Taiwan and Chile: Implications for Creating a Dynamic Political Economy

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Abstract

From one perspective, the political economies of Chile and Taiwan might have appeared somewhat similar over the last quarter of the 20th century. Both had fairly good human capital for a developing nation; and both took aggressive policy actions (Taiwan in the 1960s and Chile in the 1970s) to create market-driven economies that were well integrated into the capitalist global economy. Despite these parallels, however, the results have been quite different, as Taiwan has been much more successful in upgrading its economy, achieving and sustaining rapid growth, reducing inequality, and building a prosperous society with a capacity for moving into increasingly advanced economic sectors. The major argument in this paper is that Taiwan's export-led development strategy succeeded precisely because it discarded the ideology of "neoliberalism" and unfettered *laissez-faire*. In particular, rapid industrialization in Taiwan could only occur because the government promoted import substitution in light industry in the 1950s and the export of these products in the 1960s. In addition, radical land reform and mass education reduced inequality and created the human capital necessary for an industrial workforce and highly entrepreneurial business class. In Chile, in sharp contrast, neoliberalism worked primarily to reinforce the economic position of traditional elites and, therefore, did not spur the restructuring of the economy and society.

Keywords: Chile, economic development, globalization industrialization, inequality, neoliberalism, Taiwan

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In general, economic development follows a sequence from agriculture through light industry (textiles and shoes) through heavy industry (steel and automobiles) through high tech industry (advanced electronics and biotechnology) to advanced services (finance). The rate of growth and increase in prosperity rise from agriculture to light industry to heavy industry because the productivity of the central industries at each stage is higher than the previous ones. Conventionally, it was assumed that the growth of the tertiary or service economy that succeeds heavy industry in this model would result in decelerating productivity gains and economic growth; and growth in the advanced industrial societies did indeed slow noticeably once they reached a mature level of development (Rostow, 1960). This view of development, therefore, depicts nations as going through a series of fundamental structural transformations from one type of economy to another. Such transformations are generally far from easy. Creating new industries can certainly be a daunting task, as new technologies, new skills, and capital for investment must be brought together. Furthermore, while some communities and people benefit greatly, those associated with the old declining industries face wrenching social change and downward mobility.

This paper compares the two political economies, using the preceding model of development as a template. The major argument will be that Taiwan's export-led development strategy succeeded precisely because it discarded the ideology of "neoliberalism" or the belief that an economy performs best when the private sector is allowed to function without government interference (Ellwood, 2001; Isbister, 2006). In particular, rapid industrialization in Taiwan could only occur because the government promoted import substitution in light industry in the 1950s and the export of these products in the 1960s. In addition, radical land reform and mass education reduced inequality and created the human capital necessary for an industrial workforce and highly entrepreneurial business class.

In Chile, in sharp contrast, neoliberalism worked primarily to reinforce the economic position of traditional elites and, therefore, did not spur the restructuring of the economy and society.

The first two sections describe the evolution of the political economies of, respectively, Chile and Taiwan. Then the third section presents data on economic and social indicators to evaluate the performance of these two countries. Finally, the conclusion argues that successful participation in the increasingly globalized world economy requires an activist state and an explicit rejection of the tenants of neoliberalism.

Chile’s Political Economy

Chile’s political economy has evolved through four general stages over the last 75 years: 1) import-substitution industrialization (1940-69); 2) Allende’s democratic road to socialism (1970-73); 3) Pinochet’s dictatorship and neoliberal policy revolution (1973-89); and 4) the return to democracy with continued neoliberalism (1990-present). The breaks between one era and the next have been dramatic, so that the nation’s economic and political development has been far from linear and cumulative.

After the global depression of the 1930s, Chile adopted capitalist economic policies which promoted protectionism through import substitution industrialization (ISI). In order to protect growing national industries, the Chilean state subsidized the industrial sector, controlled exchange rates to promote technical imports, and discouraged other imports by imposing high tariffs. In addition, it also promoted exports of raw materials, including copper, as a means of encouraging economic growth and financing industrialization. Although the economic policies of the post-World War II era created steady economic growth until the early 1960s, inflation and contradictory economic policies then contributed to stagnation and to a fiscal crisis that, coupled with growing class conflict and political instability, led to a dismantling of the ISI system in the late 1960s (Taylor, 2002).

