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Differences in East Asian Economic Institutions: Taiwan in a Regional Comparison

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Abstract

The term "developmental state" describes a very conscious, however, more or less market-friendly approach to economic development. The developmental states of the East Asian region can be characterized by a strong emphasis on diverse forms of state intervention generally; however, these sets of institutions differ in the Japanese, Taiwanese, and South Korean economies. The aim of this paper is to offer a comparative analysis of economic institutions and their alterations after the Asian financial crisis. The paper includes Taiwan, Japan and South Korea in the analysis. The paper seeks to define the peculiar features of Taiwanese economic institutions in contrast to Japan and South Korea. By doing so, the paper investigates different aspects of economic institutions in Japan, Taiwan and South Korea: firm structure, the ability of firms to shape and organize regional supply chains, the role of state and trade unions, the composition of GDP/GNP, economic openness (trade, exchange regimes) and financial sectors' capability to channel funds and encourage saving and investments. One of the findings of the paper is that Taiwan's defining feature is its very close cooperation with Mainland China. However, the deep interconnectedness of the two economies, often called "Chiwan", is going to be changed. The reason for this is not only a new economic policy, Taiwan's "New Southbound policy" of enhanced cooperation with countries of the Southeast Asia, South Asia and Oceania, but the upgrading of the Chinese economy, which is losing its place in the global supply chains as a cheap-labour country.

Keywords: *China, Taiwan, Europe, economic structure, institutions*

1. A Short Description of the Industrial Background

1.1. Flying Geese Model or the Developmental State Paradigm

The two concepts attempt to explain the successes of East Asian countries, however, their approach could have been more different, since the flying geese concept refers to the importance of over-regional features, thus giving a regional and more liberal explanation to the Asian success, whereas the developmental state concept has a national economy framework, which has been used to emphasize national policies and measures. It can be argued, that these concepts stand in sharp contrast to each other; however, they only refer to two different epochs of the world economy, where the developmental state concept reflect the approach of the 1960s and 1970, and the flying geese concept considers the conditions of a globalized area. So it is no surprise that the latter explanation can be utilized more effectively today, but the developmental state concept is better to be used when explaining differences among Asian countries.

1.1.1. The "flying geese" concept

The Asian miracle started with a full-scale industrialization in Japan, and it continued in South Korea and Taiwan. Later, in these countries, labor-intensive production was replaced by capital-intensive production. Although the fundamentals in these economies were very similar, catching up with the West took place in different epochs, led by Japan, where the well-designed policies and traditions of early 19th and 20th century industrialization created a favorable environment for a successful economic "take-off" (Rostow, 1960: 4-16).

The "flying geese paradigm", which was first sketched out by the Japanese economist Kaname Akamatsu (赤鬆要) in trying to find a rationale why and how Japan was followed closely by South Korea and Taiwan and what are the deep links among these economies. Taiwan's industrialization started with the labor-intensive textile sector, of which the pattern can be found in Japan and South Korea as well; however, later stages of industrialization were quite different as public enterprises were emphasized less in South Korea and Japan than they were in Taiwan. The "flying geese paradigm" attempts to describe a region-wide catching-up process, in which driving forces of this process are links between the hierarchically lined-up economies, whereas the "developmental state" explanation is a nationalist concept, since variables of the success can be interpreted in the framework of the national economy – i.e. industry policy, state's efficient involvement in the economy, saving-borrowing schemes etc. (Kasahara, 2013: 2)

It can also be argued that the two explanations complement each other, and they only reflect different periods of economic development, thus the developmental state model can be utilized when describing the phase between the 60s and 80s, while the flying geese model reflects the epoch of economic globalization beginning in the late 80s. In the flying geese model, the main driver of industrial change is the leader's (Japan's) need to minimize labor costs, based on shifts in comparative advantages. The concept suggests that industrialization and internationalization of production spread from one low-wage country to another. The mechanism only sets in when competitive advantages of the first low-wage country have been fully exploited. But on the other hand, recent technological changes pose new threats since they diminish the importance of wages; since more and more labor phases can be carried out by automation that constrains economic policies exploiting wage differences. However, there are clear flaws in the flying geese model:

1. The underlying assumption of the model is that economic globalization is irreversible; however, economic history vividly shows that the internationalization process be stopped and reversed. (E.g. WWI put an end to the first wave of globalization, and even now, there are more signs for a temporary slow-down of the current globalization process.)
2. The theory does not consider historical, cultural and institutional differences among countries.
3. This paradigm mainly focuses on comparative advantages, less on asymmetric dependencies among countries.

What can certainly be used from this model in the context of Taiwan is the notion that modern industry spread in waves, and Taiwan came later than Japan, since only after the second oil crisis did Taiwan's modern and internationally competitive sectors emerge. The temporal discrepancy between Taiwan and South Korea is not substantial; however, it must be noted that firms' structure in the two economies is different, since large Korean firms dominate much more the economy than the Taiwanese big ones. (See this difference in the next section.)

1.1.2. The developmental state paradigm

The developmental state paradigm refers to the effectiveness of these states in implementing policies aimed at modernizing, reorganizing backward and traditional economies, directing the behavior of economic players, and shaping major macroeconomic trends.

The first and most effective example of a developmental state was Japan[1], which was emulated by South Korea, Taiwan, Singapore, and Malaysia. Thailand and Hong Kong had a freer market approach regarding industrial policy, which was combined with an open attitude towards foreign direct investments (FDI), while Japan and South Korea discouraged FDI. The South Korean policy changed slightly after the Asian financial crisis; however, the industrial landscape is still shaped by large South Korean enterprises (*chaebol*s, 재벌 / 財閥).[2] Taiwan, in most of the cases following a balanced policy, encouraged FDI in most sectors, and it discouraged them in some of the more vulnerable sectors.

Ming Wan contends that, unlike the Japanese model, Taiwan's state developmental policies were less powerful, so Taiwan firms have been shaped more effectively by the market. In this environment, incentives to competition are stronger and state intervention is less centralized and intense (Wan, 2008: 215). This assessment may be applied to the epoch after 1985, but even prior to this period, Taipei's policies were much more heavy-handed, and relied more on state-owned enterprises than Japan or South Korea.

Additionally, the dominance of small and medium-sized enterprises (SMEs) can also be espoused by the relatively small domestic market. This point is particularly interesting, considering the views that Taiwan had a less effective state in development. For example, analyzing the period between 1950 and 1985, Wu argues that there was no institutional mix in Taiwan which could have implemented and sustained coherent economic policies. He adds, "Taiwan's economic bureaucracy was neither monolithic nor harmonious, and its steering capacity as questionable." (Wu, 2005: 320) If so, it is understandable why, between the end of the war and the mid-1980s, Taipei's policies failed to boost the establishment of internally competitive big firms on a large scale. Nevertheless, in the 1980s, there was a clear shift in economic policy leading to the creation of the Hsinchu Science-Based Industrial Park (新竹科學工業園區) in 1980, and the establishment and success of the science park clearly demonstrated the ability of Taiwan's bureaucracy to implement consistent policies.

