

# Taiwan

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2003

From the early 17th century to 1895, Taiwan was first ruled by the Dutch (1624–62), then by the Cheng regime (1662–1683), which was followed by the Ch'ing empire (1683–1895). Taiwan became a colony of Japan in 1895, and then was ruled by the Nationalist government in 1945–2000.

## 1 From the Dutch Rule to the Ch'ing Regime

In the early 17th century, the Dutch East India Company came to the East to trade with China, and finally settled in southern Taiwan in 1624. During this time, there were some Chinese and Japanese staying on the coast, but the island was inhabited mainly by aborigines, who were engaging in fishing, hunting, and trading. The Dutch soon realized that Taiwan's deer hide and sugar were profitable traded goods. In 1633–60, Taiwan's annual export of deer hide averaged 71,915 pieces.

In February 1662, Cheng Ch'eng-kung (Koxinga) defeated the Dutch, and became the new ruler of Taiwan. The Cheng regime was soon succeeded by the Ch'ing in 1683, and Taiwan's role as an entrepôt for Chinese foreign trade changed immediately. Foreign trade now was through Amoy instead of Taiwan. For most of the Ch'ing years, Taiwan was only a small part of the Chinese economy. There were reports that rice and sugar were exported to China, but no reliable data are available for detailed analysis. Taiwan is a small island economy of only 36,000 square kilometers, and has relatively little natural resources. Foreign trade is important not only to satisfy domestic needs but also for economic growth. In 1862, Taiwan was opened for international trade, and the trade again brought opportunity for development. The most valuable export at this time was tea, followed by sugar. Total export to GDP ratio in late 1890s was about 15%. The most important import was opium, which sometimes amounted to more than 50% of total imports.

As a result of continued immigration from China, Taiwan's population and cultivated land area increased greatly during the Ch'ing. An indirect estimate showed that during the

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I am grateful to Tain-Jy Chen, Hui-wen Koo, Kelly Olds, and Shu-jen Yeh for helpful criticism.

Ch'ing rule, Taiwan's per capita GDP growth probably was lower than 0.3% per year. In contrast, under the Japanese colonial government, per capita GDP growth rate was 1.9%.

## 2 Taiwan under Japanese Rule

Taiwan was ceded to Japan in 1895. Under the Japanese government, a traditional and backward agricultural economy was transformed into a modern economy. The important first step of the Japanese reform was infrastructure construction. The big project of constructing a railway connecting Keelung and Kaoshiung was completed in 1907. Upon the completion of the railway, the transportation system on the western coast changed immediately. Export products were first transported to either Keelung or Kaoshiung by railway, and then shipped by big steam ships.<sup>1</sup>

Another important institutional change was a land-tenure reform initiated in 1898. During Ch'ing rule, most of the land was owned by two owners, an absentee landlord and a resident landowner. A high proportion of land was not registered, and land owners did not pay tax. In the land reform, all lands were registered, the absentee landlords were obliged to exchange their rights for interest-bearing bonds, and the resident landowners were guaranteed title to their property. The land reform clarified property rights, enhanced government tax revenues, and made it easier for Japanese firms to purchase large amount of lands in Taiwan.

The colonial government established the Bank of Taiwan in 1899, and a more efficient financial market was formed. The purpose of all the reforms was to provide a good environment for investment, and to attract big Japanese firms to Taiwan. They turned out to be very successful. In the 1900s, several big Japanese sugar companies were established in Taiwan, and the value of sugar production quickly exceeded that of tea. In the mid-1920s, a new breed of rice, called Ponlai, was developed. From then on, Ponlai rice and sugar were the two primary exports.

In 1905–40, Taiwan's per capita GDP annual growth was about 1.9%. In contrast, during the years of 1914–31, China's per capita GDP growth rate was 0.33%. As shown in Table 1, life expectancy for Taiwanese males was 27.7 years in 1906, and it increased to 41.1 years in 1936–40. Life expectancy for Chinese male was only 24.6, which was lower than Taiwanese in 1906. The Japanese government also emphasized primary education of Taiwanese.<sup>2</sup> In 1917, 13% of the school age (6–14) Taiwanese children were in schools, and it increased to 71% in 1943.

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<sup>1</sup>See Ho (1978) for a detailed survey on Taiwan's development during the Japanese era.

<sup>2</sup>For an evaluation of the colonial government's education policy, see Tsurumi (1984).

Table 1: Change in Life Expectancy

		1906	1921	1926–30	1936–40	1956
Taiwan	male	27.7	34.5	38.8	41.1	60.2
	female	29.0	38.6	43.1	45.7	64.2
China	male	–	–	24.6	–	46.1
	female	–	–	23.7	–	48.1

Sources: Taiwan: Barclay (1954), p. 154; Chen (1979), p. 165; *Statistical Abstract of Taiwan Province, Republic of China, 1946–1967* (1971), pp. 66–8; China: Banister (1987), p. 6, 116.

### 3 The Nationalist Government

At the end of the World War II, Taiwan was transferred to China. The Nationalist government confiscated all the Japanese properties, and almost all Japanese private enterprises were converted into public enterprises. The policy was a manifestation of the full-scaled economic control to be imposed on Taiwan later by the Nationalist government. As a result of the government intervention, a hyperinflation occurred in 1945–49.<sup>3</sup>

The Nationalist government retreated to Taipei in December 1949, and the tension across the Taiwan Strait reached a new height. The fate of Taiwan was permanently changed when the Korean War broke out on June 25, 1950. The U.S. government immediately decided to give economic and military aid to Taiwan, which secured Taiwan's future. In early 1950s, the U.S. aid helped to balance the budget deficit and stop the hyperinflation. Starting mid-1950s, the focus of the aid program gradually changed to development. Besides financing investment projects, the U.S. aid program encouraged deregulation and promoted the notion of the market mechanism.<sup>4</sup> It has been generally recognized that the deregulation in the late 1950s was crucial for Taiwan's later growth.

The Nationalist government carried out a land reform in 1949–53. The reform induced wealth redistribution because land owners were forced to sell their lands at a price below the market level. Tenants undoubtedly were benefited from the reform. It has been argued that the redistribution effect of the land reform was one of the reasons that, up to the early 1980s, Taiwan's income distribution improved with rapid growth.<sup>5</sup>

In 1960–99, Taiwan's average per capita real GDP growth was 6.2%, which is the second highest in a data set with 53 countries which have data available. Several interpreta-

<sup>3</sup>See Wu (1997) for a discussion on the economic control policies and the hyperinflation episode in 1945–49.

<sup>4</sup>The U.S. aid, for example, financed 74% of all domestic investment in infrastructure, see Jacoby (1966), p. 34, 129–49, 176.

<sup>5</sup>See, e.g., Kuo et al. (1981)

tions have been proposed to explain why growth rate was so high. Some emphasize that export-orientation and human capital accumulation are important. Others have argued that the market-oriented and competitive environment was the key. To many economists, it remains an open question. Rapid economic growth is accompanied by dramatic change in industrial structures. The ratio of value-added of agriculture to GDP declined from 32.3% in 1951 to 2.1% in 2000. The ratio of industry increased from 21.3% in 1951, to 45.5% in 1981, and then decreased to 32.4% in 2000. More importantly, economic growth brings welfare improvement. From Table 1 above, life expectancy for males in 1956 was 60.2 years, and for female, 64.2 years. In 1999, this has been extended to 72.6 years and 78.3 years, respectively.

Since 1950, Taiwan has been threatened by the Chinese claim of sovereignty. However, if China can continue its own development and becomes more open, Taiwan would have better opportunity than ever for continued growth in the future.

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