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Economic Policy Analysis of the "Taiwan Miracle" and Why Indonesia Needs to Learn It?

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Abstract (Times New Roman 11 Pts)

Research Aims: This study aims to analyze the role of economic policy and institutional capacity in driving Taiwan's economic growth in the period 1953–1982, and to compare the development experience with Indonesia during the same period. **Design/Methodology/Approach:** This study uses a qualitative comparative study method based on primary and secondary literature, including Thomas B. Gold's work "State and Society in the Taiwan Miracle" and various sources on Indonesian economic policy during the New Order era. The data used include statistics on economic growth, industrial structure, investment, and social indicators from both countries. **Research Findings:** The results show that Taiwan has succeeded in achieving high and sustainable economic growth through agrarian reform, export orientation, large investments in education and infrastructure, and the development of dynamic SMEs. Meanwhile, Indonesia's economic growth is more driven by natural resource exports and is less supported by deep structural transformation, making it vulnerable to fluctuations in global commodity prices and social inequality. **Conclusion:** These findings emphasize the importance of a proactive state role, strengthening institutional capacity, and synergy between the state and the market in creating inclusive and sustainable economic development.

Keywords: *economic growth, economic policy, structural transformation SMEs, institutional capacity, Taiwan Miracle*

I. Introduction

Taiwan's economic transformation from a poor agricultural country to a global industrial power in the period 1953–1982, known as the Taiwan Miracle, offers a unique paradigm in the study of economic development. The three decades of average economic growth of 8.7% per annum were driven not only by sound macroeconomic policies but also by a strategic symbiosis between state and society, as Thomas B. Gold explains in State and Society in the Taiwan Miracle (Rubinstein, 2016). Gold emphasizes that Taiwan's success was rooted in the state's (KMT) capacity to consolidate power while creating space for private sector participation, radical land reform, and long-term investment in human capital. However, this model contrasts with Indonesia's experience during the same period, which, despite recording 5–7% annual growth during the New Order era, was still dependent on natural resource exports and lacked deep structural transformation (Gold, 2015).

The main policy difference lies in the approach to industrialization. Taiwan shifted from import substitution to export orientation in the late 1950s by building a network of mid-tech SMEs integrated with the global market. Despite achieving successful economic stabilization after 1966, Indonesia remained dependent on oil and centralized capital-intensive industries, which rendered it vulnerable to fluctuations in commodity prices (Berger & Lester, 2015).

The fact that Taiwan's Gini coefficient fell from 0.558 (1953) to 0.303 (1980), while inequality in Indonesia remained high, underscores the role of inclusive policies in Taiwan's development (Gold, 2015). Comparative studies between Taiwan and Indonesia are still limited, especially in the context of state roles and institutional capacity. In fact, both countries experienced phases of authoritarian rule that actively directed the economy, but with significantly different results (Rubinstein, 2016). The fundamental question that has not been fully answered is, why did Taiwan's developmental state model succeed in creating inclusive and sustainable growth, while Indonesia faced persistent structural challenges?

This study aims to fill this academic gap by analyzing critical factors in Taiwan's policies from 1953–1982 like land reform, investment in education, and integration of SMEs into the global market and their relevance to the Indonesian context. These findings are expected to provide a new perspective for the formulation of economic policies based on strengthening institutional capacity and wider community participation. This approach emphasizes the importance of adaptive strategies that cater to local conditions while fostering equitable opportunities for all segments of society. By learning from Taiwan's experiences, Indonesia can better navigate its structural challenges and work towards a more inclusive and sustainable economic future.

II. Literature Review

Thomas B. Gold in State and Society in the Taiwan Miracle (1986) emphasizes the unique symbiosis between the Kuomintang (KMT) state and civil society. Gold highlights that Taiwan's success depended not only on macroeconomic policies but also on the state's capacity to create institutions that encouraged private sector participation and equitable growth (Berger & Lester, 2015). In addition, the Harrod-Domar growth theory is also relevant, where capital accumulation through savings and investment was the key to Taiwan's growth. A World Bank study (1993) asserts that the combination of physical capital accumulation, increased labor productivity, and total factor productivity (TFP) growth were the main pillars of the "East Asian miracle," including Taiwan.

Taiwan's economic policy during this period was supported by radical agrarian reforms that eliminated the landlord system and created a productive smallholder class, which became the basis for social stability and a source of domestic savings (Kav & Simon, 2016). In the 1960s, Taiwan shifted from an import substitution strategy to an export orientation through the 19-Point Economic Reform Program (1959), which liberalized markets and attracted foreign investment.

