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AMERICAN DIPLOMACY AND EXPORT-ORIENTED INDUSTRIALIZATION ON TAIWAN

Abstract

Scholars have pointed to the period 1958–1962 as the beginning of Taiwan’s transition to export-oriented industrialization. Although the Nationalist Party (KMT) had traditionally supported state socialism, the KMT began to oversee economic reforms in the late 1950s, setting Taiwan on the course of export-led growth under a capitalist model. Using archival materials from both the United States and Taiwan, I argue that the reforms resulted from U.S. influence on how the KMT understood the role of economic development in its grand strategy. U.S. arguments succeeded in creating political support at the highest levels of the KMT leadership for a reform-oriented faction in the economic bureaucracy. This finding shows how an aid donor can promote economic reforms even when the recipient is strategically important for the donor: although threats to enforce conditionality may not be credible, the donor can influence the recipient through persuasion.

Keywords

Taiwan, Development, U.S. Foreign Policy, Cold War, Foreign Aid

INTRODUCTION

Scholars have pointed to the period from 1958–1962 as a critical juncture in the history of Taiwan’s political economy. In those years, the ruling Nationalists (Kuomintang (國民黨), or KMT) began to liberalize the trade regime, promote exports, establish private enterprises, and encourage foreign investment.¹ From that point onward, state-led development would rely mainly on private firms rather than on state-owned enterprises, and those firms would compete on international markets, paving the way for decades of high-speed growth.² Why the KMT came to adopt those reforms is an important question in the study of political economy, given the significance of the Taiwan case for understanding the role of the state in industrialization (Amsden 1985; Wade 2004; Gold 1986; Haggard and Pang 1994; Haggard 1990). Taiwan is also a surprising case because of the sheer contrast between what came before and what came after: between a garrison state living on US aid and a developmental state that, in the words of the US ambassador, was “one of the marvels of the present age” (Cullather 1996, 1).³ Robert Wade has noted that “the liberalization is normally presented as a move from darkness to light, from error to sense” (2004, 392). But where did this light come from, and how did the KMT come to see it?

It might seem only natural that an authoritarian regime would prioritize development in order to maintain its legitimacy; but there were many regimes that failed to do so (many among them being strategically important allies of the United States), and there were

reasons to believe that “Nationalist China” would be one of them. In spite of its hostility to Communism, the KMT had never favored capitalism when it ruled the mainland; in the party’s vision for modern China, the state “would regulate, control, and finally nationalize almost all industry” (Kirby 2000, 153). Facing the challenges of civil war and foreign invasion, the KMT had supported state ownership of industry to ensure that critical resources would be dedicated to warfighting, and it had planned to pursue similar policies in the postwar period.⁴ *Zhongguo jingji xueshuo* (Chinese economic theory), an economic treatise written in 1943 in the name of Chiang Kai-shek (蔣中正 / 蔣介石), had declared that China “must employ protectionist policies with regard to international trade; with regard to the development of industry, [China] must employ a planned economic system,” for “if industrial development is entrusted to private capital, then [industries] will not have enough capital to establish a [sufficiently] large scale to compete with large foreign trusts or state enterprises” (Jiang 1951, 56). The strategic concept that was brought over from the mainland was of a socialist state mobilized to resist invasion and prosecute war, not a capitalist developmental state dedicated to industrialization and growth.⁵ The KMT initially resisted pursuing long-term economic development because of the perceived conflict between preparing for an indefinite stay on Taiwan and preparing for a return to the mainland, which was held to be far more important for the regime’s legitimacy. After a decade on Taiwan, however, Chiang and his senior officials decided to embrace international trade and private capital as the bases of economic growth.⁶

To account for their decision, this article examines the evolution of the KMT’s grand strategy over the course of the decade, an evolution that reflected the influence of US diplomacy as Washington sought to advance its own interests in the Strait of Taiwan. Alarmed at Chiang Kai-shek’s seeming preparation for imminent war as well as the high cost of the aid program, American officials sought to change how the KMT saw economic development in relation to its grand strategy. They argued that a progressively higher standard of living would serve as an authentic claim to Chinese nationalism by demonstrating the superiority of the ideological rival to “Communist China” and that, by obviating the need for US aid, development would reduce the KMT’s dependence on the United States and enhance its autonomy in the Cold War. Those arguments rationalized the pursuit of export-led growth in terms of the KMT’s own interests, and their acceptance by the regime marked a fundamental change in the KMT’s grand strategy that became apparent by the late 1950s.

By considering factors at the strategic level, this article offers answers to important questions that previous studies have not addressed. Studies that emphasize the domestic response to external economic shocks, such as Haggard and Pang (1994) and Doner, Ritchie, and Slater (2005), have not fully explained the connection between those shocks and the content of the reforms. These studies are correct to point out that the declining level of US aid, which had previously been used to finance anywhere between 67 percent and 128 percent of the annual current account deficit between 1950 and 1960, raised the potential for a crisis in the balance of payments if the ROC government did not find an alternative strategy for generating foreign exchange (Lin 1973, 70, 72–73). But the implications of these shocks for the ownership of firms was indeterminate: state-owned enterprises could have also generated foreign exchange, and there would have been less risk associated with relying on the state sector. Although the success of import substitution on Taiwan had done much to shield and nurture

Taiwan's industrialists over the course of the 1950s, the ability of the private sector to compete on international markets was still largely untested at the end of the decade. If anything, the experience of the ISI period had demonstrated the tendency of those firms to lag behind the government's development plans: Haggard and Pang (1994) note that "larger projects that were included in government plans as highly promising had to be postponed because private capital was not forthcoming" (Haggard and Pang 1994, 69). Relying on private capital to drive export-led growth entailed a distinct risk, and why the KMT decided to bear that risk is a question that cannot be answered by economic factors alone.

From the perspective of international relations theory, another aspect of this transition that requires explanation is the nature of the KMT's resource constraints and how they relate to the United States' interest in Taiwan's economic security. Both Haggard and Pang (1994) and Doner, Ritchie, and Slater (2005) note the early dependence of Taiwan on US aid and point to the later decline in aid as a motive for policy reform (Haggard and Pang 1994, 49; Doner, Ritchie, and Slater 2005, 343–344); similarly, Haggard and Zheng (2013) argue that "the US thus had a very direct security and economic interest in promoting exports and investment that would substitute for the gradual winding down of foreign aid" (Haggard and Zheng 2013, 440). But clients often have considerable influence over their patrons, as Keohane (1971) argues using Taiwan as a prominent case. Taiwan exhibited what Cha calls an "overdependence pathology" and how "in some extreme cases, small, desperate countries can use the threat of their own collapse to compel inordinate political and economic commitments from a larger patron" (2016, 23). The literature on foreign aid suggests that, under these conditions, donors value their political interests over the cause of economic progress and continue to provide aid even when recipients do not undertake meaningful reforms (Bearce and Tirone 2010, 837; Bermeo 2017, 736, 739–740; Deaton 2013, 274–289). Why was Taiwan an exception?