The growing political and economic crisis led to the election of Salvador Allende in a three-way presidential race in 1970 (Cockcroft, 2000). Allende's "democratic road to socialism" included a dramatic shift of power to the working classes. His government further confiscated and redistributed the Chilean estates to individual landless families. It nationalized the copper industry and purchased almost all of Chile's banks. Participatory democracy also was encouraged on various levels, and workers in every industry saw an increase in wages and democratic representation throughout the Allende administration. By 1972, however, Allende's programs began to collapse under the stress of: a bankrupt government, economic isolation by the United States, and the decline in the prices of exports, including the main export, copper. Lack of credit and the backlash of the private sector, in addition to U.S. training of various military dissidents, led to the coup of September 11, 1973 (Cockcroft, 2000; Kornbluh, 2003; Winn, 2004a).

General Augusto Pinochet assumed power on September 11, 1973, and changed both the political and economic frameworks of Chile. Pinochet's regime suspended the Constitution, shut down Congress, banned or heavily restricted political parties, appointed military officers over government institutions including universities and some high schools, and censored the media. In addition to dismantling the Chilean democratic state, Pinochet’s military regime committed horrendous human rights violations, torturing and killing or exiling people associated with: the left, unions, intellectuals, social reform, and socialist movements to help rural populations (Loveman, 1988; Valenzuela, 1989). His economic regime eliminated social welfare programs, thus, increasing levels of poverty and unemployment and contributing to further problems for the poor (Isbister, 2006; Martínez and Díaz, 1996; Rosenfeld and Marre, 1997). As early as 1973, the Pinochet regime began adopting the neoliberal policies promoted by Milton Friedman and other neoliberal scholars from the University of Chicago (O’Brian, 1981). Even before the coup, economists from the University of Chicago, working with Chile’s Catholic University, promoted alternative pro-capitalist policies in Chile’s universities and military schools as an alternative to the socialist reforms of Allende (Klein, 2007; Valdes, 1995).

Pinochet’s economic policies eliminated the socialist policies of Allende by privatizing almost all the industries nationalized in Allende’s administration and adhering to laissez-faire principles. These policies protected private property rights, maintained private investments, kept government spending on social programs low, and promoted foreign direct investment in accordance with the policies of such supranational organizations as the IMF, World Bank, and WTO. Early Pinochet policies from 1973-1975 gradually lifted price controls, commercialized farming, opened markets through tax relief on foreign companies, reduced tariffs, and reduced government spending (Martínez and Diaz, 1996). Pinochet privatized several of the state-owned banks and companies, legalized speculative finance, eliminated trade tariffs on manufacturing imports, and reduced government spending by ten percent in all areas except the military (Klein, 2007). These policies were attempts by the Pinochet government to eliminate Marxist policies and to promote capitalist growth.

When these measures failed to produce stable economic growth and when the power of “Chicago” economists increased within the Pinochet cabinet, Chile implemented stricter “shock treatments” which became the foundation of a Chilean neoliberal regime (O’Brian, 1981; Vergara, 1994). This regime implemented two strategies: economic marketization and the reduction of government spending through the privatization of social programs. Marketization involved selling government-owned banks and industries including utilities and transportation, the elimination of limits on government borrowing, a reduction on trade tariffs, and the implementation of a fixed exchange rate.

The second strategy included: implementing a school voucher system, the dismantling of the public health system, and the privatization of the social security program and health insurance (Martínez and Díaz, 1996).

Although these neoliberal policies were heralded by many in the international community as the “Chilean miracle,” there are a variety of reasons to be more than a little skeptical about these claims (Collins and Lear, 1995). While the Chilean economy experienced short-term economic gains beginning in 1979 and more substantial economic growth in the late 1980s, Chile also endured two economic depressions within a decade (Ffrench-Davies, 1990; Martínez and Diaz, 1996; Schild, 2002). Moreover, the neoliberal policies of the Pinochet era did not produce the rapid industrialization that occurred when the East Asian nations opened their economies (Clark and Roy, 1997). The rampant inflation widely associated with the Allende government actually got much worse during the beginning of the Pinochet regime (1973-1976) and then remained fairly high for most of the 1980s (Schild, 2002); and, in terms of unemployment, workers in Chile faired much worse under Pinochet’s neoliberal policies than before he assumed power (Winn, 2004b).