Another, however, less important difference is to be found in the industrial relations, in particular, when it comes to the role played by trade unions. While trade unions' bargaining power has been dwindling over the last decades, still they are crucial in determining income distribution patterns. According to Sarosh Kuruvilla and Christopher Erickson, Taiwan and South Korea belong to a different type of industrial relations than Japan (Kuruvilla and Erickson, 2002: 172)[3]. The peculiar features of Japanese industrial relations are well known and discussed in the literature. The main difference between the Japanese and Taiwanese/Korean versions of industrial relations results from the *keiretsu* (系列) system of the Japanese creating the *shukko* (出向) practice which allowed the transfer of workers within the Keiretsu group, thus increasing flexibility and stability of the system of industrial relations (Kuruvilla, Das, Kwon and Kwon, 2002: 13).

In the case of Taiwan, a strong connection between democratization and growing trade union density can be demonstrated. In 1985, the density only reached 28 percent in Taiwan, which climbed to 50 percent in 1994; however it must be considered that an insurance system was only provided to members of trade unions, so that is one of the reasons for the high union density in Taiwan.

Table 1 Trade Union Density (1980-2014)

	1980	1990	2006	2010	2014
Korea	16	17	10	10	n.a.
Japan	31	25	18	18	18
Taiwan	26	49	36	n.a.	n.a.

Sources: International Labour Organization (ILO) database, Organisation for Economic Co-operation and Development (OECD) data.

The same indicator in South Korea is definitely the lowest among these three countries. This can contradict presumptions since, as we can see, the share of industry is the highest one in this country group. The contradiction is clear when one considers how much easier it is to form and operate a trade union organization if it can cover a substantial number of workers in one firm, and it represents the unified interests of these workers. That is more challenging in the services, where a much smaller number of workers per firm with more diverse interests and educational backgrounds has to be represented by trade unions. The link between democratization and growing union density could also be witnessed in South Korea in the 1990s; however, union density was never as high as in Taiwan. After the 1990s, in all of these countries, "servitization" of the economy led to a decline in trade union density and diminished the bargaining power of these organizations. The last data accessible in the case of Taiwan is from the year 2006. That year, the trade union density was 36 percent, which was almost double the OECD-average. Trade unions might not be the only causes of the equal income distribution in Taiwan, but they have definitely contributed to this positive picture.

1.2. The China Factor

Industrial states of the 19th and early 20th centuries (US, Germany, Japan etc.) built up their own industrial bases while relying on their domestic markets. In the late 20th and 21st centuries, economies of scale do not allow for this strategy: every latecomer has to find its niche in the global supply chain. So, industrialization of these countries has been linked to internationalization, and building regional/global supply chains. That is why the late industrialization of China – without any exaggeration – has changed the entire region. The process has altered the main patterns of manufacturing, not only in Asia, but in the world economy as well. Based on manufacturing output, China alone accounts for more than one fifth of the production of the world (22.2 percent in 2012). The United States ranks second on this list, with Japan in the third place (Meckstroth, 2014).

The economy in Taiwan fully used chances to cooperate with China. Taiwan has a highly developed economy. For the time being, Taiwan's economy is the size of the Belgian economy (US$490 billion in 2014). But, adding the performance of Taiwan firms operating in China, "Chiwan"[4] generates around US$700 billion, which equals the size of the Turkish economy, or that of South Korea. There are also estimates regarding the Chinese workforce working in Taiwan firms. These calculations range from 13-15 million to 20-23 million workers. The last figure is roughly equal to the entire population of Taiwan (Lee-Makiyama and Messerlin, 2014: 3).

The future of Chinese economic development, and the catching-up process, seems to be more opaque than ever, as the recent slowdown of the Chinese economy reveals fundamental problems which economists usually summarize with the term "middle-income country trap". This refers to scores of problems which fast-growing economies face when they can no longer base their development on cheap wages. As a result of successful modernization and industrialization, incomes have risen significantly in China, in particular along the coastal regions. But due to higher wages, this economic model will not be tenable in the long run, which is why new competitive advantages must be sought. The shift to a new model accompanied by deep structural changes in the economy, with more emphasis on the service sector and a higher added value, is not an automatic process; there is no guarantee of success. Because of these challenges, Taiwan's reliance on China as a broad industrial base has already changed, and the new situation requires strategic decisions be made in Taipei.[5]

The dependency on the Chinese economy is significant and outstanding in the Taiwanese economy. In 2014, 16 percent of Taiwan's output and 26 percent of the exports were generated due to the very close economic ties with China. In the literature on economic integration, it is a widespread consensus that the possibility of influencing political decisions and willingness to cooperate significantly increases when export to the partner exceeds more than 10 percent of the aggregate exports. That is clearly the case in Taiwan. Similar features can be seen in the two other countries; however, the scale of Japanese dependency is more limited, and the Korean reliance on the Chinese economy is not constrained by diplomatic isolation of the country as in the case of Taiwan.

Table 2 China Dependence

	China's share in the GDP	China's share in the exports
Japan	3	19
South Korea	11	25
Taiwan	16	26

Source: Author's own compilation.

1.3. Privatization

Another field, where political fears dominate the agenda, is the privatization process. As in many European countries, liberalization and privatization of public-owned enterprises took off in the 1990s. Despite this general trend, even today, there exist limitations on foreign ownership. "In its 2015 Investment Climate Statement on Taiwan, the US Department of State also underscored stalled progress on the privatization of state-owned enterprises (SOEs) and foreign ownership caps in the telecommunication, television, and transportation sectors as weaknesses in Taiwan's investment climate" (Rosier, O'Connor and Cuevas, 2016: 20). As Table 3 demonstrates, limitations on direct foreign ownership are widespread in South Korea. There are 3 subsectors where foreign direct investments are prohibited, and 29 sectors are partly limited, whereas these foreign ownership limitations do not reach this scale in Taiwan, and in Japan.

1.4. The Size of the Firms

The other obvious difference among these countries – often reflected in the literature – is that Taiwan firms are smaller than those of South Korea and Japan. The significance of this can be seen in Taiwan's weakness in creating global brands, but maybe more importantly, the capital which stands at the disposal of these firms is more limited. This might be one of the reasons why expenditures on research and development are significantly lower than those of Japan and South Korea, since with research and innovation, the amount of invested capital, and thus the firm's size, matters.

Despite being small, firms in the Taiwanese economy have been competitive on international stage in the last four decades.