From the perspective of the literature on foreign aid, what is especially puzzling about the case of Taiwan is that aid was reduced after the recipient's compliance with US demands. This pattern implies that the reforms did not result from the exercise of conditionality, which would imply that aid would continue or increase after the recipient's compliance. Instead, the period of Taiwan's economic reforms coincided with the period in which the United States began to undertake concrete steps toward reducing its aid: the 1966 study *US Aid to Taiwan*, by Neil H. Jacoby (which was commissioned by USAID), stated that the objective of ending the US aid program to Taiwan emerged "from the status of hope, and wishful thinking, into a tangible goal" in 1960 and that concrete plans for achieving that goal were prepared in 1962–1963 (Jacoby 1966, 228–229). By 1965, the US ambassador declared that Taiwan had "graduated" from the US aid program (Cullather 1996, 1). How did the United States achieve the seemingly impossible task of reducing its aid expenditures to a politically important ally while securing the implementation of sweeping economic reforms?

To answer these questions, this article focuses on the importance of ideas: how the United States helped to produce a change in the KMT's understanding of the role of the economic instruments of statecraft in securing the regime's political objectives. In this view, the reforms were not so much a domestic response to an external shock as they were the result of an understanding that the KMT and the United States reached

about the need to gradually end the US aid program and prepare Taiwan for a post-aid future. This outcome had always been a US goal, but it was not until the late 1950s that the United States succeeded in persuading the KMT to accept this view of Taiwan's future by framing it in terms of an appealing strategic concept.

In other words, the lever of US influence was ideational and not coercive. As McNamara has shown, ideas can play a decisive role in the formulation of economic policy, because policymakers' actions are conditioned and structured by a particular understanding of the consequences that are likely to follow from their decisions (1999, 462). But whereas McNamara focuses on how ideas influence policymakers' understanding of economic relationships, this article focuses on strategic concepts and shows that the range of feasible options in economic policy was predicated on the prior consensus on national security policy. Questions of grand strategy and national security policy are especially important for understanding Taiwan because developmental states are fundamentally nationalist in their orientation (Johnson 1982, 26). To neglect the strategic concept behind the economic policy is to neglect the premise that rationalizes that policy and provides it with political sanction.

In addition to offering a more complete explanation of Taiwan's transition to export-oriented industrialization, this article offers a distinctive view of how an aid donor can influence a recipient's economic policies. By emphasizing conditionality, existing studies of foreign aid portray aid relationships as a coercive process. They may not always invoke Schelling, who developed the concept in *Arms and Influence*, but the concept of conditionality falls squarely in the category of coercive diplomacy: the donor uses threats and assurances to secure changes in the recipient's behavior (Schelling 1966).⁷ Dunning, for instance, argues that geopolitical factors during the Cold War "may have diminished the credibility of donors' threats to make the disbursement of further aid conditional on the adoption of domestic democratic reforms" in sub-Saharan Africa (2004, 410). Similarly, Dreher, Sturm, and Vreeland observe that, for the World Bank, "continued disbursements of the loan are supposed to depend on compliance with the agreed upon policy conditions" (2009, 3). This transactional view of foreign aid is an accurate depiction of many programs, but not all. In the case of Taiwan, US officials relied on persuasion to change how political elites viewed the implications of economic reform.

The influence of the United States on the KMT's grand strategy is discernible through a detailed examination of primary sources from both Washington and Taipei, which reveal a conspicuous similarity between the arguments that Washington used to convince Taipei to accept reform and the arguments that Taipei ultimately used to justify reform. Previous studies have either made limited use of primary sources or weighted their use toward one side of the equation, focusing on US diplomacy or on the KMT's decision-making instead of evaluating both sides with a similar level of evidentiary detail.⁸ This article draws on telegrams, correspondence, and memoranda from both the United States and Taiwan to show that the United States exercised influence through the transmission of strategic ideas.

FOREIGN AID, STRATEGIC INTERESTS, AND IDEAS

A recipient's decision about whether or not to implement a donor's desired policies is based on the policies themselves and the external incentives, consisting of a supply of

aid, that the donor provides. If the recipient initially ascribes disutility to the policies, then there are two mechanisms by which the donor can secure the recipient's acceptance of the policies. Under the mechanism of coercive diplomacy, the donor can threaten to manipulate the supply of aid, but the donor faces the risk of failure if the threats are not credible—as would occur, for example, if the recipient is politically important to the donor (Bearce and Tirone 2010; Dunning 2004). Under the mechanism of persuasion, the donor can secure the recipient's compliance by influencing how the recipient ascribes utility to the policies, and one of the principal means of exercising such influence is through the transmission of ideas. In her study of European monetary integration, McNamara argues that “shared normative and causal beliefs, reinforced and institutionalized through social interaction, are thus fundamental to monetary politics,” because “beliefs serve as a crucial guide for government officials attempting to analyse the complex technical relationships that make up the economy” (1999, 462).⁹ But these relationships are not limited to technical questions: ideas can inform not only the recipient's understanding of which policies will cause growth, but also the recipient's understanding of the political implications of that growth.

