

**UNLOCKING THE SECRETS OF DOMESTIC POLITICAL HEGEMONY:
POLITICAL SPACE AND ECONOMIC LIBERALIZATION IN
TAIWAN AND SOUTH KOREA, 1987-2000**

by

Michael Edward Huenefeld

B.A. (Hon), University of British Columbia, 1998

**THESIS SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS
in the Department
of
Political Science**

©Michael Edward Huenefeld 2000

SIMON FRASER UNIVERSITY

August 2000

**All rights reserved. This work may not be
reproduced in whole or part, by photocopy or
other means, without permission of the author.**

ABSTRACT

This thesis argues that, under certain conditions, economic liberalization can strengthen the political position of conservative coalitions in transitional democracies. A large body of literature on the effect of market-opening reforms and democratization posits that economic liberalization, by generating social change, creates new opportunities for political reform. This viewpoint, while not unchallenged, appears to be predominant within academic circles. Through an empirical analysis of two case studies, Taiwan and South Korea, this study contributes a new perspective to the debate over the political effect of economic liberalization. The analysis of these two countries focuses especially on the impact of market-opening reform on the electoral-ideological area of political life, an area (termed “political space” by this thesis) to which most existing literature seems to attach only secondary importance (as it focuses primarily on institutional dynamics).

Taiwan began its democratization process in 1987 with the lifting of martial law, while the first measures to liberalize the island’s economy were implemented in the 1980s. However, as economic and institutional reform progressed throughout the 1990s, conservative political elements (represented mainly by the *Kuomintang*) have managed to maintain their dominance over Taiwan’s political space. A similar development can be observed in South Korea, where in spite of growing economic de-regulation and the financial crash of 1997 (through which additional neo-liberal reforms have been imposed on South Korea’s economy) conservative politicians and parties appear to have retained their dominance over this country’s political space. As in Taiwan, the liberalization of political institutions and the economy since 1987 (when authoritarian rule in South Korea ended) have not brought about the triumph of pro-reform political forces. This thesis concludes by outlining some theoretical lessons extracted from the case studies that might translate into useful generalizations on the political effect of economic liberalization.

ACKNOWLEDGEMENTS

First and foremost, I would like to express my gratitude to my senior supervisor, Dr. Tsuyoshi Kawasaki. His constant help and dedication have made a great difference to me in my time as a graduate student. His guidance has made this thesis possible. I am also grateful to Dr. Maureen Coveill and Dr. Frank Langdon for taking the time and effort to supervise my work. My colleagues in the SFU Political Science department and Marlie Murphy, the Graduate Secretary, have lent me valuable assistance throughout the past months, which I deeply appreciate.

I thank my friends Kyong Youn Lee and Richard Liu for igniting and sustaining my interest in the politics of two fascinating countries. My family has always provided me with love, support, and faith. I dedicate this work to my parents and siblings.

TABLE OF CONTENTS

Approval Page	ii
Abstract	iii
Acknowledgements	iv
Table of Contents	v
List of Figures and Tables	vi
Note on Chinese and Korean Names	vii
CHAPTER ONE: CENTRAL ARGUMENT	1
1.1. Issues and Hypothesis, 1	
1.2. Gaps in the Current Literature, 4	
1.3. Political Space, 6	
1.4. Economic Liberalization, 11	
1.5. Thesis Outline, 17	
CHAPTER TWO: THE REPUBLIC OF CHINA ON TAIWAN (TAIWAN)	19
2.1. Historical Background, 19	
2.2. Economic Liberalization, 23	
2.3. Domestic Political Space, 31	
2.4. Alternative Explanations of Conservative Dominance, 45	
2.5. Significance of Taiwan's Experience, 49	
CHAPTER THREE: THE REPUBLIC OF KOREA (SOUTH KOREA)	54
3.1. Historical Background, 54	
3.2. Economic Liberalization, 60	
3.3. Domestic Political Space, 66	
3.4. Alternative Explanations of Conservative Dominance, 75	
3.5. Significance of South Korea's Experience, 79	
CHAPTER FOUR: ANALYZING INSTITUTIONS, DRAWING IMPLICATIONS	84
4.1. Institutions "Channels" Affecting the Process of Democratization, 84	
4.2. The Political Effect of Economic Liberalization – General Lessons, 89	
4.3. Conclusion, 96	
BIBLIOGRAPHY	100

LIST OF FIGURES AND TABLES

Figures:

1. Difference Between Milner and Keohane's Hypothesis and this Thesis' Central Argument	16
2. Taiwan's Economic Liberalization and Political Dynamics	20
3. South Korea's Economic Liberalization and Political Dynamics	55
4. Conditions Required for Conservatives to Benefit from Economic Liberalization	93

Tables:

1. Major Indicators of Taiwan's Economy, 1987-1998	24
2. Distribution of Personal Income by Household in Taiwan, 1987-1997	30
3. Vote Shares Obtained by Political Parties in Taiwan, 1989-2000	33
4. Seat Distribution Following Taiwan's National Legislative Elections, 1989-1998	34
5. Opinion Surveys in Taiwan on Chinese Unification and National Identity, 1993 and 1998	35
6. Partisan Support Among Occupational Groups in Taiwan: 1992 and 1995 Elections	40
7. Vote Shares Obtained by Key Political Figures in South Korea	56
8. Seat Distribution Following South Korea's National Assembly Elections, 1988-2000	57
9. Major Indicators of South Korea's Economy, 1987-1997	62
10. Labour Disputes in South Korea, 1987-1995	70
11. Distribution of Employed Persons by Social Class in South Korea, 1975-1995	82

A NOTE ON CHINESE AND KOREAN NAMES

Most Chinese and Korean names that appear in this thesis are written with the family name first. However, certain names are given in a different order to reflect common usage in the literature or the media (e.g., Syngman Rhee or James Soong).