Overall, the increasing social problems and the plight of the poor during the late 1980s stimulated massive protests in the late 1980s that led to the fall of the Pinochet regime in

1988 and the creation of a democratic *Concertación* government which reestablished the constitutional state (Olavarría, 2003; Winn, 2004b). The emerging democratic *Concertación* government, a coalition made up of Christian democrats, socialists, communists and other leftist political parties, did not end neoliberal policies for two reasons. First, the centrist *Concertación* government did not gain enough power within the legislature to pass any policies not supported by the far right or at least not supported by the Chilean business and political elites; and, second, the economic growth of the late 1980s deterred the coalition government from altering economic policies that were finally providing some stable growth (Olavarría, 2003).

From the onset, the new government was committed to the neoliberal policies of the Pinochet dictatorship which meant to keep Chile’s economy open to international capital with little interference from the Chilean government. Moreover, the government pursued privatization programs, set high interest rates to attract foreign capital, signed free trade agreements with other countries in South America, North America, and later China, and kept inflation down through balanced budgets and limited government spending (Oppenheim, 2006; Taylor, 2002; Portales, 2000). Unlike the Pinochet economic regime, however, the new democracy had made some amendments to the radical neoliberal regime. It reintroduced some government controls over the economy that moved it away from a strictly neoliberal model. Included in these controls were provisions which taxed short-term capital influx into Chile, forced businesses to put capital into the Chilean central banks for a year, provided protections of various financial assets, and controlled foreign investment options (Oppenheim, 2006).

In order to reduce poverty and the other social problems associated with the Pinochet era, the newly elected democratic government did implement several programs labeled “growth with equity” (Schild, 2002). Recognizing the limitations of private social welfare in reducing poverty or bringing about equal development, the *Concertación* regime created programs that would redefine the government’s economic role from its previous radical neoliberal position. Hence, the government would play a very limited role in economic policies but would attempt to assist individuals who had been adversely affected by previous neoliberal policies and programs. The state, in cooperation with the civil society, including economic and social actors, began to provide assistance to individuals to integrate them into the economy and to promote development by providing loans and training programs and financial support to those who are unable to survive without assistance (Austin, 2003). For example, the *Concertación* regime proved extremely successful in reducing the very high level of poverty that it inherited from Pinochet from 38% in 1990 to 14% in 2005. Compared to other Latin American countries during the emergence of neoliberal policies in the 1990s, Chile was the only one which had made any real progress toward poverty reduction (Portes and Hoffman, 2003).

However, while spending on education, poverty assistance, and economic training provided necessary funds to the poor in Chile, the government continued to support the neoliberal doctrine of limited state responsibility. As Schild (2002: 170) notes: “If the completed first phase of neoliberal reforms succeeded in altering the rules of the economic game in Chile, this second, more subtle, phase of institutional reforms has entrenched the values and premises of the marketplace associated with neoliberalism as the dominant political grammar and rationality of government.” Schild (2002) further argues that these programs focused on individual gains, development, and personal responsibility.

Overall, Chile has had a very uneven and discontinuous record of development with radical changes in both its economic and development system. Its import-substitution economy and democratic polity once appeared to be quite successful but then deteriorated, leading to their collapse and ultimate replacement by an authoritarian regime which implemented extreme neoliberal policies that had mixed success. Finally, a democratic regime that pursued more moderate neoliberalism produced significantly better results but did not solve all of Chile’s problems by a long shot.

A Model of Taiwan’s Development

This section presents a model of Taiwan’s development. Given the difficulties in achieving structural transformations, perhaps the most impressive facet of Taiwan’s “economic miracle” has been that the country has successfully negotiated several sharp structural transformations with what, in retrospect, appears to be surprisingly few problems. In particular, five periods of major structural transformations can be discerned. The first occurred during the 1950s when the transformation away from an agricultural economy was consolidated, as domestic light industry developed rapidly. Second, the 1960s and the early 1970s witnessed an impressive export boom for light industry and assembly products that revolutionized the economy and set off significant social changes as well. From the mid-1970s to the mid-1980s another substantial economic upgrading into the heavy and high tech industries occurred that was accompanied by the emergence of a middle class society and a significant political liberalization in a third structural transformation. A fourth transformation occurred over the next decade with the most important component probably being democratization in the political sphere, although there was very significant change economically as well in the form of the “Mainland revolution” in the country’s economic orientation as its mature industries increasingly had to move off-shore. Finally, in the period since the mid-1990s, the loss of mature industries has, if anything, accelerated; and Taiwan has responded by trying to break into the most advanced industrial sectors, such as bio-technology.