Ideas are especially important in the formulation of grand strategy. As Silove explains, scholars use this term in three distinct ways: grand strategy sometimes refers to “a deliberate, detailed plan devised by individuals,” “an organizing principle that is consciously held and used by individuals to guide their decisions,” or a “pattern of state behavior” (2018, 29; on defining grand strategy, see also Brands 2014, 1–16). The first two are most important for the purposes of this article. When grand strategy is taken to mean a detailed plan or an organizing principle, it is an ideational construct: plans cannot relate means to ends or resources to outcomes without an underlying set of assumptions about how the world works, and organizing principles are themselves a set of ideas. Therefore, a donor can attempt to exercise influence on the recipient by communicating ideas that inform the recipient's grand strategy. This is easier said than done, of course, and there are contingent factors that affect the persuasive appeal of the donor's argument. The greater the number of personnel (such as diplomats or aid advisors) that the donor has in the recipient country, the more likely it is that the donor's message will be communicated; McNamara's emphasis on beliefs being “reinforced and institutionalized through social interaction” suggests the importance of this factor (1999, 462).¹⁰

There are therefore two levels at which the donor can transmit ideas to influence how the recipient ascribes utility to economic reform. One is the technocratic level, in which the donor transmits ideas to officials in the recipient's bureaucracy about the economic effects of the proposed reform program. Another is the political or strategic level, in which the donor transmits ideas to the political leadership about how the proposed reform program will relate to grand strategy. At this level, the donor is advancing a new strategic concept by raising new possibilities for the use of economic statecraft in the pursuit of the recipient's highest political interests. If the donor succeeds at the technocratic level but fails at the political level, the likely result is that the reform efforts will fail because political elites, from whom power is ultimately derived, will not provide the support necessary for overseeing a structural transformation of the economy. This is not to say that there is a strict separation between these two levels: technocrats can also transmit arguments to elites, so appeals at the technocratic level can have indirect effects at the political level. But if persuasion is never successful at the political level, then it is unlikely

that there will be enough momentum for generating broadly based support for economic reform.

This distinction between the two levels is especially important if the recipient is a developmental state. In his classic exposition of this concept, Chalmers Johnson underscored the political and nationalist dimension of the developmental state: “industrial policy is a reflection of economic nationalism” (1982, 26). The economic bureaucracy may be powerful, but it still depends on political elites. In the developmental state model, “politicians reign and bureaucrats rule,” and plan rationality is characterized by the dominance of “nationalistic political officials” in the formulation of economic policy (1982, 316, 26). A donor seeking to influence the policies of the developmental state needs to secure the support of both the bureaucrats and the politicians. That was the strategy that the United States adopted toward Taiwan.

THE POLITICS OF ECONOMIC REFORM ON TAIWAN

Existing explanations for Taiwan’s transition to export-led development have pointed to four factors: purported attempts by the United States to exercise leverage or coercion (Haggard 1990, 98; see also Cumings 1984, 26 and Gold 1986, 68–69); the transmission of economic ideas (Kuo and Myers 2012; Haggard 1990, 98); the economic shocks of the late 1950s (Haggard and Pang 1994, 49; Doner, Ritchie, and Slater 2005); and the changing balance of political power between factions in the KMT (Wade 2004, 391–393; Tucker 1994, 56; Haggard 1990, 91). The explanation in this article is not mutually exclusive with those arguments (except the first one), but it answers questions that have not been addressed before and helps to resolve the tensions in the theoretical logic of existing explanations by situating them in a new context.

This article provides a novel account for how the KMT came to pursue export-led growth. The lack of reform before the late 1950s resulted from the entrenched power of a socialist faction in the economic bureaucracy that favored maintaining a garrison state that would be continually poised for a counteroffensive against the Chinese Communists. Concerned by the high cost of the foreign aid program and alarmed at the KMT’s preparation for imminent war, US officials sought to redirect the priorities of the regime toward the long-term development of Taiwan: in addition to their attempts to transmit economic ideas to technocrats (which Kuo and Myers (2012) have documented extensively), US officials advanced political arguments to Chiang Kai-shek about the strategic advantages of a prosperous Taiwan. Persuaded by these arguments, Chiang eventually waded into the factional disputes in the economic bureaucracy and promoted reformers, who oversaw a transition to export-led growth from 1958–1962. Encouraged by these developments, US officials began formulating and implementing concrete plans (in collaboration with the reformers) for the eventual termination of US aid.

This section will rely on process-tracing to demonstrate that US persuasion was an important factor in the KMT’s strategic shift toward export-led growth.¹¹ If the theory of this article is correct—that is, if the story presented in the preceding paragraph is an accurate account of the history—then one would expect to find a similarity between the arguments that US officials advanced and the arguments that KMT officials advanced in favor of reform. One would also expect to find evidence that US officials advanced

these arguments to the highest level of the political leadership, even to Chiang Kai-shek himself, to bring about a change in the overall strategy of the Nationalist state. Finally, one would expect that these same arguments would surface even in contexts where there were no US officials were present (if they only appeared in the context of the KMT's negotiations with the United States, it would suggest that the similarity was only a diplomatic maneuver). The historical evidence verifies these three predictions, as the following sections will show.

FACTIONAL POLITICS IN THE KMT

To understand the context in which US diplomacy exercised an effect, it is important to first explain the political factors behind the reluctance on the part of some KMT officials to pursuing export-led growth; for if export-led growth had been uncontroversial, there would have been no need for US persuasion. Within the economic bureaucracy, there was a factional rivalry between socialists and reformers that lasted for much of the decade, as Robert Wade has documented (2004, 387–393). A subsequent section of this article will show that Chiang Kai-shek's eventual intervention to resolve this rivalry reflected his acceptance of the United States' arguments. This exposition will provide a sense of the counterfactual scenario for what the KMT's approach toward economic policy would have been in the absence of American influence.

The debate about economic policy in the 1950s fell along similar lines of division as the debate about the regime's political priorities: whether to focus on returning to mainland China or to accept that it would have to remain on Taiwan for the long term. Broadly speaking, there was a state socialist faction led by Yu Hongjun (俞鴻鈞) that supported policies that were consistent with the goal of recovering mainland China, earning them the support of the military. While an actual military campaign would have surely failed, the appearance of preparing for a counteroffensive would have paid substantial political dividends by maintaining morale among KMT officials and the regime's supporters. On the other hand, Chen Cheng (陳誠) and his reformist faction (most notably the technocrats K. Y. Yin (尹仲容), C. K. Yen (嚴家淦), and K. T. Li (李國鼎)) were the leading proponents of the view that the KMT should place immediate focus on the development of Taiwan and defer the counteroffensive against the Chinese Communists to an indefinite point in the future.¹² Economic policy was at an impasse for most of the 1950s, with Chiang Kai-shek remaining neutral in these debates (Wade 2004, 388–392; Haggard 1990, 87–88; see also Haggard and Pang 1994, 66–68).

Even by the late 1950s, there was still socialist resistance to economic reform. An American official observed in 1959 that “for many of the politically powerful mainlanders, economic growth on this island is at best a secondary goal, and for them a division of troops seems far more direct than a factory as a means of realizing their dream of return to the mainland.” Although there was no realistic prospect of a successful counteroffensive, “the argument against diverting funds from military use remains a shibboleth, almost immune to direct attack. The proponent of investment says: ‘There will not be enough food in ten years.’ His opponent answers: ‘there will be enough on the mainland’; and the argument either stops or proceeds by indirection.”¹³ It was because of this kind of resistance that the reformers needed to devise a strategic argument that would appeal to political elites. They could not challenge the ultimate political objective of returning

the mainland, but they could challenge how the regime chose to achieve that objective. The reformers found a natural ally in the United States, and the arguments that they used were consistent with the arguments that US officials had employed for the greater part of the decade.