CHAPTER ONE: CENTRAL ARGUMENT

1.1. Issues and Hypothesis

Does economic liberalization always pave the way for political reform? How does a liberalizing foreign economic policy affect the domestic “political space” of transitional democracies? Is it true that in such democracies, liberalizing policies help increase the political space available to reformist political groups? How is the political space available to conservative¹ forces affected by liberalizing foreign economic policies? In sum, under what conditions are political groups in democratizing countries able to use the effects of economic liberalization to increase their own political space?

Many authors in the sub-field of international political economy (e.g., Goldstein 1989; Haggard 1988; Hall 1989; Kienle 1998; Milner and Keohane 1996; Morales 1997) have asserted that growing economic liberalization, because it often brings sudden socio-economic change, can increase the political space available to reformist forces within a community, leading to the decline of conservative forces. This view has been summarized by Larry Diamond in an article on democratization in Latin America: “By promoting the rapid growth of trade, greater economic competitiveness, and freer flows of capital and information, free trade agreements are undermining socially regressive vested interests . . . and stimulating economic growth and further economic liberalization. These factors press in the direction of greater political openness and competitiveness as well” (1997: 40). Specifically addressing the possible effects of the North American Free Trade Agreement (NAFTA) on the Mexican political system, Peter Smith has written that “free trade and economic liberalization could loosen the social moorings of the present political system in Mexico and, thus, create objective conditions for a far-reaching political transition” (1992: 19).

¹ This work defines the term “conservative” in a *behavioural*, not *ideological*, way. Classified as conservative are those political parties or leaders primarily identified with support for the *status quo* and opposition to drastic reform of their societies. According to this definition, Marxist authoritarian leaders opposed to political change can be called conservative. Chapters Two and Three will discuss the specific policy positions of Taiwanese and South Korean conservatives.

Some specialists on Taiwan and South Korea echo this general view. For example, Yun-han Chu, Fu Hu, and Chung-in Moon have argued that just as global economic liberalism contributed to the collapse of European Communism, it has also helped dismantle the “developmental state” and “developmentalist coalition” of authoritarian regimes in Taiwan and Korea,² weakening state leverage over the private sector and civil society (1997: 272-273). Samantha Ravich (1999) has also written that by increasing the importance of civil society relative to the state, economic liberalization played a key role in Korea’s transition to democracy. She maintains that market-oriented reform broadened the country’s political space, which in turn forced the authoritarian regime into accepting democratic reforms in 1987 (Ravich 2000: 64).

I argue that the prevalent view on the relationship between economic liberalization and political reform, despite its rich insights, remains inadequate. Through the empirical analysis of two case studies, Taiwan and South Korea, the present thesis will offer a different interpretation of this relationship, which is central to the study of transitional democracies. The questions addressed at the outset of this thesis are prompted mainly by empirical observation. The two case studies analyzed, Taiwan and South Korea, have undergone economic reforms that have indeed been accompanied by political-institutional reforms (i.e., democratization). However, these reforms have not been accompanied, in my view, by a fundamental realignment of domestic political forces (i.e., the power balance between conservatives and reformists) in either country.

Undoubtedly, as scholars such as Helen Milner and Robert Keohane (1996) predict, liberal foreign economic policies often represent a clear break with the past and can have a significant impact on the domestic political landscape by providing new opportunities to reformers. In some cases, reformist political elements have been able to take advantage of change and increase the political space available to them. However, in the cases of Taiwan and South Korea economic liberalization has helped conservative political elements preserve their political space. Moreover, conservatives have been politically successful through persuasive, not coercive, means (as opposed

² In this thesis, I refer to the Republic of Korea indistinctly as “South Korea” or “Korea.”

to, for example, Singapore and Malaysia, where ruling parties arguably still employ a measure of coercion to retain power). The loss of coercive power does not necessarily imply the loss of political strength. As Gregory Noble (1999: 154) points out in regards to the *Kuomintang* (KMT) in Taiwan, conservative authoritarian coalitions can successfully metamorphose from a coercive institution into a political party that effectively competes for votes. Thus, Milner and Keohane's hypothesis applies to the cases of Taiwan and South Korea only partially – up to the point of political-institutional reforms. It does not fit with a more fundamental type of political reform, that is, the reform of political space. In this sense, the cases of Taiwan and South Korea question the validity of Milner and Keohane's hypothesis, and thus are worth close examination.