During the first stage in the 1950s, there were two major economic changes which brought very significant progress to the country. First, a dramatic land reform led to greatly increased productivity in agriculture, which both helped to alleviate poverty in the rural sector and created resources that were used to finance industrialization. Second, the government introduced import-substitution policies (import controls and protection) to stimulate the rapid growth of light industry. State policy also greatly enhanced the resources that could be devoted to Taiwan’s development. Most importantly, mass education created human capital; and the government substantially increased its economic leadership capability by bringing skilled technocrats into the top levels of the regime (Galenson, 1979; Ho, 1978; Lin, 1973).

Despite the initial success of the first transformation, import-substitution soon reached its inevitable high point with the saturation of the local market for light industrial goods, setting off a new challenge for Taiwan. It responded by making a fateful decision to promote exports in the hope that Taiwan’s products could become competitive on world markets, especially in the developed world. There were two prongs to this strategy: attracting foreign investment for assembly operations in export processing zones and getting domestic businesses to export. The resulting export boom succeeded probably well beyond the expectations of even its proponents. Taiwan’s economy boomed, promoting both rising prosperity and a comparatively low level of income inequality. The resources accumulated during the first stage formed a vital foundation for this new transformation during the 1960s and early 1970s. The technocrats conceived and implemented the major policy changes which made this transformation possible, while its success rested on the human capital that had been developed in the work force and business community. For example, many managers would go to work in foreign companies, learn the business and production techniques, and then start their own businesses (Galenson, 1979; Gold, 1986; Lin, 1973; Wade, 1990).

Just as with import-substitution, the success of Taiwan’s export-led strategy contained the “seeds of its own destruction” in the sense that the island's rising prosperity and wages began to price it out of the niche of low-cost manufactured products in the world economy. Economically, the ROC responded to this new challenge with two somewhat disparate transformations from the mid-1970s through the mid-1980s. First, there was a state-led push into heavy industry (e.g., steel and petrochemicals); second, the small-scale business sector began to upgrade its production techniques into such fields as advanced electronics (Fields, 1995; Gold, 1986; Greene, 2008; Kuo, 1995; Noble, 1998; Wade, 1990). Considerable change occurred in the political and social realms as well with the emergence of a strong middle class (Cheng, 1990; Hsiao, 1991) and a growing role for "electoral politicians" and for social movements and an emerging opposition to the ruling Kuomintang who pushed for further liberalization (Clark, 1989; Copper, 1988; Tien, 1989). All these trends represented an upgrading of Taiwan's economic and political capabilities.

The fourth stage commenced in the mid-1980s and, similarly to the preceding ones, was based upon the resource capabilities that had been built up during the earlier stages. Economically, Taiwan emerged as a major player in the global high tech industry (e.g., ranking third in the semiconductor production as the new millennium opened) and, correspondingly, saw a massive movement to offshore production in its traditional laborintensive industries, primarily to the PRC (Lardy, 1994; Leng, 1996; Naughton, 1997; Y.S. Wu, 1995). Unlike earlier eras, though, economic change was probably dwarfed by the transformation of the polity, as Taiwan went through a very successful democratic transition (Chao and Myers, 1998; Cheng, 1989; Cheng and Haggard, 1992; Chu, 1992; Copper, 1997; Hood, 1997; Moody, 1992; Rigger, 1999; Tien, 1996; J.J. Wu, 1995). Again, there were several important facets of resource creation. Economically, Taiwan♣s surprisingly strong development of its high tech industry and the increasing integration of its businesses into international production networks represented a substantial improvement in economic capacity. Politically, democratization led to a more open society and direct political representation for the general population.