The establishment of the Kaohsiung Export Processing Zone (1964) catalyzed industrialization, with manufacturing exports increasing significantly. Taiwan also developed a flexible network of family-based small and medium-sized enterprises (SMEs), supported by a traditional credit system and state subsidies. Heavy investment in education created a skilled workforce with high literacy rates (Rubinstein, 2016). US aid was used to build industrial infrastructure and monetary stabilization, but Taiwan's success was largely due to strong institutional capacities, such as the Economic Planning Bureau (CEPD), which implemented a "guided discipline" policy to combine market incentives and state control.

III. Method, Data, and Analysis

In this study, the method used is a qualitative comparative study with a historical and institutional approach to analyze the economic development policies of Taiwan and Indonesia in the period 1953–1982. This study examines the role of the state, economic policies, and structural transformations that are the foundation of economic growth in both countries. Qualitative research methods were chosen because they are able to provide an in-depth understanding of policy dynamics, the relationship between the state and society, and institutional factors that influence development outcomes. The data used in this study are sourced from primary and secondary literature, including books, scientific journals, international institutional reports, and government policy documents.

The main sources used as references are the work of Thomas B. Gold, "State and Society in the Taiwan Miracle," as well as studies on Indonesian economic development during the New Order era.

Statistical data on economic growth, industrial structure, investment, and social indicators such as the Gini coefficient are also collected from official government publications, the World Bank, and related research institutions. These data are used to compare growth trends, economic structures, and policy impacts in both countries.The analysis is conducted by comparing the economic development policies of Taiwan and Indonesia, particularly in terms of the role of the state, industrialization strategy, human resource investment, and the results achieved from each policy. Institutional analysis is used to understand how institutional capacity and state-society relations influence policy effectiveness. In addition, an analysis is conducted on the key factors that differentiate Taiwan's success in creating inclusive and sustainable growth, compared to the structural challenges faced by Indonesia. The results of the analysis are expected to provide a comprehensive picture of the lessons that can be adopted from the Taiwanese development model for the Indonesian context.

IV. Result and Discussion

Taiwan's economic miracle has become a fascinating case study in global economic development. Between 1953 and 1982, Taiwan transformed from a poor postcolonial country into an industrialized economic powerhouse with impressive growth rates averaging 8.7% per year. This dramatic transformation involved a strong state role, strategic economic policies, and a unique relationship between government and society. This report analyzes the foundations and dynamics of the Taiwan Miracle based on the work of Thomas B. Gold and other academic sources and offers potential lessons for Indonesia's economic development.

Thomas B. Gold's Thoughts on State and Society in the Taiwan Miracle

Thomas B. Gold, a sociologist from the University of California, Berkeley, in his book "State and Society in the Taiwan Miracle," offers an in-depth analysis of the complex relationship between state, society, and economic development in Taiwan. Gold develops a theory that views Taiwan's economic transformation in the context of the dynamic evolution of state-society relations (Lin & Wong, 2016).

According to Gold, the search for Taiwanese identity emerged "from below," reflecting the weakening capacity of the KMT (Kuomintang) to impose its identity on Taiwanese society. In the early days of its rule, the KMT regime consolidated substantial power, leaving society disorganized and relatively powerless (Gold, 2015). The state imposed martial law, controlled the distribution of capital and resources, restricted the autonomy of social organizations, and designated Taiwan as a province of the Republic of China.

Gold explains the paradoxical phenomenon: how a regime focused on military and geopolitical goals managed to drive extraordinary economic development. As quoted in one source, "If Jiang Jie-Shi (Chiang Kai-shek) had their way, they would not have spent a single cent on economic development."

This paradox is a central theme in Gold's analysis and explains the complexity of the relationship between militarism and economic development in Taiwan. Gold's central argument is that although the KMT initially imposed authoritarian control, the structure of state-society relations gradually changed with economic development. The structural shift occurred as private sector expansion transferred substantial resources and social prestige to entrepreneurs, many of whom were native Taiwanese.

Land Reform and the Transformation of the Agrarian Sector

One of the early foundations of Taiwan's economic miracle was comprehensive land reform. Inspired by policies implemented by the United States in postwar Japan, this reform eliminated the landlord class and created more productive small farmers. This policy had two important economic effects: a dramatic increase in agricultural output and the freeing of agricultural labor to work in the urban sector (Veeck & Pannell, 2021). The Taiwanese state played an active role in facilitating this transition through credit and fertilizer controls, as well as non-monetary exchange for agricultural trade. This created the first source of surplus accumulation that became the capital for early industrialization.