Political developments in both Taiwan and South Korea call into question the prevalent view about the transformational effect of economic liberalization on the domestic politics of authoritarian states. However, each case does this under somewhat different conditions. In the case of Taiwan, economic liberalization, while clearly bringing change, has not brought social trauma. In the case of South Korea, market-opening measures did apparently contribute to economic and social trauma after 1987 (especially during the 1997-1998 financial crisis). In both countries, though, the "state of flux" created by economic and financial liberalization has not enabled reformist groups to decisively expand their political space. In fact, conservative forces in the two countries have often been able to take advantage of the political vacuum left by change in order to preserve or increase their own political space. This development has taken place within two highly competitive (not "closed" or "semi-competitive") political and electoral systems.

In sum, this study will develop the following hypothesis, using the cases of Taiwan and South Korea: market-opening measures, rather than creating the political space necessary for political entrepreneurs to fundamentally reorganize domestic politics (to use Helen Milner and Robert Keohane's expression) in transitional democracies, can actually help safeguard the political space available to conservative political elements. Those measures can sometimes persuade the public to provide support to conservative elements that had previously exercised coercion to control the

population. In addition, this thesis also argues that it is pertinent to distinguish between *political-institutional* and *political-spatial* change when examining the effects of economic change. It may be easier for internationalization to bring about political-institutional change (e.g., transforming authoritarian institutions into democratic ones) than to bring about political-spatial change (e.g., realigning the ideological preferences of individual voters and social groups, usually expressed in the form of electoral results). Even if economic liberalization helps pave the way for political-institutional reform, it may actually *reinforce* political-spatial conservatism at the same time, which was the case in both Taiwan and South Korea.

The issues tackled by this thesis are relevant for four principal reasons. First, they relate to the larger issue of how foreign economic policy can affect domestic politics (which is related to the “second image reversed” concept formulated by Peter Gourevitch in 1978). Second, they address the issue of reformist-conservative political interaction in transitional democracies. Third, the questions addressed by this thesis are relevant to the study of voting patterns and the behaviour of any electorate in the face of economic change. Finally, I believe this thesis sheds some light on the general political behaviour of the middle classes. My conclusions appear to support the assertion that the middle class in any society is, in political terms, an essentially conservative force.

International economic forces increasingly define the interests of domestic political coalitions (Milner and Keohane 1996: 16). As Peter Gourevitch has written, “something can be learned about the importance of power in shaping policy” (Gourevitch 1986: 20); this thesis is based on the premise that something can be learned about the importance of policy in determining who wields domestic political power. We cannot understand domestic politics “without comprehending the nature of the linkages between national economies and the world economy” (Milner and Keohane 1996: 3).

1.2. Gaps in the Current Literature

This thesis attempts to systematically study the political-spatial dynamics that follow political-institutional change. These dynamics have been overlooked by the position represented by Milner

and Keohane (1996). This blind spot is shared by both theoretical literature and regional studies literature on the political economy of democratization. First, there seems to be a consensus within current literature on democratization on the positive correlation between economic modernization and democratization (Geddes 1999: 119). This position has wide support in the academic community, and Milner and Keohane's hypothesis on economic liberalization and political change is one version of this consensus. Evidence also seems to suggest that the likelihood of reversion to authoritarianism increases when economic development slackens (Geddes 1999: 140). As Samuel Huntington posited in *The Third Wave* (1991), economic development creates new sources of power that the state cannot control. Economic growth can achieve this by expanding the middle class, rendering civil society more complex, and opening-up society to new influences (Huntington 1991: 65-67). During the "third wave" of democratization, political parties associated with authoritarian regimes did very poorly in free elections (Huntington 1991: 175).³ A "minority" view does exist, which implies that economic change can actually aid conservative political elements in some ways. Hector Schamis (1999) has written that recent economic reforms in Latin America often preserve "market reserves" for government allies.⁴ In *Pathways from the Periphery* Stephan Haggard states that in the East Asian NICS "new democratic pressures were largely offset by fundamental political and institutional continuities . . ." (Haggard 1995: 128).⁵ Either camp, however, does not deal specifically with the *political-spatial* effect of economic liberalization on transitional democracies.⁶

³ Stephan Haggard and Robert Kaufman (1997) have offered insightful nuances on the political economy of democratic transitions. In their view, authoritarian rulers can retreat from a position of strength when economic performance is strong and thus establish an institutional framework that will help their political allies under democratic rules (Haggard and Kaufman 1997: 267).

⁴ In the context of North America, one version of this minority view can be found in Diane Davis' (1995) argument that the Mexican and US governments hoped the North American Free Trade Agreement (NAFTA) would bolster their respective political bases in Northern Mexico and the Southern parts of the US, respectively.

⁵ Literature that deals with political transitions in general has not yet arrived at a comprehensive explanation of democratic change. "It seems as though there should be a parsimonious and compelling explanation of the transitions, but the explanations proposed thus far have been confusingly complicated, careless about basic methodological details, often more useful as descriptions than explanation, and surprisingly inconsistent with each other" (Geddes 1999: 117).

⁶ Not all authors, of course, can be allocated to either camp. Nevertheless, ignorance of the political-spatial effects of economic liberalization seems prevalent. For example, Adam Przeworski's approach (1991) is mainly concerned with the political-institutional effects of market-opening reform in transitional democracies.