Probably unfortunately for Taiwan, economic and political change did not end in the mid-1990s. Its basic industries, even high-tech ones, continued to be squeezed by new competitors, such as China. Consequently, the nation is being forced into a new transformation to a much more information-age economy with a growing emphasis on innovation and competition with the most advanced economies in the world, where the competitiveness of its political economy is much more problematic (Wong, 2010). Politically, Taiwan’s democracy has certainly become consolidated in the sense that election results and transfers of power are accepted and considered legitimate. However, its politics are now marked by vicious partisan polarization and by policy gridlock that results from the fairly close division in party strength (Clark, 2006) which certainly inhibits responding effectively to the challenges presented by the new economic transformation. Perhaps because this final structural transformation is not yet complete, it appears more problematic than the first four in that increases in some capabilities (i.e., the advanced electronics industry and democratic politics) are offset by decreasing capabilities in other areas (i.e., policy gridlock and political corruption or what has been called “black and gold” politics). Thus, the success of this latest response to the challenges of structural transformation remains something of an open question.

Taiwan, in sum, has undergone five major periods of structural transformation during the postwar era. Each of these periods included substantial changes in both economic and political institutions. The first four clearly resulted in an increased capacity for Taiwan’s political economy to be productive and competitive; and their various elements worked together quite well. However, many of these interactions and synergisms appear to have been fortuitous, rather than the result of a predetermined grand strategy. Thus, Taiwan’s remarkable ability to go through major structural transformations obviously involves a complex set of circumstances and forces. This also makes the question of whether the nation will be able to navigate through its current transformation successfully somewhat problematic.

The Economic Performance of Taiwan and Chile

This section reports a variety of economy and social indicators that can be used to assess the developmental success of the two nations considered here. We will begin this discussion by considering Taiwan because it followed the normal sequence of development summarized in the Introduction quite closely and extremely successfully. Taiwan’s experience will then be used as a template for evaluating the evolution of Chile’s political economy.

The data on Taiwan in Table 1 strongly indicate that Taiwan can claim to have experienced an “economic miracle” with a good deal of justification. In the early 1950s, it was quite poor and agricultural. It then embarked on a trajectory of rapid development that radically transformed the economy and society. Its economic growth was rapid, if not spectacular, from the early 1960s to the late 1980s, averaging double digits for many years; and by the beginning of the 21st century it had attained a

GDP per capita on a level of the countries of Southern Europe. Moreover, inflation, which had been horrendous in the late 1940s and beginning of the 1950s, was tamed quickly and stayed quite low except during the oil crisis of the 1970s. As a result of this rapid growth, unemployment in Taiwan has been quite low since the early 1950s. As described in more detail in the preceding section, it followed the normal developmental sequence of agriculture to light industry to heavy industry to high tech production to advanced services. Overall, therefore, Taiwan's economic development proved to be quite impressive, although its growth rate has declined considerably over the last two decades, as is normal in post-industrial societies.

Table 1 about here

Taiwan's development was clearly driven by exports from the early 1960s on. Exports as a percentage of GDP, for example, almost quadrupled from 11% to 42% between 1962 and 1973; and the transformation of the country's export mix was even more dramatic. During the 1950s, agricultural products dominated Taiwan's exports, but the share of industrial goods then skyrocketed from 8% in 1952 to 50% in 1962 to 85% in 1973. This strategy of export-led development, in turn, rapidly transformed Taiwan from an agricultural to an industrial economy. For example, manufacturing's share of GDP more than doubled from 17% to 36% between 1962 and 1973, where it stayed for almost twenty years. By the late 1980s, however, Taiwan was increasingly losing competitiveness in many of its basic industries; and the country correspondingly moved toward a post-industrial society, with a manufacturing sector that is slightly over a fifth of the total economy. Investment has generally been between 20% and 30% of GDP since the early 1960s, although the investment rate has gone down noticeably since the mid-1980s, as many Taiwanese business moved production off shore to take advantage of lower-wage economies. Foreign investment or FDI has never exceeded about 10% of GDP, but it has been vital in key sectors, such as electronics in the 1960s and 1970s. Rather than "de-nationalizing" Taiwan's economy, however, this actually stimulated the domestic industries, as noted in the previous section.