THE UNITED STATES AND ECONOMIC REFORM

Although it avoided directly wading into factional struggles within the KMT, the United States was not simply a neutral bystander to debates about economic policy. There were compelling reasons for American officials to hope that the reformers would prevail. First and foremost, the United States placed a generally high importance on the strength of Taiwan's economy because of the threat from the Chinese Communists.¹⁴ Another concern of the United States was that preparation for a counteroffensive against the Chinese mainland (which was the main political alternative to focusing on Taiwan's development) represented a significant risk that the Kuomintang would drag the United States into a war with the Communist bloc. As shown in the Mutual Defense Treaty, Washington had to find a way to maintain its commitment to the security of Taiwan without providing so much support as to encourage Taipei to attempt a military attack against Beijing (Christensen 1996, 196–197; 2011, 33–24).¹⁵

Even if the KMT did not actually initiate a war, the determination to prepare for one would likely lead the regime to become dependent on US economic aid. As such, the US interest in Taiwan's economic development can also be understood from the perspective of purely fiscal considerations. The following selection from the US Embassy's assessment of Taiwan's economy in 1959 summarizes the implications of Taiwan's economic policy for the United States.

The authorities might, after examining the odds, still decide to stake everything on the risk that they will be able to return to the mainland within a short time—say within less than a decade. For such a period, the economy could support the Government in its present policies. However, if after some years they turn out to have been wrong, the island's economic and social plant will have deteriorated, the investments will not have been made, and the plant will not exist from which increased production could come. In such a case, the only hope for continued stability would probably lie in American economic aid far broader than anything yet considered. By the nature of things, the aid needed would increase annually.¹⁶

The emphasis on a military recovery of the mainland would impose a high economic cost on the United States. Given the troubled history of American aid being wasted by the profligate KMT military machine on the mainland, there were compelling reasons for Washington to fear that Taipei would adopt this course (Taylor 2011, 221–222).

To convince the KMT to focus on economic development, American officials advanced two claims that were essentially political and strategic in nature. First, they argued that development would prevent the KMT from becoming dependent on the United States. In April of 1951, in a meeting between the Under Secretary of State James E. Webb and the Director of the Bureau of the Budget, Webb stated that “the long-term economic objective of the United States with respect to Formosa [Taiwan] is to contribute to a situation of economic self-support, thereby removing the need for grant aid.”¹⁷ This general policy of encouraging an attitude of self-reliance was reflected

in a memorandum circulated among US officials that stated that “economic stability is the product of psychological as well as strictly economic factors. In consequence, ECA [Economic Cooperation Administration] should attempt to engender on Formosa [Taiwan] confidence in the long term viability of the Island,” which entailed “a will to assume true responsibility for the operation of the economy, a desire to engage in modest, medium term” and “balanced development of its resources and productive facilities.”¹⁸

When outlining a concrete reform program in 1959, aid officials repeated the exhortation for Taiwan to be economically self-reliant in anticipation of the eventual termination of American assistance (Kuo and Myers 2012, 94). The exhortation to self-reliance reached the highest levels of the KMT leadership through technocrats like K. Y. Yin and K. T. Li, who collaborated with American officials in programming US aid. The KMT interpreted this exhortation (and the developmental policies associated with it) as an opportunity to reduce its political dependence on the United States and attain a more autonomous existence in the Cold War. The appeal of that argument grew over the course of the 1950s, in which tensions flared between the United States and the KMT during the crises over Quemoy and Matsu.¹⁹

The second pillar of the United States’ economic diplomacy was to persuade the KMT to conceive of development as part of a larger strategy of ideological competition with the Chinese Communists. Recognizing the fact that the KMT would not abandon the goal of recovering the Chinese mainland, American officials sought to divert that determination toward policies that were less likely to produce a military conflict over the Strait of Taiwan. They argued that economic development would serve the political purpose of demonstrating the superiority of capitalism to the socialist model on the mainland (Jacoby 1966, 137–138; Haggard and Pang 1994, 79).

During the First Taiwan Straits Crisis, Secretary of State John Foster Dulles met with Chiang Kai-shek to express the opposition of the United States to the attempt to use military means to recover the mainland. He reported to the State Department that “in the conclusion of my presentation, I dealt with the role of Free China. I said that in my opinion, the Republic of China did have a continuing and important role to play but it minimized this role to be constantly talking about an armed reconquest of the Mainland.” Dulles claimed that “there was in fact a bigger role for the Republic of China, and we hoped that the President could find it possible to explain that to his people.”²⁰ The “bigger role” that Dulles referred to was the creation of a successful alternative model right on the doorstep of Communist China. While this was partly a tactical measure for restraining Chiang’s irredentism, the United States also had a sincere desire to compete with the international Communist movement for ideological prestige.

In the mid-1950s, the United States government was alarmed at the achievements of the Chinese Communists under the First Five-Year Plan. Although these accomplishments on the economic front were subsequently overshadowed by the catastrophic events of the Great Leap Forward, the Communists exerted severe competitive pressure on the United States in the 1950s through their ability to oversee rapid industrialization. Even as late as 1960, American officials were not aware of the famine conditions that plagued the mainland, and the image of Communist China was one of rapid modernization (Rostow 1985, 22, 203). The creation of a successful capitalist model on Taiwan would simultaneously reduce the likelihood of a military confrontation between the rival Chinese states and serve the United States’ larger strategic goals in the Cold

War. As a result, the connection between Taiwan's economic development and competition with Beijing was a consistent feature of US diplomacy. When the United States began negotiations with KMT officials to formulate an accelerated development program in the late 1950s, the US Deputy Chief of Mission Joseph Yager said that "a great economic success would deal a heavy blow to Communist countries" (quoted in Wang 2006, 136).