Meanwhile, there is a large body of English-language literature that deals with Taiwanese and South Korean democratization and the role economic development played in political change. However, very few studies focus specifically on economic liberalization (not general economic development) as the independent variable, and domestic political space (from an electoral-ideological, not institutional, perspective) as the dependent variable. It seems that works on South Korea deal more extensively with economic liberalization as an independent variable, whereas studies of Taiwan place more emphasis on ethnic cleavages and national security issues as independent variables. Moreover, while some observers have written about the general political effects of economic internationalization on Taiwan and South Korea, few have systematically analyzed these effects on political space itself. For example, Tong Whan Park stated in his 1998 article that economic liberalization in South Korea would sever the link between big business (represented by the *chaebol*) and the government. On the other hand, Karl Fields (1995: 246) has predicted that further economic liberalization will result in a strengthening of business groups in the two countries, which may well result in a strengthening of conservative coalitions between business and the state. In spite of their differing conclusions, Both Park and Fields share an exclusively institutional focus.

The above mentioned literatures thus seem to have left a “gap” in the analysis of the political effect of economic liberalization by not paying sufficient attention to the domestic political space of transitional democracies. In fact, current literature does not draw a clear distinction between political-spatial change and institutional change. This thesis attempts to fill that “gap” by drawing some plausible generalizations from the analysis of Taiwan and South Korea’s experience. Let us now clarify our two key concepts, political space and economic liberalization.

1.3. Political Space

Different scholars use the term “political space” in a variety of ways. Some use it to define the actual geographic reach of certain political practices or jurisdictions; others use it to delineate the level of political freedom available to certain social groups. Still others use the term to define power

relations between different entities. Ann Graham and Joanna Regulska (1997)⁷ and Geeta Somjee (1999) define the political space available to women as the amount of leverage women are able to exercise on the political processes in their communities (in Poland and India). On the other hand, Ralph Heintzman (1994) and *The Economist* (2000) attach a value-related meaning to the term; they see political space as a geographical area where communities share similar values and pursue a common political project (in Canada or Europe). Anthony Jarvis and Albert Paolini (1995) give both spatial and imaginary (“reflexive claims to identity and subjectivity”) qualities to the term “political space.” In their view, “[modernity] is built on the state form as a way of organizing and defining political space” (Jarvis and Paolini 1995: 3-4). In the context of delineating political jurisdictions over local communities, the term political space has mainly spatial meaning for William Lyons and David Lowery (1986). On the other hand, Warren Magnusson (1996) criticizes the lack of political space in today’s world when ordinary citizens are not able to participate in the political process (he proposes the municipality as an area where political space is still available to common people for action). Fernando Pérez Correa (1997) used the term *espacio político* (political space) to define the political-ideological spectrum of “left” versus “right.”

In spite of the differences between these interpretations of political space, one finds that the various meanings attached to this term share some common aspects. Most authors who use the concept of political space imply that political space is a field of action, whether geographic or abstract. Struggle for political freedom of action takes place on this field. Political freedom of action is gained either by gaining power at the expense of others or by expanding the field of action itself. In theory, the concept of political space is a dynamic one because the size of political space can expand or contract, for example, by the extension of suffrage rights or the annexation of new territories. Finally, the concept of political space is a dynamic one because within a given space there is a constant ebb and flow of political forces, as certain forces expand their portion of the political

⁷ According to these two authors, “[p]olitical space is influenced strongly by political culture.” In the case of Poland, women’s political space has been limited because men have generally shaped political culture (1997: 66).

space at the expense of others.

For the purposes of this thesis, I define political space as an abstract entity that is composed of two fields in political life over which control is necessary in order to increase one's political leverage: electoral competition and the competition to shape the paradigms of public debate. I conceive political space within any society as a *finite* commodity. Control of the domestic political space can translate into the attainment of policy objectives by providing political parties with increased political leverage. Although conflict over political space can take place through armed force or peaceful means, this thesis will limit itself to the analysis of peaceful struggle over political space. Conflict over political space is a "zero-sum" game: gaining political support means depriving a rival group of such support, since the "amount" of political support available at *any specific point in time* is limited.⁸

In democratizing societies, there are two types of struggles over political space: the electoral-political struggle and the ideological-political struggle between organized political groups competing amongst themselves for supreme political power. While I define "political" in a narrow, electoral and ideological sense, the business of identifying the political spaces within these two areas is quite complex. Thus, I simply use the term "political space" to define key areas of the domestic arena of political competition. Groups that increase their control over one or both of the areas can be said to *gain* political space, while those who lose momentum in the struggle for control over those areas *lose* political space within society. I shall proceed to comment on the two political areas, elections and ideological dominance, which compose the concept of political space.