Table 3 Limitations on Direct Foreign Ownership in Taiwan, Japan and South Korea

South Korea	
Completely closed	Nuclear power generation
	Radio broadcasting
	Television broadcasting
Partly, not more than 20 percent	News agency activities
Partly, not more than 30 percent	Hydroelectric power generation
	Thermal power generation
	Other power generation
	Publishing of newspapers
Partly, not more than 49 percent	Satellite and other broadcasting
	Program distribution
	Cable networks
	Wired telephone and other telecommunications
	Mobile telephone and other telecommunications
	Satellite telephone and other telecommunications
	Other telecommunications
Partly, not more than 50 percent	Farming of beef cattle
	Inshore and coastal fishing
	Transmission/distribution of electricity
	Wholesale of meat
	Coastal water passenger transport
	Coastal water freight transport
	Other support activities for air transportation
	Publishing of magazines and periodicals
	International air transport
	Domestic air transport
	Small air transport

Table 3 (continued)

Taiwan	
Not more than 40 percent	Cable television broadcasting services
Not more than 49 percent	High-speed rail services Airport ground services, airlines
Not more than 60 percent	Wireless and fixed line tele-communication
Japan	
Not more than 22 percent	Broadcasters
Not more than 33 percent	Nippon Telegraph and Telephone

Source: U.S. Department of State, 2016.

Ernst summarized (2000) a few important features of the Taiwanese industrial policy, which distinguish it from the Japanese and Korean policies:

1. Any domestic firms can enjoy tax and other privileges, thus there are no limits on the number of firms within an industry.
2. No discrimination against smaller firms within the SME sector.
3. Equal treatment was given to foreign investments with exception of a few sectors.

4. Up to the 1980s, directed credit played a less important role in Taiwan than in South Korea and Japan; however this policy changed and more and more firms could enjoy the benefits of cheap credits (Ernst, 2000: 7).

Wan emphasizes that firms in Taiwan are less willing to borrow money from capital markets and as a result they are less vulnerable to financial shocks (See, e.g., Asian crises of the late 1990s) (Wan, 2008: 201). As the backbone of the Taiwan economy consists of small and medium-sized enterprises (SMEs), reduced exposure of SMEs to external funding enhances financial stability on a macroeconomic level.

According to Wu, the dominance of these small and medium-sized enterprises (SMEs) can be traced back to "Taiwan's dual market structure" (Wu, 2005: 325). He explains this duality the following way: "We need to distinguish between two different marketplaces. The first market consisted of the upstream and intermediate-stream industries in which SOEs and LEs operated. The second market was the downstream industries dominated by the SMEs. The state governed the first market while leaving the second to market forces"[6] (Wu, 2005: 329). Operating in an environment shaped by market forces gave the advantage that Taiwan's success depends less on state economic policies, since the bulk of the country's success was created by small and medium-sized enterprises.

However, the picture is less positive if looking at corporate debt (bonds and credits) generally. The ratio of corporate bonds in percent of GDP is still limited, but the size of corporate bonds and loans in percent is higher than in Japan or South Korea.

Table 4 Corporate Debt in percent of GDP (2013)

	Corporate bonds	Syndicated loans	Corporate debt
Japan	1.72	5.54	7.26
South Korea	4.30	1.19	5.49
Taiwan	2.77	5.70	8.47

Source: IMF (2014: 38).

2. Links to the World Economy

2.1. Foreign Direct Investments

In many countries, industrialization is linked to foreign direct investment (FDI) inflows. Poor and middle-income Asian countries are to be characterized by FDI-led industrialization while Japan, Taiwan and South Korea based their development on domestic savings. These countries have been the main sources of foreign direct investments for these developing Asian nations as well. Between 1990 and 2014, Japan, Taiwan and South Korea were net FDI investors; most of the FDI was directed into China, Thailand and the Philippines.[7] As a result of FDI-led industrialization, the regional division of labor has changed. Over the last few decades, de-industrialization has characterized FDI exporter countries (Taiwan[8], Japan, and South Korea), while industrialization has only speeded up in the net FDI importer countries.

When it comes to firm strategy, outsourcing is clearly a more integrated part of the firm strategy. In Japan and Taiwan, net FDI outflows in percent of GDP are significantly higher (3.17 in Japan and 2.36 in Taiwan in 2015). That is another clear fault-line among the countries in question: they reorganized their economies after the Asian crisis using very different strategies. South Korea has been relying more

Table 5 FDI between 1990 and 2014 (US$ million)

	Net FDI	FDI outflow	FDI inflow
Japan	1198111	1320724	122613
Hong Kong SAR	153581	1041120	887539
Taiwan	107234	169892	62658
South Korea	102726	280568	177842
Malaysia	–1398	142159	143557
Macao SAR	–23150	2014	25164
Philippines	–23216	20197	43413
Thailand	–84132	58955	143087
Indonesia	–85514	58239	143752
Singapore	–266586	334149	600735
China	–926521	662540	1589061

Source: Author's own compilation based on UNCTAD World Investment Report 2015.

on inbound investments than Japan and Taiwan, which means that Korean firms have chosen another strategy besides FDI in order to enhance competitiveness. Differences between GDP and GNI[9] show these trends; the GDP of Japan and Taiwan are significantly lower than GNI,[10] while the aggregate value of the GDP is higher than the GNI in South Korea.

The composition of GDP also shows significant differences in this country group. South Korea is still one of the countries where manufacturing is relatively important, whereas in Japan and Taiwan, industry's share in GDP is very moderate. This finding is in line with the outsourcing strategy of the domestic firms in Japan and Taiwan, which leads to a de-industrialization process in these economies and more and more investments abroad.[11] The process is often described as the "hollowing out" of the economy (Hsu and Liu, 2004: 13); however it must be clear that along with this process domestic firms are moving up the added value ladder. As John Berthelsen puts it: "don't bet against Taiwan. The 1970s and 1980s were regularly punctuated by the same warnings about the US economy as industry after industry moved its assembly facilities to ever-cheaper free-trade zones overseas, most of them in Asia. Then an undeniable explosion occurred in US innovation and suddenly manufacturing didn't matter that much anymore" (Berthelsen, 2003).

Table 6 Structure of GDP and Distribution of Employment (2014)

	Agriculture		Industry		Services	
	GDP share	Employment share	GDP share	Employment share	GDP share	Employment share
Japan	1.2	3.7	25.6	25.8	73.2	69.1
South Korea	2.5	5.7	38.1	24.6	59.5	69.7
Taiwan	1.7	4.9	32.8	36.1	65.6	58.9

Source: *Taiwan Statistical Data Book 2015*.

As we can see above, the different internationalization strategy of Taiwan firms is clearly expressed in the astounding difference of GDP and GNP. Although Taiwan is one of the developmental states of Asia, it is clear that it can be characterized by less powerful or more flexible policies than its Japanese or Korean counterparts. This flexibility and different firm structure might also have been explanatory factors of a greater openness of the economy.