Rapid growth brought many social benefits as well, as demonstrated by the bottom part of Table 1. Literacy, life expectancy, infant mortality, and, somewhat more slowly, the percentage of homes with piped water improved quickly and by the late 1980s were reaching the standards of the developed world. In 2000, for example, 95% of Taiwanese were literate; life expectancy was 76; 91% of homes had piped water; and, most impressively, the infant mortality rate of 6 per 1,000 live births was low by even developed world standards. Furthermore, the data on income inequality provide strong support for the conclusion that Taiwan achieved “growth with equity” (Fei, Ranis, and Kuo, 1979). When income inequality is measured by the ratio of the income of the richest fifth to the poorest fifth of the population, Table 1 shows that this ratio plunged from 20.5, which is quite high, in 1952 to 11.6 in 1962 to 4.4, which is quite low even for a developed nation, in 1973. Over the last two decades, the level of income inequality has increased gradually but steadily to a ratio of 6.0, which is still fairly low, in 2008, reflecting a broader trend throughout the advanced industrialized nations.

In fairly stark contrast, the data in Table 2 show that Chile’s overall record for growth and economic performance clearly does not match that of Taiwan. As described in the first section, growth in Chile has been quite episodic; and, in addition, it has never come anywhere near Taiwan’s spurts of double-digit growth. For example, Chile GDP’s per capita was approximately twice that of Taiwan at the start of the Pinochet era. Yet, forty years later in 2005, Taiwan’s GDP per capita was well over double Chile’s ($16,449 to $7,546). Furthermore, Chile’s record on several macroeconomic indicators was far inferior to Taiwan’s as well. Unemployment in Chile has been at least double Taiwan’s (and often much worse than that) over the last four decades; and Chile’s often high rate of inflation has been almost incomparably worse than Taiwan’s.

Table 2 about here

Chile's long-term program of import-substitution dating from World War II meant that it had a huge head start on Taiwan in terms of industrialization. Indeed, in both countries manufacturing constituted about a quarter of GDP in the mid-1960s. However, Taiwan's continuing export boom increased the share of manufacturing in its GDP to well over 30% in the 1970s and 1980s. In contrast, manufacturing's contribution to the Chilean economy stayed constant until Pinochet took power and then actually decreased significantly while he was in power from 25% in 1975 to 18% in 1990. The primary reason for this is the way that the Chilean "export boom" played out. Over the forty years covered in Table 2, the role of exports in Chile's economy expanded almost three-fold from 15% in 1966 to 41% in 2005. The nature of this expansion differed dramatically from the dynamics in Taiwan, where industrial goods provided the overwhelming bulk of export items. Instead, after 1975 manufactured products generally constituted only 10% to 15% of Chile's exports, which was actually an improvement over the preceding era. Rather, Chile's major exports included copper, paper, wood, and wine (CIA, 2009). Thus, Chile's increasing participation in the global economy did <u>not</u> promote industrial upgrading, in direct contrast to Taiwan's experience. Finally, Chile's investment rate was generally a little under Taiwan's at 20% to 25% of GDP but quite respectable, with FDI varying widely by year. Again, though, this did not lead to industrial upgrading.

In terms of social outcomes, Chile fares much better in comparison to Taiwan on all but one of the five indicators included in the bottom half of Table 2. Income inequality is far worse in Chile than Taiwan. The ratio of the income of the wealthiest to the poorest fifth of the population was approximately 11 to 1 in both countries in the early 1960s. After that, though, it fell dramatically in Taiwan and rose almost as dramatically in Chile. In contrast, life expectancy in the two countries has been almost exactly the same; and, while infant mortality has always been lower in Taiwan than Chile, both have had rapid declines over the last half century that have brought them to the levels of developed nations. Finally, Chile actually achieved high levels of literacy and providing homes with piped water significantly before Taiwan did.

Implications for Globalization and Neoliberalism

The 1980s witnessed a revolution in developmental economics that represented the convergence of two distinct trends. The first was the growing **globalization** of the world economy brought about the tremendous drop in transportation and communications costs which allowed the movement of standardized production to the developing world to take advantage of low labor costs. The second was the increasing popularity of the tenets of **neoliberalism**, after the growing failures of communism and import-substitution industrialization in the developing world, that argued that *laissez-faire* policies were necessary to promote development through “the magic of the market” (Clark and Roy, 1997; Gilpin, 2001).

