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## Book review

**T.-J. Chen, J.S. Lee (Eds.), *The New Knowledge Economy of Taiwan*, Edward Elgar, Cheltenham, UK, Northampton, MA, USA, 2004, 283 pp.**

The title of the book, “*The New Knowledge Economy of Taiwan*,” attracts the attention of those scholars and public policymakers who are interested in the architecture of new lead sectors and ideas in the field of economic development parallel to the emerging 21st century globalized economy. When a new title like this appears, excitement immediately builds up for exploring new ideas in the field of economic development in the hope of enhancing one’s knowledge-base of workable strategies for growth and competitiveness. I approached this book on “new economy” with a good deal of inquisitiveness.

The major purpose of the book is to develop a model of the new knowledge economy of Taiwan, specially its transformation from manufacturing to a modern service economy highlighting knowledge-based services. The new paradigm is associated not only with promoting competitiveness essential in a global economy but also with high growth rates and low unemployment and inflation rates. This is in contrast to the concept of the “old economy,” capital-based and afflicted with stagflation, whose management required trade-offs between unemployment and inflation and which often conflicted with the socially desirable goals. The authors assert that “Since knowledge substituting for capital or labor is considered to be the core of the new economy, it is also widely referred to as the ‘knowledge-based economy’ (KBE), a new economic era in which economic growth is driven by knowledge creation, accumulation and extension, issues that are not subject to diminishing returns.”

The authors of the book, T.J. Chen and J.S. Lee, make a strong case in favor of the transformation of the Taiwan economy from the manufacturing-based old economy to a service-based new economy, a step essential to successfully competing in the global economy, not just for goods and services but also for new ideas. The lead author, Chen, suggests that the transformation to a successful knowledge economy requires a formidable endeavor in three key sectors: (a) knowledge-based service sectors (KSI), (b) globalization, and (c) knowledge creation.

The transformation of the Taiwanese economy, Chen argues, has also become necessary due to the gradual slowing down of the economy during 1990s and loss of competitive edge in the world markets. For instance, the annual growth rates fell to 6.42% from 1990 to 2000, and the economy experienced negative growth in 2001 compared with phenomenal growth rates of 9.15% between 1960 and 1990. During the 1990s, both manufacturing industries

and traditional industries declined. The trends in growth and industry make a strong case for a paradigm shift from old economy to knowledge-based economy since the latter is not subject to diminishing returns.

The material in *The New Knowledge-Economy of Taiwan* is organized in 11 chapters, giving a detailed profile of industrial transformation and new ideas and discussing the role of the public and private sectors of the Taiwanese economy and the prospects for “the formation of the greater economy between mainland China, Taiwan, Hong Kong and Macao.” It should make interesting reading for students of economic development and especially for policy makers in emerging economies who are interested in exploring various contours of the global economy and in restructuring development programs in their countries to meet the challenges of the 21st century development.

Chapters 1–3, and 11 (*The Challenges of the Knowledge-Based Economy, Taiwan’s Responses to the Challenges of the 21st Century, The Role of the Government in a Knowledge-Based Economy, and The Changing Economic Matrix between Taiwan and China*, respectively) present both facts and perspectives on the Taiwanese economy. Chapter 1 outlines the three major challenges for the modernization of Taiwan’s economy, namely the service sector, globalization and knowledge creation. In the service sector, the government of Taiwan has liberalized the telecommunication market and is promoting programs aimed at e-commerce. In the area of globalization, Taiwanese business firms are energetically engaged in enhancing their globalization capabilities through project collaboration with Chinese enterprises and through local multinationals. Regarding knowledge creation activities, the island’s firms have increased expenditure in R&D to become more competitive as well as to achieve a strategic edge in the global markets.

The Focus of Chapter 2, dealing with Taiwan’s responses to the challenges of the 21st century, is on event-specific issues which impact common behavior and on necessary changes in the general structure of the economy. There are two main factors in this area: (a) those events that rapidly spread across borders through trade flows and mass media contagion, such as the financial crises of 1997–1998, and (b) the introduction of technological innovations capable of shortening of work weeks, reducing costs and enhancing productivity. Special attention is paid to factors that can be characterized as pieces of a puzzle for new development strategies, such as a declining younger population; global warming; the impact of globalization; financial internationalization/bubble economics; the development of a knowledge-based economy; and economic linkage with China to form a greater economy. Special emphasis placed on developing solutions for the widening gap between rich and poor. This approach they believe will help avoid social problems at an early stage. The authors cover a wide spectrum of events and provide a comprehensive and balanced review of the past experiences, and lessons for the future development strategies. A serious reader can learn a great deal from Taiwanese insight in these areas.

The next chapter is on government reengineering—a small and efficient government that defines Taiwan’s official policy stances for meeting the challenges of economic restructuring and the promotion of competition. The authors believe self-evaluation by the government of its policies is essential to successful competition in global economy. Presently the Taiwanese government is facing large fiscal deficits, severe resource limitations, and growing demands for diversified services from its citizens. These are

formidable challenges, especially for a nation trying to achieve “the optimal level of small government”, but which “still has to consider local contexts, provide support measures for the newly emerging business sectors, non-profit organizations and volunteers, and ensure the effective management and solution of society’s problems which will undoubtedly arise for such national transformation.”

The chapter on the Taiwan-China economic relationship is truly exceptional. I call it exceptional because it contains many invaluable lessons for the developing countries, especially those that have territorial disputes or are mired in military conflicts. It examines the mutual investment ties between the two countries and perspectives on the future of development. This relationship is an extremely productive one. Taiwanese firms, estimated to be at least 40,000, have heavily invested in coastal cities, promoting industrialization in China. The investment in return has given the firms the experience and confidence to become multinational and interact with other MNCs in regions outside China. China, for its part, has also assisted the Taiwanese economy by providing huge surpluses in trade—\$140 billion in the last two decades—and by promoting its productive potential in becoming an active partner in the global economy. It is doing so by providing Taiwanese firms access to its domestic markets thus contributing to their business confidence, operational enlargement, economics of scale, and their competitiveness in the global markets.

Other chapters in the book deal with “the ramification of transformations in manufacturing,” agriculture, finance, information technology, service industry, and the introduction of knowledge intensification. The implications of the ongoing transformation in these sectors is thoroughly reviewed and discussed within the framework of KBE. These discussions leave the readers with a comprehensive understanding of the facts about the Taiwanese economy and its idea about its main development issues. These chapters are also valuable readings for MNC’s management and international economists to get a deeper insight into the lead sectors of the Taiwanese economy and their impact on global business.

This book is a must-read for all who are interested in exploring new ideas in the field of development economics, especially policy makers, politicians, and military leaders in India and Pakistan. They will certainly learn as how to proceed with the tasks of development even in the face of political difference, territorial disputes and geopolitical rivalries. They need to understand the value of freeing much needed resources from the arms build-ups in their countries and investing them in education and other productive civilian sectors, thus moving the development process forward and helping people to make their lives better. The book not only uses facts and figures but also perspectives that add to a better understanding of the issues and roles of business and government. The subject matter also contributes to the literature on development economics. This book is also of a significant value to economic education.

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