Transition from Import Substitution to Export Orientation

Taiwan initially adopted an import substitution industrialization strategy, with the state controlling banks and import licenses to protect the domestic market. However, a major shift occurred in the late 1950s when economist S.C. Tsiang was influential in changing Taiwan's trade strategy to an export orientation (Ranis, 2002).

In 1959, the 19-Point Economic and Financial Reform Program was launched, which liberalized market controls, stimulated exports, and designed strategies to attract foreign companies and capital. This policy was reinforced by the establishment of an export processing area in Kaohsiung in 1964, which became a catalyst for foreign investment, especially from Japan and the United States (Veeck & Pannell, 2021).

Investment in Infrastructure and Education

With significant assistance from the United States, including $4 billion in financial aid and soft loans between 1945 and 1965, and $41 billion in free development assistance through 1975 (equivalent to $242 billion in 2024 values), Taiwan built a massive industrial infrastructure, communications system, and developed an education system. This investment in human resources created an educated and skilled workforce that became the backbone of Taiwan's industrial transformation (Lin & Wong, 2016).

Development of a National Network of Small and Medium Enterprises

In contrast to the development model dominated by large corporations, Taiwan developed a unique industrial structure based on a network of small and medium-sized enterprises (SMEs). These enterprises were typically founded by families with family savings and a network of savings cooperatives called "hui." The state supports these SMEs through subsidies and credit lent by banks (Ranis, 2002).

This model creates a unique dynamic in which large foreign companies secure contracts with a large network of small, family, and national companies, which constitute a significant percentage of the industry's output. This structure provides flexibility that allows Taiwanese companies to easily adapt to changes in the global economy. If Jiang Jie-Shi (Chiang Kai-shek) had their way, they would not have spent a single cent on economic development.

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Comparative Analysis of Taiwan and Indonesia's Development Models

The economic development of Taiwan and Indonesia during the second half of the 20th century shows both similarities and important differences. Both countries experienced periods of authoritarian rule, during which the government played a strong role in driving economic growth. However, Taiwan's success, often called the *Taiwan Miracle*, offers valuable lessons that Indonesia can learn from as it works toward inclusive and sustainable development.

One major factor behind Taiwan's success was its land reform program in the 1950s. The government redistributed land to farmers, which reduced inequality in rural areas and increased agricultural productivity. This not only improved the living conditions of rural communities but also helped support the country's industrial growth. In comparison, Indonesia has struggled to implement effective land reforms. Efforts to distribute land have often been slow, inconsistent, and resisted by powerful local interests, resulting in ongoing rural inequality (Hsiao & Hsiao, 2003).

Another important difference is how the two countries approached trade and industrial policy. Taiwan moved quickly from an import-substitution strategy (producing goods locally to reduce imports) to an export-oriented economy in the late 1950s. This shift helped Taiwan become integrated into the global economy and boosted its industrial competitiveness. Indonesia, on the other hand, kept its economy more closed until the 1980s. Only under external pressure did Indonesia begin to open up its markets and encourage exports (Tony Yu, 2007).

Taiwan's industrial growth was also supported by a strong network of small and medium-sized enterprises (SMEs), which were flexible, innovative, and focused on exporting. The government supported these businesses with credit, infrastructure, and training, but it did not take full control over them (Ignatiev, 2022). In contrast, Indonesia has relied more heavily on large companies and state-owned enterprises (SOEs), many of which face issues like inefficiency and weak innovation. This has limited the growth of smaller, private businesses in Indonesia (Panagariya, 2012).

Education is another key area where Taiwan stands out. Since the 1950s, Taiwan has invested heavily in education, especially in science, technology, engineering, and mathematics (STEM) fields. This created a highly skilled workforce that could support high-tech industries. Indonesia has made progress in expanding access to education, but challenges remain in terms of quality, regional differences, and a mismatch between education and the needs of the labor market (Gold, 2019).

These differences reflect the broader approach of what is known as the "developmental state" in Taiwan. In this model, the government plays an active role in guiding economic growth, providing support and setting clear goals, while still allowing space for private businesses to grow (Hsiao & Hsiao, 2003). Indonesia's development has often lacked this balance, with periods of either too much government control or not enough guidance and regulation.

From Taiwan's experience, several important lessons emerge for Indonesia:

1. **Balancing the Role of the State and the Market**

   Taiwan's experience demonstrates the importance of a well-calibrated relationship between the state and the market. Rather than allowing either to dominate, Taiwan adopted a model in which the government played an active but supportive role in guiding economic development (Gold, 2019). This included setting long-term industrial strategies, providing infrastructure, offering targeted subsidies, and maintaining macroeconomic stability, while allowing private enterprises to drive innovation and production.