Superficially, both Chile and Taiwan might be seen as representing the new orthodoxy of globalization and neoliberalism. Both countries ended eras of import substitution (Taiwan in the early 1960s and Chile in the mid-1970s), opened their economies to foreign capital, and witnessed huge and long-term increases in exports. Yet, if both accepted globalization with open arms, they nevertheless had extremely different perspectives about the role of government in the economy. In Chile, the Pinochet and *Concertación* regimes implemented explicit neoliberal programs, even if the latter was significantly more moderate. The Taiwan development model, in sharp contrast, relied upon an activist state in several vital regards. Taiwan’s government adopted major policy changes that ushered in each of the economic eras described in the second section, used land reform and universal primary education to create human capital and reduce inequality, and took a very active lead in promoting Taiwan’s successful high tech industry through state R & D labs and science-based parks (Clark and Tan, 2012; Greene, 2008).

Another major difference between Taiwan and Chile is that the first followed the normal sequence of develop outlined in the Introduction, while the second did not. Perhaps because of this, Taiwan’s development was cumulative in the sense that, as described in the second section, resources that were created at one stage in developmental processes served to promote the transformation to the next. In contrast, this dynamic was much more limited in Chile, especially during the neoliberal era.

This model of development has countervailing implications for the assumptions of neoliberalism. On the one hand, it challenges the assumption of *laissez-faire* economics that all economic activities are equally desirable in theory, so that a country should pursue the “comparative advantage” resulting from its resource endowment. In contrast to this emphasis on “static comparative advantage," however, the view that development constitutes a sequence of stages with differing levels of productivity strongly implies that nations should seek to promote a "dynamic comparative advantage" of moving upward from one stage to the next (Clark and Roy, 1997; Frieden, 2006; Gilpin, 2001). Indeed, Taiwan's transformation from an exporter of sugar and rice to one of semiconductors and computers in two generations proves that the pursuit of dynamic comparative advantage is possible.

On the other hand, if the comparison of Chile and Taiwan indicates that mindless neoliberalism may well be dangerous to globalization efforts, it does not constitute an unqualified endorsement of statism either. First, Taiwan's economic miracle resulted from success on international markets, which is consistent with the neoliberal argument that economic growth is market driven. Second, even if some government policies aid economic development, others may turn out to be disastrous. Even successful policies may become counterproductive over time. A good example of this is provided by a comparison of the important-substitution eras in Chile and Taiwan, where Chile's greater initial success eroded over time. Chile's import-substitution industrialization was quite brought-based in the sense that it included not just light industries, like textiles and processed agricultural products, but heavy industry, like iron and steel. Indeed, by the early 1950s the area around Concepción was one of the leading manufacturing centers in Latin America. However, these industries were heavily protected which destroyed incentives to innovate; and, consequently, they became increasingly inefficient and technologically backward over time (Mamalakis, 1976). Taiwan's import-substitution was much narrower and shorter term. It focused on light industries in the 1950s; and, following a major policy reorientation in the early 1960s, these products turned out to be quite competitive on international markets.

A comparison of Chile and Taiwan also provides some contradictory findings concerning the relationships among class structure, economic performance, and governmental policy. Economic development generally involves what Joseph Schumpeter (1950) has termed "creative destruction" in the sense that the emergence of new industries is accompanied by the destruction of old ones in a particular nation. Often vested interests in the old economic structure seek to use their power to prevent economic change and development; and Peter Evans (1985, 1995) has argued that an important role for a developmental state is overcoming such resistance. This is exactly what happened in Taiwan where compulsory land reform led to increased agricultural productivity, more resources for industrialization, and greater social equality (Clark and Tan, 2012; Lee, 1971).

In Chile, in sharp contrast, the interests of the large landowners, who played a leading role in the country's import-substitution industrialization, were never challenged except briefly by the Allende administration (Foxley, 1982; Martínez and Díaz, 1996; Taylor, 2002; Winn, 2004a). From this perspective, neoliberalism has prevented the creative destruction necessary for the industrialization and further development of the Chilean economy.