THE IMPACT OF US DIPLOMACY

The two pillars of US diplomacy—self-reliance and ideological competition with Beijing—were effective at securing a developmental orientation in the KMT because they were framed as serving the regime's own interests. Self-reliance would ensure a greater measure of autonomy from the United States, which was desirable in the context of the strained and often tense relations between Taipei and Washington in the 1950s (especially during the Taiwan Straits Crises).²¹ Ideological competition with Beijing would enable the KMT to demonstrate that it was still striving to achieve Chinese reunification by undermining the appeal of Communism. These arguments featured prominently in the appeals of the reformers to Chiang Kai-shek, and there is evidence that it was on the basis of these arguments that Chiang decided to lend his support to their economic program.

Chen Cheng and the technocrats were closely aligned with the United States in the realm of economic policy. They shared the American concern with shifting the priorities of the KMT away from a military counteroffensive and toward economic development; Chen Cheng himself had overseen a phenomenally successful land reform program in which the US aid agencies had served in a technical and advisory role.²² They also agreed with the strategic premise behind the United States' support for a capitalist development model. For example, C. K. Yen, who served as Minister of Finance from March 1958 to December 1963, wrote to Under Secretary of State C. Douglas Dillon to emphasize how "the private sector has played an increasingly more important role in the overall economy of Taiwan" and that "what we have achieved and how we have achieved them have presented a striking contrast to the evil doings of the Communists."²³ This was not simply an attempt to mollify US officials. Chen Cheng, as we shall see, used similar arguments in his published memoirs in Chinese.

Though his faction received the support of the United States, Chen himself did not openly court favor with Washington. As a member of the political elite, and especially as a possible contender with Chiang Kai-shek's son Chiang Ching-kuo for the succession to the presidency, Chen would have invited suspicion and possibly retribution if he had openly asserted himself as an ally of the United States. Others who had taken this route had met with political misfortune because their sympathy to US interests had caused Chiang Kai-shek to consider them a threat (Tucker 1994, 73–74). As such, the wisest political strategy for Chen Cheng to gain Chiang's approval for his desired reforms was to frame them as KMT policies that would secure KMT interests.

Compared to Chen, the technocrats faced less of a political risk in working closely with the United States. There was a mandate for them to coordinate with the aid agencies through institutions like the Council on US Aid (CUSA) and the Economic Stabilization Board (ESB). In meetings of the CUSA, representatives of the United States government

played a key role in the formulation and implementation of aid proposals (Kuo and Myers 2012, 115; Cheng, Haggard, and Kang 1998, 91–95). Through these interactions, American advisors were able to convince the technocrats of the need for market-oriented reforms to secure a capitalist basis for Taiwan's development (Kuo and Myers 2012, 115–117). The transmission of economic ideas from the US aid agencies to KMT technocrats has been discussed so extensively elsewhere that it is not necessary to review them here (Haggard 1990; Kuo and Myers 2012, 115–117; Jacoby 1966; Tucker 1994, 53–62). What previous studies have omitted is that the transmission of economic ideas alone was not sufficient for steering the KMT toward reform, especially when the socialist faction could justify the continuing prevalence of state ownership in terms of the sacred goal of recovering the Chinese mainland.

To compete with and ultimately prevail over the socialists, officials who supported liberalization needed a way to justify their proposals in terms of the political objectives of the KMT. That required an appeal to grand strategy, for leaders like Chiang Kai-shek and even Chen Cheng had risen to power through the armed forces and were not deeply versed in technical arguments about economic policy. Evidence of this approach can be found in an economic report in May 1959 by Minister of Economic Affairs C.T. Yang (楊繼曾), which stated that one of the objectives of expanding Taiwan's foreign trade was to "strengthen diplomatic exchange with other countries" and thereby "strive for victory in economic warfare against the Chinese Communists."²⁴ The technocrats had gained Chen Cheng's support early on, and there is strong evidence that American arguments shaped Chen Cheng's understanding of the political significance of economic development.

In his memoirs (published in 1954), Chen underscored the dangers of becoming dependent on foreign aid and stressed the virtue of self-reliance. He said that "ultimately, it is those who are capable of helping themselves who are qualified to help others or to receive help from others ... if the economic life of the country receiving aid becomes inseparable from economic assistance, then the spirit of self-reliance will exist in name only" (Chen 2005, 409). Crucially, Chen argued that the United States shared the goal of enabling Taiwan to achieve self-reliance. He cited the emphasis in the China Aid Act of 1948 on requiring the Chinese government to "carry out an effective self-help plan," as well as the emphasis in the Mutual Security Program on "stimulating Taiwan's self-reliance, employing planned development, and reducing or eventually eliminating American economic aid" (Chen 2005, 409). To some extent, Chen understood the American position through a reading of US legislation and official statements, but he also learned about the United States' favored policies through the technocrats who were allied with Chen and interacted regularly with American advisors (Kuo and Myers 2012, 94, 116). After Chen's promotion to the premiership in 1958, the US Embassy in Taipei noted that "official statements and editorial comment have continued to call attention to the presumption that US aid will decline in the coming years. There has been no criticism of the US for the prospective cut, and emphasis has all been upon the need for increased self-help."²⁵

Chen was also one of the leading proponents of the view that the Kuomintang should utilize economic development to engage in ideological competition with the Chinese Communists, though his interpretation of what this meant was somewhat more militant than what the United States advocated. Chen Cheng sought to reassure other KMT

officials that focusing on development in the near term did not have to entail abandoning the possibility of a military counteroffensive in the long term.

In this period of “waiting,” although it is impossible to engage in a military counteroffensive, a “political counteroffensive,” an “economic counteroffensive,” and a “cultural counteroffensive” can be done pretty well—why not refer to these counteroffensives as a counteroffensive in spirit? ... if our government is more democratic, if our economy is more prosperous, if our culture is more advanced, if the livelihood of our people makes daily progress toward wealth and prosperity, then our mainland compatriots will look to Taiwan as [those experiencing] a great drought look to rain clouds (Chen 2005, 285–286).

It is understandable that Chen did not openly advocate abandoning a military counteroffensive; it was more politic to simply say that development should be the immediate priority. Nevertheless, Chen’s argument about the desirability of economic development clearly aligned with one of the key planks of American economic diplomacy.

Political momentum toward export-oriented industrialization began to build in the late 1950s. After Yu Hongjun resigned during a bitter dispute with the Control Yuan (an oversight body that was modelled on the Imperial Censorate) in 1958, Chiang finally gave Chen Cheng the authority to implement his desired policies by promoting him to the premiership.²⁶ The reformist faction was now in political ascendance. Chen proceeded to install his favored technocrats in the financial and industrial agencies, which meant that he now had the necessary influence in the bureaucracy both to embark on new industrial projects and to ensure that those projects would receive sufficient financing (Wade 2004, 391–392). Given the significance of Chen’s appointment, it is worthwhile to consider Chiang’s motive for nominating him.