2.2. International Trade

Based on the trade-to-GDP ratio, Taiwan had a more open economy in 2015, while Japan obviously had the least open economy in this group. South Korea clearly demonstrated a greater openness with regard to trade. However, this indicator also implicitly includes the size of the economy, since it is usually easier to rely more on domestic products if the supply is greater. If another indicator is used – the general average tariff levels – South Korea is the country in the group to be characterized with protectionist trade measures and Japan seems to implement the most liberal trade policies. In both cases, Taiwan ranks in second position.

Table 7 Trade Openness of the Country (2015)

	Japan	South Korea	Taiwan
Total trade to GDP	38.54	85.09	119,70
Total export to GDP	18.63	45.26	65.35
Merchandise exports to GDP	15.16	38.23	54,56
Services exports to GDP	3.48	7.03	10.79
Total import to GDP	19.91	39.83	54,35
Merchandise imports to GDP	15.73	31.68	45.41
Services imports to GDP	4.18	8.15	8.94

Source: Author's own calculations based on WTO data.

But before looking at other indicators of trade openness, it is worth having a short historic overview of trade policies of Japan, Taiwan and South Korea, since historically, relatively liberal trade policies of the region have only been products of the last three decades. After World War II, trade policies were protectionist. Each country had a phase of import substitution after the war.[12] Only after the import substitution period did export-led growth and later liberalization of the markets become aspects of economic policy.

- Japan switched to an export-led growth path in the 1950s. The government heavily protected domestic market players by implementing non-tariff barriers. Special vehicles of external trade were set up, the "general trading companies", that attempted to identify market niches of the world market which could be targeted. Among scholars, there is a broad agreement that the Ministry of International Trade and Industry (MITI) had a very strong role in directing the economy and in giving the right export incentives.
- Taiwan followed the example of Japan very early on. Along with export-promotion measures, the first export processing area of the country was set up in Kaohsiung in 1966, so the country's comparative advantages could be utilized in textiles and other industrial sectors. In the area, three zones – a free trade zone, a duty free zone, and an industrial park – were integrated, thus providing a new economic model for the world (see more details in Karalekas, 2016: 77-96, and Csáki, 2016: 123-146).
- South Korea introduced export-oriented policies after 1961. In contrast to Taiwan, the South Korean government did not set up state-owned enterprises to lead the export boom. Instead, it promoted the establishment of the so-called national champions, which as flagships of the country's economy, could lead the modernization of the

economy. However, government control of the economy was stronger than in Taiwan, because subsidized long-term loans, along with other measures of export promotion, enabled the government to set strict export targets.

The phase of liberalization started in the 1980s and it cannot be disconnected from the rapid development of the legal framework brought about by GATT (General Agreement on Tariffs and Trade) and WTO (World Trade Organization) rounds. As table 8 demonstrates, there are clear differences among the countries in question.

- Japan, as the most advanced country of the region, has the lowest average and most favored nations tariffs (MFN) in the region.
- Taiwan has a slightly higher average MFN tariffs applied than countries of the European Union (5.1 percent in 2015). This might be in line with the development of the economy (e.g., China, as a less developed economy, maintains higher levels of tariffs).
- South Korea is definitely out of line considering the development of the economy. Agricultural tariffs are significantly higher in all the countries analyzed; South Korea has the most protective trade policy regarding agricultural products, while Taiwan and Japan have implemented similar MFN tariff levels which are distinctly higher than those of the European Union (10.7 percent in 2014).

There is clearly pressure on these countries to further liberalize trade relations, since without liberalized regional and world markets, countries able to export high-tech commodities to the world markets would be compelled to reduce the output, leading to moderate or negative GDP growth. This certainly applies to Taiwan, where most of the GDP is generated by net exports. That is why it is painful for Taiwan

Table 8 Average Most Favored Nations Tariffs (2015)

	Total	Agriculture	Non-Agriculture
Japan	4.0	12.9	4.5
Taiwan	6.4	15.9	4.8
South Korea	13.9	56.8	6.8

Source: WTO database <*https://www.wto.org/english/tratop_e/tariffs_e/tariffs_e.htm*>.

Table 9 Global Trade Enabling Index (Rankings, 2016)

	Composite indicator	Market	Border administration	Infra-structure	Operating environment
Japan	16	113	11	4	14
South Korea	27	99	28	10	47
Taiwan	35	125	33	17	27

Source: World Economic Forum (WEF), 2016.

businesses that the country could not benefit very much from the emerging new regional trade agreements of the last decade, since the countries involved in negotiating regional trade agreements[13] clearly aim to surpass the level of liberalization enabled by WTO rules.

Another indicator to measure the level of trade liberalization is the Global Enabling Trade Index, published every year by the World Economic Forum. It is a composite indicator, a compilation of individual indicators into a single index. These figures capture different dimensions of trade policy: market access, border administration, infrastructure, and operating environment. According to the 2014 Report, Japan has adopted the most liberal trade policy in this group of countries, since it performs very well on six of seven indicators, but it still scores poorly when it comes market access for its exports.

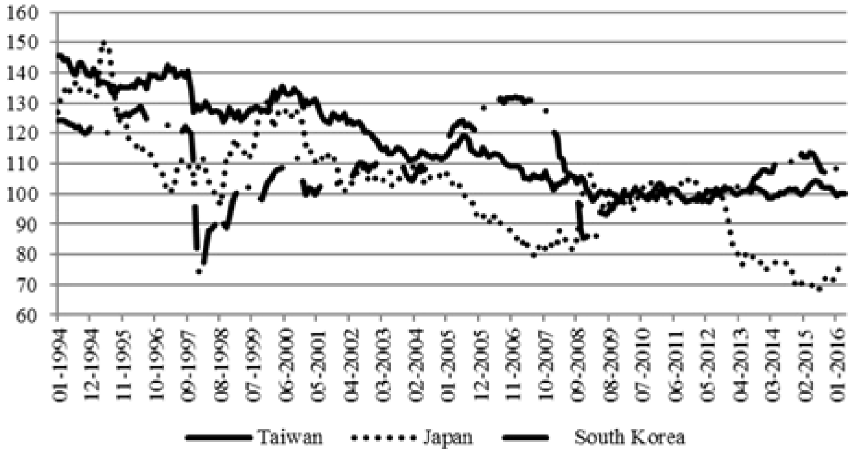
South Korea, which ranks 35th, has a very uneven performance in addition to a weak market access performance. "Various aspects of the institutional framework, from red tape to the judiciary, as well as the access to finance (82nd), and the inward-looking nature of certain regulations, remain problematic" (WEF, 2014: 20).[14] But the strong port infrastructure, efficient border administration and connectivity partly offset extreme high tariffs, in particular agricultural tariffs. Among the three countries, Taiwan has the weakest position, mainly due to problematic factors for export and import where there remain trade barriers and tariffs.