   For Indonesia, this suggests the need for a "facilitative state" approach, where the government acts as an enabler like removing barriers, coordinating strategic sectors, and investing in foundational services rather than as a direct competitor in the market. Excessive reliance on state-owned enterprises (SOEs) in Indonesia has at times crowded out private investment and weakened market competition. A more balanced approach could help unlock private sector dynamism while maintaining national development goals (Tony Yu, 2007).

2. **Supporting SMEs and Entrepreneurship**

   One of the defining features of Taiwan's industrial structure is its vibrant network of small and medium-sized enterprises (SMEs), particularly in manufacturing and technology-intensive sectors. These firms were often family-run, export-oriented, and highly adaptable to changing market conditions. The Taiwanese government supported SMEs through favorable credit policies, tax incentives, access to industrial zones, and the establishment of research institutions that provided technical support (Gold, 2019).

For Indonesia, where economic activity is still heavily concentrated in large corporations and SOEs, there is significant potential to foster SME growth by improving access to financing, simplifying regulatory procedures, promoting entrepreneurship education, and integrating SMEs into global supply chains. By empowering SMEs, Indonesia can generate more inclusive growth, create employment across regions, and increase economic resilience (Panagariya, 2012).

3. **Investing in Education and Skills Development**

   Taiwan's sustained investment in human capital was a critical factor behind its economic transformation. The government prioritized universal access to basic education early on, and later expanded vocational and higher education with a focus on science, technology, engineering, and mathematics (STEM). This created a highly educated, skilled workforce that could support technological upgrading and innovation across industries (Ignatiev, 2022).

   In contrast, Indonesia faces persistent challenges in both the quality and equity of education. Although access to education has improved, many schools lack adequate resources, and learning outcomes remain uneven across regions (Panagariya, 2012). Furthermore, the alignment between education and labor market needs is often weak. Indonesia could benefit from targeted education reforms that emphasize technical and vocational training, support teacher development, and promote industry-academia collaboration to ensure graduates are job-ready in an evolving economy.

4. **Implementing Effective Land Reform and Promoting Rural Development**

   Land reform was a cornerstone of Taiwan's development strategy in the 1950s. By redistributing land from landlords to tenant farmers, the government addressed rural inequality, improved agricultural productivity, and generated income in the countryside. This not only contributed to social stability but also laid a strong foundation for industrialization, as rural populations began to engage with the broader economy (Ignatiev, 2022). In Indonesia, land reform has historically faced major obstacles, including political resistance, lack of data, and weak enforcement.

   The result has been continued rural poverty, land disputes, and underutilized agricultural land. A more focused and transparent land reform program, like supported by digital land registration systems, legal enforcement, and inclusive policy dialogue could help Indonesia achieve similar gains in rural equity, food security, and urban-rural integration. Rural development, including infrastructure, irrigation, and farmer support services, must also be part of this broader strategy (Ignatiev, 2022).

5. **Maintaining Flexibility in Economic Policy and Global Integration**

   A key strength of Taiwan's economic management was its ability to adapt policy in response to changing global conditions. Initially, Taiwan adopted an import-substitution model to protect domestic industries. However, recognizing the limitations of a closed economy, it swiftly transitioned to an export-oriented strategy by the late 1950s, leveraging global demand to drive industrial growth (Hsiao & Hsiao, 2003). Taiwan also embraced global trade agreements, built strong linkages with multinational corporations, and continuously upgraded its export base toward more technology-intensive products (Panagariya, 2012).

   Indonesia, in contrast, has been slower in responding to global shifts and has sometimes maintained protective policies longer than beneficial. To remain competitive, Indonesia must develop a more adaptive policy framework, one that is responsive to international trade dynamics, capable of identifying emerging sectors, and proactive in supporting industrial upgrading (Ignatiev, 2022). This includes promoting trade facilitation, improving logistics, diversifying exports, and engaging more deeply with regional and global economic platforms.

V. Conclusion and Implications

The Taiwan Miracle offers a valuable case study of how a country can transform from post-colonial poverty to a developed economy in a short time. A strong yet adaptive state role, strategic economic policies, investment in human capital, and the development of a vibrant SME network were key factors in Taiwan's success.

Thomas B. Gold's work provides insight into the complexities of state-society relations underlying Taiwan's economic transformation. The paradox of how a military-oriented regime can drive extraordinary economic development suggests that contextual and structural factors are often as important as specific policies.

For Indonesia, the Taiwan Miracle offers valuable lessons on balancing the roles of the state and the market, SME development, investment in education, land reform, and economic policy flexibility. By adapting these lessons to the local context, Indonesia can strengthen its economic development strategy to achieve more inclusive and sustainable growth.

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