Some scholars have argued that Chiang promoted Chen as a response to the Second Taiwan Straits Crisis and that the reforms were a by-product of this decision (Tucker 1994, 56; Wade 2004, 392). Robert Wade, drawing on research by Robert Silin, argues that “the president’s acceptance of reforms probably came as a by-product of his wish to reorganize the chief personnel in his government” after the Communist shelling of Quemoy and Matsu “rather than because he had reconsidered his economic priorities” (2004, 392). The chronology, however, is not consistent with this claim: Chen Cheng’s diaries indicate that Chiang had privately expressed his intention to promote Chen as early as June 6, 1958, two months before the onset of the crisis in August.²⁷ Moreover, an economic assessment by the US embassy in May of the following year warned that “in fact, the Straits crisis, by re-emphasizing the importance of military strength, may have reduced the priority assigned to the island’s economic development.”²⁸

The historical evidence is more consistent with the view that Chiang promoted Chen in order to manage economic affairs (Chen, Zhao, and Han 2010, 324; Haggard 1990, 91–92). Chen had been petitioning Chiang in the year prior to his appointment to beware of the dangers of import substitution. In June of 1957 Chen wrote a letter to Chiang say that “doing our utmost to cultivate economic enterprises and supporting economic development is the basis of supporting the people and supporting the military and managing public finances.” But he warned that “this is not happening now; [we] are often indulgent in [managing] revenues and expenditures, repressing the economy.” He pointed to the flaws with the existing trade regime, arguing that “with regard to

foreign exchange and trade, [our] measures are inappropriate, and there are those in the debate who [welcome] the pain of restricting exports and encouraging imports.”²⁹ In late 1957, Chiang convened an advisory group, led by Chen Cheng, that was tasked with formulating a solution to Taiwan’s foreign exchange difficulties. K. Y. Yin, who was a member of the group, proposed a simplification and unification of the exchange rate system and a devaluation of the exchange rate—all of which would raise the level of exports. The KMT’s Central Standing Committee approved Yin’s proposal in April of 1958 (Haggard and Pang 1994, 74); two months later, Chiang told Chen in private that he intended to promote him to the premiership.³⁰

Chen Cheng’s own reflections on his promotion indicate that economic policy was one of the main issue areas over which he had exercised responsibility. In 1960, Chen wrote a letter to Chiang Kai-shek in which he stated that after Yu Hongjun had resigned in the summer of 1958, “although I knew the environment was difficult, the only thing [to do] was to face the difficulty and do my best to attend to it.”³¹ Following that statement was a description of the economic situation in 1958 which Chen Cheng believed he had been tasked to manage. He said that “when I accepted [the promotion] in 1958, it was in the middle of an economic depression, there was widespread bankruptcy, and gold and US dollars and price levels were unstable.” He claimed that “because of our diligence in regulating finance and improving foreign exchange [reserves], trade, and the supply of materials, the economic situation temporarily stabilized, and fortunately the effects were not serious.”³² Haggard points out that by the mid-1950s, Taiwan had begun experiencing market saturation, lower rates of economic growth, the pernicious effects of corruption, and balance of payments problems, but it seems to be an exaggeration for Chen to claim that Taiwan faced an economic depression in 1958 (1990, 90–91; see also Ho 1978, 195). Nevertheless, it is significant for our purposes that Chen drew a connection between his assumption of the premiership and the need to take immediate action on economic policy.

Although the appointment of Chen Cheng helped to lay the political groundwork for reform, the transition to export-oriented industrialization was still dependent on approval from Chiang Kai-shek. After Wesley Haraldson (the Director of the Mutual Security Mission), outlined a reform program in December 1959, Chen Cheng and the technocrats secured Chiang Kai-shek’s support for a set of policies known as the Nineteen-Point Project for Economic and Financial Improvement. In conjunction with subsequent reforms, this program would lead to the end of the multiple exchange-rate system, liberalization of foreign exchange controls, state support for private enterprise, the creation of incentives for exporters, and the establishment of export-processing zones (see Kuo and Myers 2012, 90–102). Chiang’s approval was critical for ensuring a successful transition to export-oriented industrialization because the reformers’ repackaging of the American proposal became much more authoritative after it received the personal support of the KMT leader (Wang 2006, 138, 140). The specific reasons why Chiang decided to approve the program reflected the ability of US officials to frame the benefits of reform in terms of the strategic interests of the KMT.

After Haraldson outlined his proposal, Chen Cheng and the technocrats met with Chiang Kai-shek in 1960 to explain the content of the proposals and gain the president’s approval. One of the technocrats who attended those meetings later shed light on Chiang’s thinking. According to Lutao Wang’s biography of K. T. Li, which was

based on interviews with Li himself, “although Chiang received a large amount of US Aid, he always worried that Taiwan had become too dependent upon the US. The economic policy-makers were therefore able to persuade Chiang by arguing that Taiwan could eventually achieve economic independence by using US Aid effectively” (Wang 2006, 138–139). In other words, Chiang had an existing belief that it was in the interest of the KMT to reduce its dependence on the United States, and the contribution of the reformers (which, as this article has argued, was indirectly the contribution of the US aid agencies) was to emphasize that economic development would enable the KMT to achieve that goal.

Evidence from previous years also suggests that Chiang had been convinced of the strategic value of using Taiwan’s development as an asset in the ideological rivalry with the Chinese Communists. US officials seem to have communicated this argument directly through bilateral diplomacy. Throughout the 1950s, the United States consistently communicated its belief that the proper role of the KMT government on Taiwan was to be an alternate political and economic model for the rest of China. As discussed above, the United States reiterated this point during the First Taiwan Straits Crisis in an attempt to dissuade the KMT from attempting a military venture against the Chinese Communists. Chiang’s response during the meeting with Dulles in 1955 sheds light on the appeal of the United States’ arguments. According to Dulles, “the President replied that he fully shared my view regarding the future role of his government ... he said, however, that he had had to give due consideration to another important problem; namely, the public handling of these matters in order to bolster morale and keep hope alive regarding a return to the Mainland.”³³ It appears that Chiang had agreed with the US position as early as 1955 but could not yet concede the point in rhetoric or in practice.³⁴ He was hesitant about any action that would suggest that he had weakened in his resolve to unify China under KMT rule.