2.3. Exchange Rate Regimes

In Figure 1, it is easy to follow that cautiousness coupled with a slow but determined weakening of the currency has characterized Taiwan's exchange-rate policy between 1994 and 2016, in contrast to the two other countries where sudden changes in the effective exchange rates can be traced back to policy alterations and external economic shocks. Between 2012 and 2016, there is a clear depreciation of the Japanese currency, which mirrors Japanese policy efforts. In the same period, the effective exchange rate of the Korean Won seems to have been more influenced by external factors than was the New Taiwan dollar.

In Taiwan, there are no restrictions on capital movements linked to trade and services, which could trigger sudden change in the exchange rates. However, remittance of capital invested in Taiwan must be

Figure 1 BIS Real Effective Exchange Rate (real CPI-based, broad indices)



Source: Author's own compilation, based on the database of the Bank for International Settlements.

reported to the Investment Commission (Ministry of Economic Affairs), and the Central Bank of Taiwan can require the transaction to be scheduled. This policy can have a mitigating effect on these changes.

In contrast to Taiwan and South Korea, Japan only maintains an ex-post notification system for foreign exchange transactions, but it is rather formal, since "Generally, all foreign exchange transactions to and from Japan – including transfers of profits and dividends, interest, royalties and fees, repatriation of capital, and repayment of principal – are freely permitted" (U.S. Department of State, 2015a, 2005b).

Taiwan's limitations or brakes on foreign exchange transactions and capital movements can be explained by cautiousness: a lesson learned in the Asian crisis. As Thorbecke and Wan quote K. T. Li, stability with growth is the most integral element of the Taiwan model: "As K. T. Li, the chief architect of Taiwan's economic policy, once remarked, the Taiwanese government would always opt for greater stability, even if it meant foregoing, sacrificing, an additional 2 per cent in annual growth" (Thorbecke and Wan, 2007: 55).

Figure 1 also demonstrates that a weakening of the policy is an integral element of Taipei's economic policy.[15] Stability – often coupled with pragmatism – led to a very cautious exchange rate mechanism, Ranis emphasizes: "… Taiwan generally showed greater flexibility towards prices, including the exchange rate regime, with gradual devaluations preceding the actual crisis by several years" (Ranis, 2007: 52).

Present differences in attitude to foreign exchange transactions can be showed in the past; historically, Japan, Taiwan, and South Korea have all put a strong emphasis on exchange rate policy, which clearly contributed to maintaining regional competitiveness, and to the export boom of these economies.[16]

- Japan has had the most liberal exchange regime among the regional competitors over the past decades. When in 1971 Nixon announced that the US dollar would not be convertible into gold, Japan immediately switched to a managed floating system. However, free floating exchange systems were legalized only in 1975, at the Jamaica conference of the International Monetary Fund (IMF). During the late 1970s and early 1980s, the Japanese Yen was under appreciation pressure; the Plaza Accord adopted by the United States, Germany, the United Kingdom, and Japan triggered a new wave of appreciation of the Yen in 1985, which probably contributed to the Japanese property bubble in 1991 and the subsequent slowdown of economic growth. Since then, Japanese monetary policy has attempted to depreciate the Yen several times. (e.g. after the Asian financial crisis, and after the

Global Financial Crisis). The new Japanese economic policy (Abenomics) has also included depreciation of the Yen.[17]

- After a currency reform in 1949, the Republic of China (ROC) government devalued the New Taiwan Dollar (TWD) in 1950-1951. After maintaining this exchange rate in the 1960s, and in the early 1970s, the TWD's exchange rate was much less influenced by the government's decisions, since after dismantling the Bretton Woods system, exchange rates of capitalist countries became determined more and more by market forces. A foreign exchange market was established, and a managed floating rate system was introduced in 1979, then a new wave of liberalization took place in 1989. Since then the most long-standing element of monetary policy has been the depreciation of the domestic currency in order to improve competitiveness.
- In the 1950s, a multiple exchange system was implemented in South Korea. The currency had an overvalued official rate and a more realistic exchange rate, in which trade transactions could be conducted. However, after the military coup in 1961, the currency was sharply devalued and a unitary exchange rate was introduced. In 1965, South Korea pegged its currency to the US dollar. Between 1971 and 1980, the currency depreciated several times. This regime was replaced by a multiple currency basket system in 1980. Not until 1990 was the so-called market average system introduced, which determined, "the exchange rate against the US dollar within a specified range around the weighted average interbank rates of the previous day" (Nam and Kim, 1999: 236). South Korea officially adheres to a "free float" regime, but official interventions are not excluded.

As we can see, these countries have clearly opted for a more cautious liberalization of their financial markets than is usual in advanced economies; however, there are still clear differences among them. Japan has the most liberal attitude and South Korea has implemented the most restrictive policies regarding exchange rate transactions, foreign exchange investments, and foreign ownership.[18] If one wanted to note some of the characteristics of Taiwan's exchange policy, which created a favorable macroeconomic environment, cautiousness and predictability would be the key words.

3. Financing Issues

3.1. Savings and Investments

Significant amounts of savings are needed to invest into the economy in order to achieve rapid growth rates; therefore, one of the most emphasized features of Japan, South Korea and Taiwan is large savings. In contrast to the Anglo-Saxon world, stock exchanges are not the most important elements of funding in the region. Savings are channeled via banks to the firms in this model. The same funding form can be found in Western and Eastern European countries as well.[19]

High savings rates are not only crucial in achieving robust growth, but they are essential in maintaining stable growth. The Asian financial crisis of 1997-98 vividly demonstrated how vulnerable countries can be when solely relying on external funding (see e.g. Thailand[20]). After having drawn the lessons of the Asian crisis, South Korean and other Asian policy-makers began focusing on financial exposure more intensively, and as a result of this policy change, most of the Asian countries were able to change the growth model, less relying on external financing.[21] Savings today exceed investments in the region which makes economic development less vulnerable. In 2015, Singapore and Taiwan were the countries in the country group where net domestic saving rates (savings-investments) were the highest in the region.

Although China had the second-highest rate of savings in the region, it still invested 44 percent of its GDP; hence net savings are moderate.

Table 10 Savings-Investment Gap (percentage of GDP)

	1980	1985	1990	1995	2000	2005	2010	2015
China	–2.2	–4.8	4.7	2.5	1.7	5.8	3.9	3.1
Hong Kong	–1.0	9.2	8.5	–2.9	4.4	11.9	7.0	2.2
Indonesia	–11.5	–17.5	–19.4	–8.5	–0.2	–5.0	0.7	–2.2
Japan	–1.3	3.5	1.2	2.1	2.8	3.7	4.0	3.0
South Korea	–10.5	–2.1	–0.9	–1.8	1.9	1.4	2.6	7.1
Malaysia	–5.1	–6.1	–6.8	–9.1	8.4	14.0	10.1	2.2
Philippines	–16.9	–5.4	–5.5	–2.4	–2.8	1.9	3.6	5.0
Singapore	–13.2	–0.1	8.0	16.4	10.6	21.9	23.7	20.8
Taiwan	–2.0	14.4	6.4	1.8	2.6	5.4	9.5	12.4
Thailand	–8.8	–4.8	0.0	–7.8	7.8	–4.0	2.9	6.2
Vietnam	–2.0	–6.3	9.2	–12.7	2.7	–1.0	–3.8	0.7

Source: Author's own compilation based on IMF data.