Electoral-political struggles between organized political groups are a key component of the political space within a democratizing polity. These struggles determine which groups will acquire control over the different branches and levels of domestic government. On one hand, these struggles are zero-sum games because the number of elected executive or legislative positions available to

⁸ As discussed below, political space can expand or contract *over a period of time*, generally as a result of institutional change.

competing candidates at any single point in time is finite. On the other hand, the public arena in which electoral struggle takes place can grow or shrink as different sectors of the population enter the domestic political equation and gain a voice in the arena (a voice that may have previously been stifled). The electoral-political arena is composed not only of the race to gain voter support in election time, but also of the shifts, alliances, and defections that take place between and within political organizations for electoral purposes. While a political party may gain political space by increasing its share of votes in a national election, it may also increase its share of political space right before an election by allying with another political force and increasing its electoral appeal this way.

Ideological-political struggle between political groups within society is the second key component of political space. These struggles determine which political groups are to acquire ascendancy over public opinion in democratizing polities *between* electoral campaigns. While it is easy to quantify the electoral success of a political group, it is much more difficult to quantify, between elections, the level of ideological ascendancy a political party exercises over the public discourse. Some possible indicators are the level of parties' presence in government institutions (determined, for instance, by the number of seats they control in the national legislature), public opinion polls, media reports, the level of social harmony, industrial relations, and government policy. Carrying ideological momentum in the arena of public opinion when in competition with rivals is essential to the strength of political groups in democratizing polities. Not only can the sway of public opinion influence government policy, but also the ideological strength of political groups can spill over into election time and translate into concrete political gains. The arena of ideological-political struggle can grow if new currents of thought are added to the political debate. On the other hand, as in the electoral arena, ideological struggle is a zero-sum game at a particular point in time. By gaining ideological momentum, a political party necessarily puts its rivals on the ideological defensive (until they are able to either counter-attack or add a new ideology to the political discourse).

A political group competing for domestic political power can gain political space in the electoral arena by maximizing its share of the popular vote and presence in institutional bodies and/or

making post- or pre- election alliances with rival groups that will result in a net increase in its actual political power. In order to signify an increase in the political space occupied by a particular group, political shifts must be followed by an actual increase in that group's political power. In turn, losing popular votes or political allies to the attraction of rivals can imply the loss of electoral political space. A political coalition can gain ideological political space by increasing the amount of support its ideology can generate among public opinion. A hegemonic political coalition may even be able to change, to its own benefit, a society's ideological paradigm. Ideological fluctuations can come through steady but constant political changes or through the outcome of political crises. The loss of ideological political space can be brought about by the loss of momentum in the public debate of ideas or by a change in public perception (often caused by changes in the social or political environment).

An increase in a political group's share of domestic political space brings that group greater political power by increasing its dominance over state policy-making institutions, increasing its credibility in the eyes of public opinion, and making it stronger relative to its competitors for domestic political space. Electoral success generally gives political parties greater control over state institutions, while ideological ascendancy enables parties to affect state policy by influencing both the public and policy makers. Electoral and ideological gains also increase a political organization's credibility within the domestic political struggle by endowing it with greater moral legitimacy and public support. Both qualities can be very powerful tools when used to overcome opposition by political rivals in the implementation of policy; on the other hand, it is not difficult to squander either moral legitimacy or public support. By gaining political space any political group gains relative strength *vis-à-vis* its rivals as it is in a better position to influence policy and reward its constituents. The acquisition of electoral political space also allows a party or coalition to exert increased control over state institutions. In turn, control over state resources enables political organizations to set the political agenda and co-opt, through rewards or threats, different social groups.

1.4. Economic Liberalization

Economic liberalization is generally seen as a process that can aid the arrival of political liberalization in democratizing societies. As noted earlier, according to authors like Samuel Huntington (1991) and Stephan Haggard and Robert Kaufman (1995) market-opening measures often place added pressure on authoritarian rulers to implement democratizing reforms. Here I will attempt to define the term “economic liberalization,” enumerate possible ways of measuring it, examine some of the main political causes of economic liberalization, and briefly review some of the effects economic liberalization can have on domestic politics.

Economist Gerd Nonneman defines economic liberalization in general as a process that includes the following: first, the decrease of state involvement in a country’s economy; second, the decrease of state control of economic activity; third, the encouragement of private sector activity in the economy; and fourth, the liberalization of foreign trade (Nonneman 1996b: 4). I will employ this definition for the purpose of my thesis. According to the neo-liberal economic school of thought, “[market] –led, short-term efficiency will lead to long-term growth” (Nonneman 1996b: 4). Bauer, Little, Krueger, and Lal are some of the leading advocates of economic liberalization today (Nonneman 1996b: 4). We can measure the liberalization of a country’s economy by examining changes in trade volume (relative and absolute), foreign investment patterns, changes in the percentage of GDP taken-up by the public sector and state-owned enterprises, tariff levels, and the ability of foreign firms to enter the domestic market (Spindler and Still 1991: 149-152). The general amount of regulation over internal economic activity exerted by the government indicates whether economic opening is taking place or not. Thus, the concept of economic liberalization *encompasses* but is *not limited to* that of internationalization. In addition to internationalization, the process of economic liberalization includes the reduction of state presence in the domestic economy (e.g., through the privatization of state enterprises) and the elimination of other restrictions on private economic activity (e.g., through the elimination of barriers to business expansion).