It was not until the Second Taiwan Straits Crisis that Chiang made a public commitment to prioritize development. In October of 1958, Dulles visited Taipei in an attempt to persuade Chiang to renounce the use of force against Communist China. Chiang refused, and the final language of the Joint Communiqué did not preclude the possibility of a counteroffensive (Taylor 2011, 498–500). The United States did, however, secure Chiang’s agreement not to rely primarily on military means to recapture the mainland. The Communiqué stated that

the Government of the Republic of China considers that the restoration of freedom to its people on the mainland is its sacred mission. It believes that the foundation of this mission resides in the minds and the hearts of the Chinese people and that the principal means of successfully achieving its mission is the implementation of Dr. Sun Yat-sen’s three people’s principles (nationalism, democracy and social well-being) and not the use of force.³⁵

The expression “social well-being” in the English version of the Communiqué is not an adequate rendering of the Chinese, for the original expression for the third of Sun Yat-sen’s Principles literally means the Principle of the People’s Livelihood and refers to economic well-being. In effect, the Communiqué expressed the KMT’s determination to engage in ideological competition with the Chinese Communist Party by promoting economic development on Taiwan.

CONCLUSION

Scholars have pointed to 1958–1962 as the beginning of Taiwan’s transition to export-oriented industrialization. The reforms of those years established the foundations of a capitalist model of development, which, though still under a significant degree of state planning, nevertheless marked a dramatic change in the KMT’s approach to economic policy. The party had traditionally subordinated the abstract goal of economic progress to the concrete goal of achieving military victory. During its tenure on the mainland, the KMT had engaged in a significant degree of state control. That the KMT eventually pursued export-led growth under a capitalist model on Taiwan is a striking phenomenon that deserves closer scrutiny.

This article contributes to the literature on Taiwan’s transition to export-oriented industrialization by highlighting the role of the United States in the marked shift in the grand strategy of the KMT in the 1950s. Although institutional factors and the transmission of economic ideas were undoubtedly important, they were conditioned by the political and strategic context. In the early part of the decade, there was a widely held belief among KMT officials that investing resources in the long-term development of Taiwan would undermine the legitimacy of the regime. The KMT was in a state of heightened preparedness for a counteroffensive against the Chinese Communists, and it was wary of undertaking any policies that would suggest that it was planning on remaining on Taiwan for the indefinite future. It was not until the end of the decade that the regime overcame its ambivalence about economic development.

To account for this dramatic change, this article has examined how US officials transmitted a set of ideas about the role that economic development could and should play in the grand strategy of the KMT. American diplomats and aid officials stressed the political value of seeing Taiwan as an alternate model for China and of achieving a state of self-reliance in economic affairs. This was a tactic of persuasion rather than coercion, and evidence from primary sources shows that KMT officials who supported reform used these arguments in their appeals to the leadership. Instead of threatening to manipulate the supply of aid to secure the KMT’s acceptance of the United States’ desired policies, US officials focused on influencing how the KMT evaluated the political consequences of liberalization. The success of US diplomacy was not due to the disparity of power, but to the ability of US officials to articulate how liberalization would play an important role in the KMT’s grand strategy.

This finding helps to clarify many important issues that have not been answered by previous studies. Arguments that emphasize resource constraints, such as those in Haggard and Pang (1994) and Doner, Ritchie, and Slater (2005), have not fully explained why the KMT chose to rely on private enterprises rather than state enterprises to generate foreign exchange. The contribution of this article is to show how the changing relationship between state and capital reflected the changing understanding of the ideological value of capitalism for the KMT’s rivalry with Communist China. Moreover, the literature on the developmental state has, in its emphasis on state and political autonomy, offered a compelling explanation for why the state in Northeast Asia has been successful in achieving its economic priorities, but it has not fully explained the origin of those priorities. Chalmers Johnson himself emphasizes the importance of historical context and warns that “the dangers of institutional abstraction are as great as the potential

advantages” (1982, 307). Explaining the priorities of another developmental state requires an examination of another set of historically contingent circumstances. For the case of Taiwan, I have emphasized how US diplomacy positioned export-led capitalism in relation to the KMT’s grand strategy in the Cold War.

This finding also helps to answer some of the most puzzling questions surrounding the case of Taiwan for the literature on foreign aid: how was the United States able to promote liberalization for a politically important ally, and why did the recipient agree to implement the United States’ desired policies even though US aid was beginning to decline? Both of these questions are puzzling from the perspective of coercive diplomacy, because Taiwan was too important for US threats to be credible, and the logic of coercion implies that Taiwan’s compliance would be matched by the United States fulfilling its assurance of a continued or increased supply of aid. To explain this puzzle, this article has focused on the ideational dimension of US influence. Evidence of persuasion can be found in the archival materials that this article has cited, which have not featured prominently in previous studies. Drawing on memoirs and official documents from both the United States and Taiwan, I have argued that KMT reformers gained support for their favored policies using a strategic rationale that reflected the influence of US diplomacy.

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CONFLICTS OF INTEREST

The author declares none.

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NOTES

1. See Balassa (1988) and World Bank (1993) for a neoclassical interpretation of how these reforms contributed to Taiwan’s developmental success. See Wade (2004) and Haggard (1990) for an interpretation of how

the reforms contributed to Taiwan's developmental success in conjunction with persistent state intervention. Haggard and Pang (1994) and Kuo and Myers (2012) also examine this transition.

2. An account of the theoretical significance of these reforms for the formation of the developmental state can be found in Wade (2004, 26–27) and, by implication, Johnson (1987, 141–142). The encouragement of foreign investment is not generally characteristic of a developmental state but was an important feature of Taiwan's development strategy during this period.

3. For more on the concept of the garrison state, see Lasswell (1941) and Friedberg (1992).

4. See Zanasi (2006) and Kirby (1990, 125–126).

5. See Ho (2007, 165–167) for a discussion of the KMT's socialist policies on Taiwan.

6. The KMT continued to operate state-owned enterprises, but their significance for Taiwan's economy was far outpaced by the private sector (Kuo and Myers 2012, 121).

7. Examples include Bearce and Tirone (2010); Dunning (2004); Easterly (2003); Dreher, Sturm, and Vreeland (2009); Wright and Winters (2010); and Killick (1997). Molenaers, Dellepiane, and Faust (2015, 1) observe that most research on political conditionality portrayed it as “punitive” and “reactive,” but that aid since 2000 had the potential to be “pro-active,” “reactive,” and “hands-off.” Nevertheless, this view of aid still falls within the framework of coercive diplomacy because it relies on threats and assurances to secure changes in a country's policies.