As mentioned previously, if savings are compared to investments in a regional context, the large maneuvering room available to Taiwan is clear. However, beyond this clear difference there lies a different economic strategy of Taiwan, which has invested its surplus savings in an increasing scale in China after 2000, and not in the domestic economy.

One cannot be surprised, when looking at the literature on Taiwan's economic strategy, that economic dependence on China has often been featured as a potential threat.[22] This trend cannot only be verified by the amount of FDI directed to China, but also the (domestic) investment ratio to GDP. Between 1980 and 2015, Taiwan had the lowest average annual investment ratio to GDP among these countries. (20.77 percent) During the same period, Japan's investment ratio to GDP was 22.77 percent, and South Korea had a higher investment ratio (28.48 percent) than Taiwan.

Still, substantial savings provides decision-makers in Taipei with the freedom to choose the most appropriate economic policy. This freedom of policy is guaranteed by considerable foreign reserves as well. By end of January 2017, Taiwan's foreign reserves (436 billion USD), measured in percent of GDP, hit 84 percent, compared to 31 percent in Japan, and only 27 percent in South Korea. This freedom is enhanced by two additional factors: (1) the relatively low public debt and (2) the low tax and other revenues to GDP ratio.

1. Between 1995 and 2015, South Korea accumulated on its gross public debt significantly. The same applies to Japan, which doubled its debt. Only Taiwan pursued a more moderate policy, where the general gross debts to GDP ratio only reached 36 percent in 2015.
2. Taipei's economic policy has the most maneuvering room in the future by having by far the lowest taxes and other revenues to GDP ratio in this group. Taiwan's 15.6 percent is one of the lowest among advanced countries; only Singapore (15 percent) can keep up with Taiwan. Japan (35.8 percent) and South Korea (21.7 percent) lag well behind Taiwan.[23]

There is no real agreement among scholars on the salience of savings for growth. Some of them argue that a long capital accumulation process proceeds to a rapid growth period. Others contend that rapid growth is needed first, which later enables the population to save. The

Table 11 General Gross Public Debt to GDP

	1995	2015
Japan	109	248
South Korea	10	38
Taiwan	25	36

Source: IMF data.

first school of thought is well in line with the backwardness model of Gerschenkron who emphasizes the importance of capital accumulation and the theses of Marxian economics.[24] However, looking into the data from Taiwan, there is no real time-difference between the pickup of growth and the increase in savings. Wu argues that economic growth was the first step, which could be followed by high savings rates, because most of these countries first had to tackle high inflation rates of the post-war period, only afterwards the business environment became favorable for savings (Wu, 2008: 280-282).

After looking at the saving and investment patterns of these countries, the question arises as to what elements of the financial institutional framework encourage domestic savings to that extent. The next chapter attempts to compare Taiwan regarding its financial sector to other Asian countries.

3.2. Banks and Stock Markets

In the financial mediation, stock exchanges are less important in the region than in the United States or the United Kingdom. Aside from the financial centers of the region, Taiwan has had the most developed stock

Table 12 Market Capitalization (percent of GDP)

	2005	2014
Hong Kong	581.0	1111.4
Singapore	202.0	244.5
Taiwan[#]	178.8	182.45
Malaysia	125.8	135.8
Japan	100.0	95.1
Philippines	38.6	91.9
South Korea	79.9	86.0
China	17.7	58.5
Indonesia	28.5	47.5

Source: Author's own compilation based on World Bank database.

[#] Data from National Inflation Association.

market. The capital market is deep and active, and there are no restrictions on foreign ownership except in the sectors already mentioned (U.S. Department of State, 2015b). In contrast to Taiwan, Japanese company managers still have a negative attitude toward foreign portfolio investors, but in recent years there are signs of change as well. In South Korea, the aggregate foreign portfolio investment ceiling was abolished in 1998, and since then, investors have good access to the stock market.

Despite opening to private investments, Taiwan tightly regulates its banking sector. "Over the past decade, 9 state-owned banks have been privatized. The only Taiwan-based reinsurance company was privatized in 2002. Banks that have some form of state ownership or control, including the 3 remaining banks wholly owned by the state, dominate Taiwan's banking sector and hold a market share of nearly 50.4 percent as of December 2014" (U.S. Department of State, 2015b).

Another important feature of the Taiwan banking sector is its growing dependence on China. At the end of 2015, around 15 percent of the assets of Taiwan's banks were held by offshore banking units and overseas branches. According to Fitch estimates, around 7 percent of the Taiwan banking sector is exposed to China, which reveals deep connections between the two economies.[25] In the Japanese and South Korean banking sectors most of the banks are privately owned.[26] Banks belong to the open sectors, which means there is no ceiling on foreign ownership in the banking sector.

The relatively liberal policies in the banking sector and in the stock markets are results of a long period of development. After WWII, banks all over the world were more restrained by state regulation and the Bretton Woods system itself, in which convertibility of currencies was the exception, rather than the rule.

4. Conclusions

Although Taiwan is a developmental state with strong capabilities in enforcing strategies and policies of the state, it is still a country which has implemented a flexible and cautious attitude to economic development policies and techniques over the last few decades. These two different sides are tied together by a pragmatism which is not distorted by theoretical considerations and economic or political ideologies. The pragmatic approach has contributed to a successful policy-mix, which must be adjusted to a new environment in the new world economy and world politics in 2017. The very obvious reason for this adjustment is the change in the world politics, in which the Asia-policy of the new American administration is still not clear. Besides that, the Chinese economic slowdown and the structural change in the Chinese economy have already forced a rethinking in Taiwanese economic policy which intends to shift Taiwanese economic activities southward in terms of trade and direct investments, though it is clear that adjustment will take place slowly.