Globalization, to sum, offers both opportunities and threats to developing (and developed) nations. Neoliberalism, which is often seen as a component of globalization, argues that only *laissez-faire* economics will allow a nation to compete successfully in international markets. A comparison of Chile and Taiwan indicates that this assumption is quite dubious, however. Successful development requires climbing the international product cycle through the pursuit of dynamic comparative advantage; and the experiences of these two nations indicate that both market and state play vital roles in this process.

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Table 1

Indicators of Taiwanese Economic and Social Performance***

	1952	1962	1973	1987	2000	2008
Economic Performance						
GDP per capita (current $US)	$167	$178	$695	$5,397	$14,721	$17,576
Inflation	19%	2%	8%	1%	1%	4%
Unemployment Rate	4%	4%	1%	3%	3%	4%
Exports % GDP	9%	11%	42%	52%	47%	65%
Industrial Goods % Exports	8%	50%	85%	94%	99%	99%
Manufacturing % GDP	11%	17%	36%	37%	24%	22%
Investment % GDP	15%	18%	29%	20%	23%	21%
FDI % Investment	1%	2%	8%	7%	10%	10%
Social Performance						
Literacy Rate	58%	75%	86%	92%	95%	98%
Life Expectancy	60	66	70	74	76	79
Infant Mortality*	45	31	14	5	6	4
% Homes with Piped Water	29%	31%	46%	80%	91%	92%
Income Ratio**	20.5	11.6	4.4	4.5	5.5	6.0

*Per 1,000 live births
**Ratio of the income of the richest fifth of the population to that of the poorest fifth
***In a few instances, the data may be for a year close to the specified one

SOURCE
Council for Economic Planning and Development (CEPD). *Taiwan Statistical Data Book, 1989 & 2009*. Taipei: CEPD, 1989 & 2009.

Table 2

Indicators of Chilean Economic and Social Performance***

	1966	1975	1990	2005
Economic Performance				
GDP per capita (current $US)	$793	$1,491	$2,393	$7,546
Manufacturing % GDP	25%	25%	18%	17%
Inflation	23%	375%	26%	27%
Investment % GDP	18%	22%	24%	21%
FDI % Investment	0%	0%	8%	36%
Exports % GDP	15%	25%	33%	41%
Manufactures % Exports	4%	10%	11%	13%
Unemployment Rate	7%	15%	8%	9%
Social Performance				
Literacy Rate	88%	91%	94%	96%
Life Expectancy	62	67	74	78
Infant Mortality*	78	56	18	8
Income Ratio**	11.5	--	17.0	14.3
% Homes with Piped Water	--	81%	88%	93%

*Per 1,000 live births
**Ratio of the income of the richest fifth of the population to that of the poorest fifth
***In a few instances, the data may be for a year close to the specified one

SOURCES
Index Mundi. www.indexmundi.com/facts/chile.
United Nations Economic Commission for Latin America and the Caribbean (ECLAC). http://www.eclac.org/estadisticas/bases/default.asp?idioma=IN.
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Emerging market and developing economies will be buffeted by economic headwinds from multiple quarters: pressure on weak health care systems, loss of trade and tourism, dwindling remittances, subdued capital flows, and tight financial conditions amid mounting debt. Exporters of energy or industrial commodities will be particularly hard hit. Demand for metals and transport-related commodities such as rubber and platinum used for vehicle parts has also tumbled. While agriculture markets are well supplied globally, trade restrictions and supply chain disruptions could yet raise food security issu The economy of Chile is a market economy and high-income economy as ranked by the World Bank, and is considered one of South America's most prosperous nations, leading the region in competitiveness, income per capita, globalization, economic freedom, and low perception of corruption. Although Chile has high economic inequality, as measured by the Gini index, it is close to the regional mean. Population-Control-Policies and their Implications for Economic Growth in. China. Bachelorâ€™s Thesis supervised by the.Â Chinaâ€™s growing economy is a phenomenon which has already fascinated and captivated various researchers and scientists. The surprisingly fast transi-tion from a poorly developed country to an economy to be reckoned with has raised the question about its background and reasons. Some of the reasons for Chinaâ€™s development are the drastic political decisions and actions taken during the last 32 years. China has undergone essential market liberaliza-tion and opened its markets not only country-wide but also internationally. Furthermore, China has implemented strong population-control-policies to p