The concept of internationalization describes a substantial increase in the international

component of a nation's economy. Helen Milner and Robert Keohane, for instance, measure internationalization through changes in trade as a percentage of a country's Gross Domestic Product (Milner and Keohane 1996: 4). The removal of controls exercised by a national government almost inevitably lead to greater economic interaction with the outside world. "Increased international trade and capital movement between economies raises the proportion of each economy exposed to world market pressures (the tradables sector) and is therefore likely to increase the sensitivity of the domestic economy to international price trends and shocks" (Milner and Keohane 1996: 16). According to Milner and Keohane, internationalization increases an economy's vulnerability to external economic shocks. Milner and Keohane also measure internationalization through the ratio of a country's net foreign investments to its total domestic assets (1996: 4). Political scientists such as Jeffrey Frieden, Ronald Rogowski, Frances McCall Rosenbluth, and Stephan Haggard (contributors to the book *Internationalization and Domestic Politics* edited by Milner and Keohane [1996]) measure internationalization through the level of international capital flows and financial rate de-regulation (e.g., interest rate de-regulation).

In order to clearly illustrate the limitations of current views on the political effect of economic change, this thesis will employ the concept of economic liberalization rather than that of internationalization. By definition, economic liberalization is a more powerful independent variable than internationalization because it takes into account not only de-regulation of international economic interaction but also the de-regulation of domestic economic interaction. So, according to the logic of Milner and Keohane's hypothesis, economic liberalization, as a more powerful independent variable than internationalization, should certainly have caused political-spatial reform in Taiwan and South Korea (both of which experienced extensive economic liberalization). In other words, the cases of Taiwan and South Korea should provide strong support for Milner and Keohane's hypothesis. As I will demonstrate later, however, significant political-spatial reform has not taken place in these countries, which allows me to make a stronger case against Milner and Keohane's arguments.

Political Conditions Necessary to Initiate Economic Liberalization:

Heller et al. (1998) argue that there are three essential political conditions for economic liberalization to take place in democratizing polities. First, liberalization will not be attempted unless the political leaders consider reform desirable. The second political condition required for economic liberalization is policy makers' belief in their ability to identify plausible alternatives (to their old policies) that correspond to their preferences. Finally, liberalization will not occur unless policy makers who favour reform control the political resources necessary to enact and implement the policy change (Heller, et al. 1998: 146-47). These three political conditions for economic liberalization emphasize the autonomy enjoyed by national governments in economic policy-making. Failure to respond to the demands of powerful economic coalitions may cause a government to lose political space if these coalitions seek the support of the political opposition or sabotage the government's economic policies.

Any set of policies distributes benefits and costs along the political spectrum. In turn, policy reform redistributes these benefits and costs (Heller et al. 1998: 149). "Thus, for political leaders to choose to reform their economies, the net expected utility from the proposed policy change must exceed the expected net value of retaining the illiberal *status quo* . . . Therefore, we expect to see liberal reforms only if constituents who support the government stand to enjoy a net gain from liberalization" (Heller et al. 1998: 150). Political considerations play a key role in determining when a country enacts market-opening measures, and whether this policy will be sustained (Heller et al. 1998: 176). The expected political desirability of economic reform is crucial to the implementation of market-opening measures. It is easier for ruling political coalitions to have supporters agree to a change in economic policy when there are few policy alternatives available; the more alternatives available, the more difficult it is to reach consensus within a ruling coalition (Heller et al. 1998: 157).

General Effects of Market-Opening Policies:

Economic liberalization generally reduces the state's control over civil society as a whole.

This often results in the increase of political activity by reformist groups that oppose the political *status quo*. A reduction in the level of conservative control over the economy also allows reformist elements to form useful alliances with economic elites. A general decrease in economic control can easily result in a decrease in political control for conservative groups. Such a loss of political control can well bring a sudden drop in political power and even public support (when loss of coercive power brings the loss of persuasive instruments). Helen Milner and Robert Keohane have argued in the book *Internationalization and Domestic Politics* (which they co-edited in 1996) that “[the] likelihood of major domestic policy and institutional reforms will grow as internationalization makes the economy more vulnerable to externally generated economic shocks”(Milner and Keohane 1996: 18). The crises provoked by these shocks “create the ‘political space’ necessary for political entrepreneurs to fundamentally reorganize domestic politics” (as noted by institutionalists Judith Goldstein 1989, Stephan Haggard 1988, and Peter Hall 1989) (Milner and Keohane 1996: 16).⁹ In terms of my definition of political space, this view suggests that economic liberalization would help reformers increase their political space at the expense of conservatives (through electoral and ideological competition). I do not disagree with the assertion that economic reform can aid political-institutional reform. However, I believe this assertion should be qualified with the argument that economic liberalization can actually bolster the political fortunes of conservative political forces *once the institutional setting within which political competition takes place has been reformed*.

I believe there are three plausible reasons for which economic liberalization can preserve or increase the political space available to conservatives. First, the policy changes liberalization brings (e.g., reducing subsidies to strategic economic sectors or encouraging market-based competition) can instil feelings of insecurity in the public, which might lead it to make “safe” political choices. This can drive large sectors of the population to support political parties that seem “safe.” Second, if economic liberalization, by providing tangible material benefits to certain social sectors, can actually

⁹ Milner and Keohane’s definition of the term “political space” refers mainly to the political-institutional aspect of domestic politics.