As we could see in the paper, the firm structure in Taiwan is based more on small and medium-sized enterprises than the Japanese and the Korean model. Copper contends "Japan and South Korea, however, have far more large companies and more heavy industries than Taiwan. Hong Kong and Singapore, also high-growth countries, have almost none" (Copper, 2013: 177). The SME-based firm structure has two consequences: a more limited need and ability for capital accumulation at the firm level, and a stronger need for state incentives to save in private households. The downside of this otherwise highly efficient firm structure is that, compared to the size and developmental level of the economy, the weakness of Taiwan's own global brands is apparent, which is a strategic disadvantage. However, the country does not have to face financial challenges, since domestic savings are more than sufficient, and the gap between savings and domestic investments is the highest in the region. Surplus savings have been invested more and more in China after the turn of the millennium, in order to leverage the comparative advantages of China. With the slowdown of the Chinese economy, this strategy faces challenges:

1. The need for adjustment of the Chinese economy is only partly caused by external circumstances. Much of the problem can be traced back to slowly but clearly growing wages, which forces Chinese economic policy-makers to find new comparative or competitive advantages. This is also the reason why Taiwan investments must be more and

more diversified in the region and in other parts of the world. The New Southbound policy attempts to find answers to this problem. The overall and long-term goal is "Foster links between Taiwan and the nations of ASEAN and South Asia as well as New Zealand and Australia in the areas of economic and trade relations, science and technology, and culture; share resources, talent, and markets; and create a new cooperation mode that seeks mutual benefits and win-win situation. By these undertakings, we seek to forge a 'sense of economic community.'"[27] The main question arising in the context is: Since these efforts have been thwarted by the diplomatic isolation of the country up to this point, what kind of policy incentives can be created to achieve change in the economic activities? For the time being, the only open gateway to the world economy is through the Economic Cooperation Framework Agreement (ECFA), but this again leads to China. Although Taiwan investments are welcomed everywhere, One-China policies clearly hinder trade with other regions, since most of Taiwan's exports are regulated by the WTO, and aside from China, Singapore and New Zeeland, there are no comparative economic agreements with import partners (such as the United States and the European Union) which would help Taiwan's exports.

2. From this, there are two important conclusions to be drawn: to diversify its trade and investment relations, Taiwan needs a more pro-active approach to diplomacy. Secondly, economic growth must be based more and more on private consumption, less on net exports. At the same time, Taiwan needs a tech upgrade of the economy and substantial investments in education, renewable energy sources, and infrastructure – mainly those addressing the problems of urbanization (air pollution, sewerage, etc.).

When it comes to future economic issues, Berger and Lester emphasize the threats of the Japanese path. Japan did not change its strategy when it had been necessary in the early 1990s, facing a slowdown. Japan created big internationally competitive firms, and at the same time it protected small businesses. This policy resulted in a dual economic structure, in which investments in other Asian countries were preferred over domestic reforms. The Japanese embedded mercantilism[28] embodies a model where interests of large firms overwrite those of small firms and the majority of the population (Berger and Lester, 2005: 27).

South Korea clearly tried to avoid this trap by relying much more on domestic economic development; however, there is a downside as well, since this policy has encouraged protectionism in South Korea, and turned the country into one of the most protected economies among the advanced countries. Protectionism is evident in policies related to foreign trade and foreign direct investments.

Taiwan has more room to maneuver than its competitors, since SMEs are the backbone of the economy, and thus economic policy cannot be based on the protection of SMEs without losing competitiveness. The Taiwan developmental state is weaker than its Japanese or South Korean counterpart, but it is more flexible in implementing policies than its competitors. Stricter rules and policies with regard to exchange rates and foreign direct investments merely demonstrate security concerns over a Chinese takeover of strategically important firms.

Recapitulating the most important aspects of Asian financing, the direction of cheap credit into favored industries has been a key element in the region. This approach can easily be found in Japan, South Korea, and Taiwan. State ownership in the Taiwan banking sector has clearly been more intense than in Japan and South Korea. In the early stages of development, state ownership could contribute to the Asian miracle; however, the question arises as to whether the policy has turned into a counterproductive policy tool in a globalized financing environment. If you look at Japan's credit bubble of the early 1990s or South Korea in the aftermath of the Asian crisis, the answer is clear. The question thus arises as to how the need for liberalization can be reconciled with security concerns.

Taiwan also directed cheap capital into selected industries; however, the country took over many elements from the American model by relying more heavily on fundraising via the stock market than via banks. In the 1950s, most scholars concurred in the salience of low interest rates to developing countries in order to boost investments. Taiwan, however, favored raising interest rates as early as 1950, in order to give incentives to savings. This unconventional policy turned out to be highly successful; since already, in the early 1960s, domestic savings could cover the need for capital in the economy. Even in today's fiscal policy there can be found non-conventional measures, such as limitations on foreign investors in the domestic bond market, which limit the exposure of the economy to financial shocks.

In other words, Taiwan's specialty has been a cautious, pragmatic but in some aspects unconventional, economic policy, which has clearly been different from that of Japan and South Korea. On the one hand, this economic policy has been able to rely on strong small and medium-sized enterprises and on substantial domestic savings, reinforcing stability and the freedom of economic strategy and planning. On the other hand, political constraints imposed by the One-China policy and by the diplomatic isolation of the country have thwarted this economic policy. The potential threat looming over Taiwan's economy comes from a strong dependency on China and the difficulties of reshaping the international economic strategy since this was based on Chinese business opportunities in trade and investments.

Notes

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1. Among scholars there is no agreement on the efficiency of Japan and South Korea in industrial policies. Marcus Noland argues: "A comprehensive review of the evidence suggests that the growth-accelerating impact of industrial policies was modest. So why would policymakers consistently intervene in ways that apparently did not do much to enhance welfare? One possible answer is that policymakers simply did not get their interventions right. Another is that the interventions were largely determined by political competition among self-interested groups, as in the case of Japan where more than 90 percent of on-budget subsidies for decades went to the declining agricultural and mining sectors – rather than the emergent high-technology sectors of popular lore." ("Marcus Noland: Asian model of industrial policy unlikely to drive growth in other developing countries" <*http://www.piie.com/publications/newsreleases/newsrelease.cfm?id=89*>, 2003.)

2. China does not fit into the developmental state paradigm, since the state still dominates major sectors of the industry, but in contrast to Japan, it gives clear incentives to foreign firms to invest in China. According to Gao, "SOEs still make up a substantial part of the national economy – roughly controlling 30 percent of the total secondary and tertiary assets, or over 50 percent of total industrial assets" (Gao, 2010). Fluctuations in Chinese industrial policy can be observed in this case as well. The 1980s, when after adopting the joint venture law, foreign firms were often treated better than domestic ones, was entirely different from the period after the financial crisis (2008-2009) when support for state enterprises boosted the economy.
3. Kuruvilla and Erickson argue that there are 6 different types of industrial relations systems in Asia.
4. The term "Chiwan" refers to added value generated by Taiwanese firms in Taiwan and China.
5. The other part of the difficulties derives from the political institutions of China. Minxin Pei connects the problem of political institutions to economic challenges: "The absence of a competitive political process and a free press in China makes these high-risk sectors even more susceptible to fraud, theft, kickbacks, and bribery" (Pei, 2007: 3). Mary Gallagher states that in fact the Chinese liberalized economy does not necessarily lead to a less authoritarian political rule (Gallagher, 2002: 340). Although successful countries tend to be democratic ones, (limited) liberal economic regimes can be found even in non-democratic countries.
6. SOEs: state-owned enterprises; LES: large enterprises.
7. To provide a rationale to Hong Kong's special status, we have to bear in mind that most of the Hong Kong FDI is, in reality, from somewhere else. FDI sometimes stems from China, and the capital is only reinvested in order to take advantage of the investment incentives provided by China. (Graham and Wada, 2001: 2.)

