigao bolje rezultate od Narodne Republike (NR) Kine, u razdoblju od 1949.-91., nego je postigao bolje rezultate od bilo koje druge zemlje u svijetu u promicanju gospodarskog rasta. Nedostatak tržišta bio je glavni nedostatak NR Kine u tom razdoblju. Međutim, kineske uspješne pro-tržišne reforme i neuspješne reforme u Tajvanu (na temelju privatizacije) promijenile su situaciju. Tijekom posljednjih 28 godina, NR Kina ima učinkovitiji gospodarski sustav od Tajvana. Kao rezultat toga, NR Kina je postala vodeća svjetska gospodarska sila u 2014. godini i ima veće stope ekonomskog rasta nego Tajvan.

Ključne riječi: Tajvan, Kina, razvoj, gospodarski rast, privatizacija