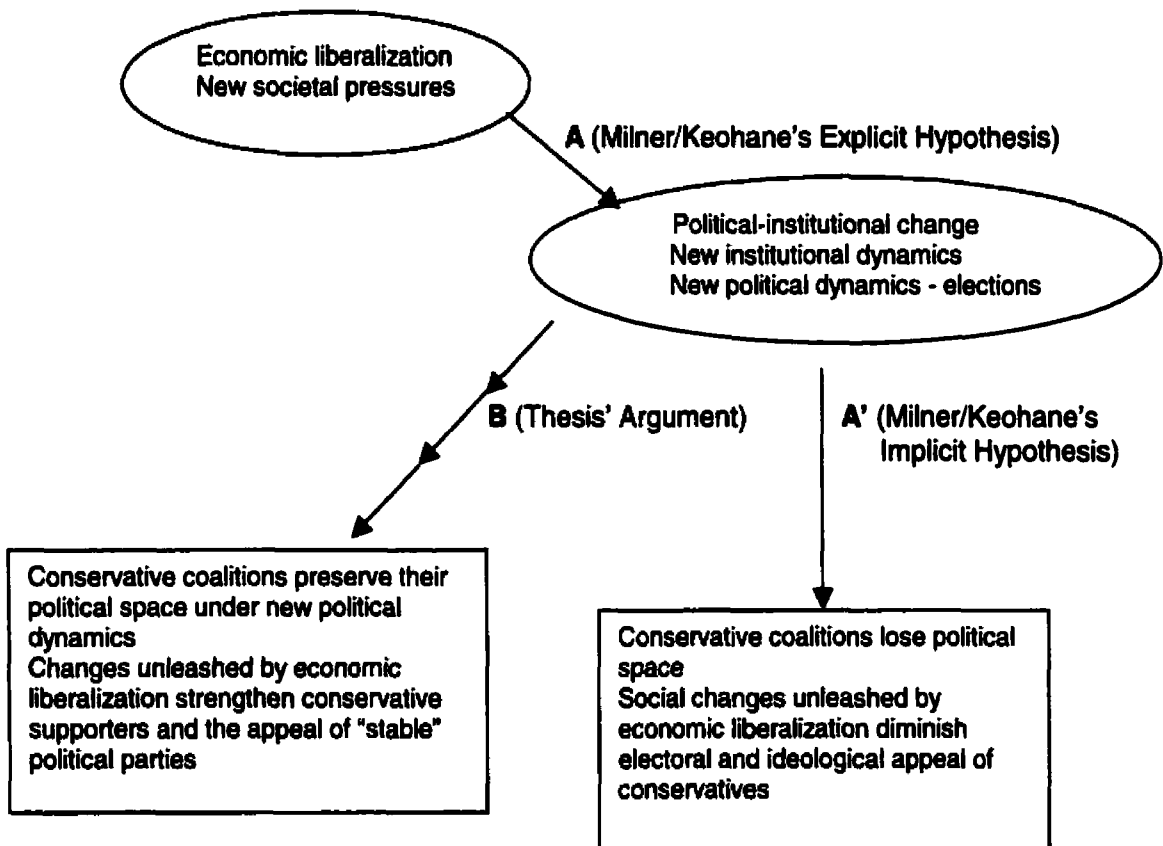
strengthen the political base of conservative political elements by increasing the economic clout of conservatism's social allies. Greater political and economic freedom allows these allies to provide willing support to conservative political elements. Third, when the changes provoked by economic reform make "political space" available, conservative groups, which often enjoy superior resources, are frequently better able than reformist groups to step into that space. In fact, conservative forces often pursue market-opening measures precisely because the short-term instability caused by liberalization allows them to exploit people's insecurities. Under democracy, economic liberalization often benefits the same class of people (the middle class) that gave previous authoritarian regimes passive support. Democratization can turn this previously passive support into active support for democratic conservative coalitions.

Most current literature on the political economy of democratic transitions does not explicitly discuss the effect of economic reform on political space. Nevertheless, evidence from this thesis' two case studies suggests that arguments asserting that market-opening reforms lead to political-institutional change are somewhat misleading in regards to domestic political space. Studies positing that economic reform aids institutional change (while not examining political space) implicitly seem to suggest that economic reform naturally leads to a realignment of political space. In my view, this is not necessarily the case. In Figure 1, Milner and Keohane's argument is represented by AA', while my argument is represented by AB. By explicitly focusing on the effect economic reform has on political space, this thesis attempts to provide a more complete picture of the political results of economic liberalization.

-- Figure 1 around here --

This thesis does not pretend to explain why conservative political elements have remained powerful in democratizing countries – in most democracies, new or old, conservative parties hold considerable political space. Rather, this thesis attempts to study whether economic liberalization is a political asset or liability for conservative parties during and immediately after democratization. Conventional wisdom states that economic liberalization generally paves the way for political

Figure 1: Difference Between Milner & Keohane's Hypothesis and this Thesis' Central Argument



liberalization. Can economic liberalization actually hold back further reform after democratization? In my view, the very same middle class hatched by the economic liberalization that led to democratization is the very same middle class that sees this liberalization as a reason to “vote conservative.” In both Taiwan and South Korea, the middle class appears to have played a basically conservative role after 1987.