8. While in 1983, manufacturing accounted for 42.80 percent of Taiwan's GDP, this ratio decreased to 29.80 percent in 2012.
9. GDP expresses the value produced within a country, while GNI includes GDP and the income received from other countries as well.
10. In 2014, Taiwanese GNI was US$21 billion higher than GDP. The same difference was US$45 billion in Japan, while in South Korea GDP was higher than GNI – the difference being US$45 billion.
11. After 2000, Japan and Taiwan began relying more and more on outbound investments, and domestic firms reallocating their production into China have improved their competitiveness. As a result of this internationalization strategy, Japan and Taiwan invested 11 percent of the gross fixed capital formation abroad in the form of foreign direct investments in 2014, while South Korea's international investment position was much weaker, only reaching 3.5 percent of the gross fixed capital formation. On the other hand, trade dependence of Taiwan's economy on China is far greater than that of Japan. Based on the calculations of the Yuanta-Polaris Research Institute of Taiwan, exports to China made up 15 percent of GDP in 2014, while the same number was 2.48 percent in Japan.
12. The idea behind import substitution was to build up an own-broad industrial base and to just import goods and services that the domestic companies were not able to produce or provide. Based on this policy, many countries attempted to catch up with the West (former socialist countries, Latin American countries). However, only those countries (Japan, Taiwan, and South Korea) could complete this process, which changed from import substitution to an export-led strategy. For the failure of import substitution policy, there are plenty of examples to be found in the former socialist countries of Eastern Europe. These failures cannot only be explained by the inherent problems of centrally planned economies, since Latin American countries using the same recipe had a more or less free market

system. On the other hand, China had a centrally planned economy; however, the country has so far managed its catching-up process. While Wu argues that only structural reforms implemented by a strong state can provide a reason for the success of the East Asian countries (Wu, 2005: 251), these examples show that the "state" factor alone cannot explain the success or failure of the import-substitution policy. What is more critical is whether an adequate size of domestic market can be secured.

13. For example, Trans-Pacific Partnership (TPP); Regional Comprehensive Economic Partnership (RCEP).
14. China ranking 61st globally has one of the best performance among BRIC countries; nevertheless, there is much room for improvement in every aspect.
15. These changes in the three countries have usually taken place in a low-inflation environment. Between 1994 and 2015, the standard deviation of inflation rates measured in average consumer prices was significantly lower in Japan (0.68) than in South Korea (1.34.) and Taiwan (1.07). However, between 1994 and 2015, 12 years in Japan, only 4 years in Taiwan and 0 of them in South Korea were spent in deflation.
16. After WW2, currencies of the non-socialist countries were integrated into the Bretton Woods system. The reason for the very limited exchange rate movement can be found in the set-up of the Bretton Woods system. The US dollar was at the core of this exchange rate mechanism by being the only currency which was convertible into gold. Other currencies would only move within an interval of +/– 1 percent. Despite the narrow band, the system also allowed for greater devaluations. If the country was not able to maintain the agreed-upon exchange rate mainly due to long-term balance of payment problems, it could alter the exchange rate after negotiations with the International Monetary Fund. Devaluations, for example, took place in Hong Kong in 1967, in the Philippines in 1962, in South Korea in 1954 and 1959, and in Indonesia in 1967.

17. In 2010, the reform of the economic policy (Abenomics) also included other areas of economic policy providing a comprehensive policy framework. The government has launched reforms in taxation, in investment policies to attract more foreign capital, and in employment and social policies. Despite the bond-buying programs of the central bank, a plummeting Yen, and the stimulus program, the Japanese economy is near to recession. One of the more plausible explanations is that economic reforms in the labor market, tax system, and migration policy have stalled.
18. Although China's exchange policy distinguishes itself clearly from advanced countries, there are parallels with regard to past practices of these countries: (a) pegging of the currency, (b) then a slow liberalization process, (c) restrictions on foreign portfolio-investments, (d) limitations on convertibility, (e) depreciation of the currency in order to maintain competitiveness. For the time being, China is by far the candidate with the most potential to challenge the power and influence of the American dollar. There are clear economic steps taken by the Chinese government which tend to achieve greater maneuvering room in monetary issues: (a) voting shares transferred from industrial economies to China on the IMF board; (b) widening the narrow band of the Yuan; (c) agreements between China and Russia to reduce the impact of the US dollar and foreign exchange risks, and (d) establishment of the Asian Infrastructure and Investment Bank, demonstrating the muscles of a new global economic power.
19. Only exceptions are Hong Kong and Singapore where the institutions of funding and saving go back to colonial rule.
20. The crisis which originated from Thailand exposed Asian countries to adverse financial shocks. Malaysia and Indonesia had to grapple with spill-over effects of the Thailand crisis, which was no surprise, since the countries had many economic features in common. It was more astounding that South Korea was also deeply hit by the devastating effects of the

crisis. Despite the fast growth pace of the economy, the country increasingly had relied on external financing in its development.

21. The same applies to the Philippines since 2002.
22. A summary of the main arguments for decreasing dependence on China's economy can be found in Katsuya (2016).
23. Based on CIA estimates (2016)
24. See the topic in more detail in de Soto (2000, pp. 36-68)
25. "Fitch: Taiwan banks' China exposures to almost double by 2016", Reuters, 23rd July 2014. *<http://www.reuters.com/article/fitch-taiwan-banks-china-exposures-to-al-idUSFit70965920140724>*
26. In South Korea, the KDB is a government-run financial group. In Japan, there are many more of this kind of institutions. Development Bank of Japan, Japan Finance Corporation, Japan Bank for International Cooperation, Okinawa Development Finance Corporation, Shoko Chukin (FUå]-NÑ‘) Bank and Japan Hounk for International Cooperation, Okinawa Development Finance Corporation, Shoko Chukin (商工中金) Bank and Japan Housing Finance Agency belong to the public financial institutions.
27. "President Tsai convenes meeting on international economic and trade strategy, adopts guidelines for 'New Southbound Policy'" (August 16, 2016). Office of Trade Negotiations, Executive Yuan, Taiwan (Republic of China). *<https://www.moea.gov.tw/Mns/otn_e/content/Content.aspx?menu_id=19289>*
28. It is mercantilist because economic growth is based on the dynamism of exports, whereas sectors producing non-tradable goods and services are protected.

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