8. Haggard (1990), Haggard and Pang (1994), Gold (1986), and Wade (2004) rely mostly on secondary sources. Tucker (1994) and Cullather (1996) rely mostly on primary sources from the United States, while Kuo and Myers (2012) rely mostly on primary sources from Taiwan.

9. On ideas and economic policy, see also Woods (1995), Mandelkern and Shalev (2010), Clift and Tomlinson (2012), and Lindvall (2009). For an extended study of persuasion in US diplomacy, see Kim (2016).

10. On the presence of US advisors in the policymaking process on Taiwan, see Haggard and Zheng (2013, 440–441). On the extraordinarily high number of US officials present on Taiwan, see “Letter From the Ambassador to Yugoslavia (Rankin) to the Assistant Secretary of State for Far Eastern Affairs (Robertson),” 23 January 1958, *Foreign Relations of the United States, 1950–1963 [FRUS] 1958–1960: Volume XIX*, 2–3. On the importance of the agencies that were created as part of the US aid program, see Cheng, Haggard, and Kang (1998, 91–95).

11. On process-tracing, see Collier (2011).

12. Chen Cheng had served as one of Chiang's generals during World War II (see Taylor 2011, 154). K. Y. Yin was an economist (Kuo and Myers 2012, 37); C. K. Yen held and would hold high political office (Kuo and Myers 2012, 37); K. T. Li had studied physics at Cambridge from 1934–1937 (“Li Guoding xiansheng dashi nianbiao” 2019). For more on the background of Li, see Wang (2006).

13. “Semi-Annual Assessment of the Economy of Taiwan,” 20 May 1959, Central Decimal File, Department of State, 1955–1959, Decimal File 893.00/1–159–893.02/9–657, RG 59, Box 5073, Folder 893.00/5–559, National Archives, Washington, DC.

14. See “The Under Secretary of State to the Director of the Bureau of the Budget,” 17 April 1951, *FRUS 1951: Volume VII, Part 2*, 1631–1637.

15. Hsiao-ting Lin qualifies this characterization of US policy by offering a fascinating discussion of US contingency planning during the Korean War, which involved proposals for a KMT counteroffensive against Communist China (2016, 9–10).

16. “Semi-Annual Assessment of the Economy of Taiwan,” 20 May 1959, Central Decimal File, Department of State, 1955–1959, Decimal File 893.00/1–159–893.02/9–657, RG 59, Box 5073, Folder 893.00/5–559, National Archives, Washington, DC.

17. “The Under Secretary of State to the Director of the Bureau of the Budget,” 17 April 1951, *FRUS 1951: Volume VII, Part 2*, 1633.

18. Rusk to Griffin, 2 March 1951, “Policy Assumptions and Questions for Meeting with ECA Regarding Economic Aid Program for Formosa: Fiscal 1952,” *Policy Affecting Aid, Archives Unbound*, 40.

19. See Taylor (2011, 472–502) for an extended discussion of the tensions between the United States and the KMT during the Taiwan Straits Crises. The crises, which occurred in 1954–1955 and 1958, began when the Chinese Communists shelled the KMT-held islets of Quemoy and Matsu off the coast of Fujian. The US feared that the KMT's determination to maintain control of the islets would escalate into a wider conflict with Communist China. The KMT feared that losing control of the islets would be devastating for morale on Taiwan.

20. "Telegram From the Secretary of State to the Department of State," 4 March 1955, *FRUS, 1955–1957, Volume II*, 323.
21. See Taylor 2011, 479–482.
22. See Chen 1961.
23. "Brief analysis of the common interests between the United States and [the Republic of] China as well as [our] basic position on the subject of US aid," 21 October 1959, Foreign and international affairs. Period of reappointment as Minister of Finance (March 1958 to December 1963), C.K. Yen Presidential Papers, Academia Historica.
24. "Record of the Second General Congress of the Eighth Meeting of the Central Committee of the Chinese Nationalist Party," 16 May 1959, Chiang Kai-shek Presidential Papers, Academia Historica.
25. "Weekly Economic Review No. 48," 27 November 1959, Central Decimal File, Department of State, 1955–1959, Decimal File 893.00/1–159–893.02/9–657, RG 59, Box 5073, Folder 893.00/9–1359, National Archives, Washington, DC.
26. See Chen (2011) for a detailed account of the dispute that led to the resignation of Yu.
27. 6 June 1958 (Chen 2015, 887).
28. "Semi-Annual Assessment of the Economy of Taiwan," 20 May 1959, Central Decimal File, Department of State, 1955–1959, Decimal File 893.00/1–159–893.02/9–657, RG 59, Box 5073, Folder 893.00/5–559, National Archives, Washington, DC.
29. "Letter with opinions on three issues: policies, the system, and party affairs," 6 June 1957 (Chen 2007, 778).
30. 6 June 1958 (Chen 2015, 887).
31. "Letter to request [permission to] resign from the joint position of Premier," 21 May 1960 (Chen 2007 789). There is some ambiguity in this letter about what precisely Chen meant by a "difficult environment." The interpretation I have chosen is that the "difficult environment" facing Taiwan was the economic crisis. Another plausible interpretation is that the "difficult environment" referred to the controversy surrounding Chen simultaneously holding the offices of Vice-President and Premier. If this latter interpretation were correct, then it meant that Chen was willing to court political controversy in order to steer Taiwan out of its economic crisis. In either case, the argument of this essay still holds.
32. "Letter to request [permission to] resign from the joint position of Premier," 21 May 1960 (Chen 2007, 789–780).
33. "Telegram From the Secretary of State to the Department of State," 4 March 1955, *FRUS, 1955–1957: Volume II*, 323–324. See also Taylor (2011, 478).
34. This is not to say that the US had planted this argument in Chiang's mind. As early as 1950, Chiang had stated in a meeting of the Kuomintang Central Reform Committee that one of the goals of the KMT was to make Taiwan a "model province of the Three Principles of the People." At the same meeting, however, Chiang stated that the reconstruction of Taiwan would also serve the purpose of creating a base with which to counterattack the Chinese mainland (Chen, Zhao, and Han 2010, 171). KMT policies in the early 1950s were much more consistent with the latter goal than with the former. The role of the United States was to reverse the relative emphasis on these two goals and to convince Chiang to build up a capitalist model on Taiwan and to conceive of the counteroffensive as a long-term prospect.
35. "Joint Communiqué," 23 October 1958, *FRUS 1958–1960: Volume XIX*, 443–444.

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