1.5. Thesis Outline

This thesis will conduct the analysis of two case studies, Taiwan and South Korea in order to arrive at some general conclusions on the political effects of economic liberalization. The approach employed will be mainly empirical and inductive. In order to analyze these two cases, indicators (in the areas of trade, finance, etc.) that illustrate the degree of economic and financial liberalization will be used as the *independent variables*. Political-spatial outcomes (expressed through electoral competition, political alignments and the political discourse) will serve as the *dependent variables*. The conclusions drawn from the study of political developments in Taiwan and South Korea will be contrasted with the hypothesis advanced by Helen Milner and Robert Keohane in their Introduction to *Internationalization and Domestic Politics* (1996: 16). This contrast might yield some conclusions that lead to the formulation of broader theoretical implications.

Chapters Two and Three will study the moves toward economic liberalization in Taiwan and South Korea and the impact these policies have had on the political space of each country. The analysis of economic liberalization will require the study of policy initiatives in areas such as finance, investment, international trade, agriculture, and currency exchange. The analysis of the political effects of liberalization will require the study of electoral results, political party alignments, and public opinion. Chapter Two and Three will each conclude by reviewing some lessons we might draw from the empirical evidence provided by the two case studies. Chapter Four will attempt to formulate a theoretical model on the political effect of economic liberalization by contrasting the two case studies and using lessons drawn from Chapters Two and Three. The fourth chapter will also

attempt to point out some areas within the debate on economic sources of domestic politics that might be open to further research. The thesis will conclude by speculating on some of the possible implications its conclusions might have for other countries and for broader theoretical debates – debates over issues such as the “second image reversed” concept, democratization, the political role of the middle class, electoral patterns, and voting behaviour.

CHAPTER TWO: THE REPUBLIC OF CHINA ON TAIWAN (TAIWAN)

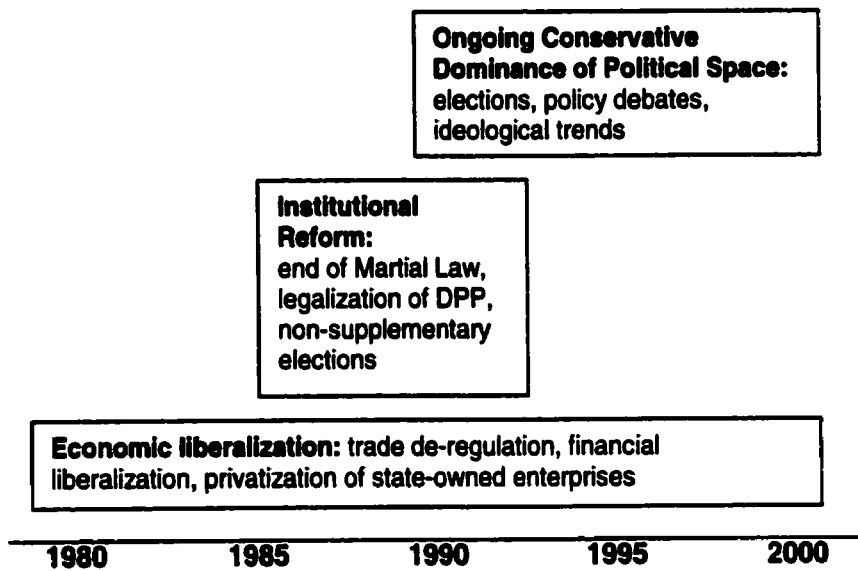
In Taiwan, the effects of economic and financial liberalization have manifested themselves most clearly throughout the 1980s and 1990s. While this process produced some dislocation in Taiwan's economy, it has not brought about an economic or financial crisis. Parallel to economic and financial liberalization, Taiwan began its democratization process in the mid-1980s. I believe Taiwan's recent history provides empirical evidence in support of my hypothesis mainly because the changes prompted by economic and financial de-regulation did not, from a social or political perspective, allow the opposition or reformist forces in Taiwan to take advantage of the rather "fluid" socio-economic situation and decisively increase the political space available to them (see Figure 2). In fact, the *Kuomintang* and its allied social groups have been able to maintain or even increase their share of the political space. The KMT has consistently claimed that only it can provide rapid economic growth and political stability simultaneously (Copper 1998: 149).

— Figure 2 around here —

2.1. Historical background

Like Korea, the island of Taiwan spent most of the first half of the twentieth century under Japanese rule. With the end of World War II in August 1945, Taiwan became Chinese territory again and came under the jurisdiction of Chiang Kai-shek's government. *Kuomintang* troops quickly disembarked on the island and clashes between these troops and the local populations promptly erupted. Native Taiwanese resented the arrogance and corruption of the KMT's officials and military. Demonstrations against KMT rule and in favour of greater Taiwanese autonomy were met with brutal repression by KMT forces, which killed, jailed or massacred thousands of Taiwanese intellectuals, social leaders, and students (Laliberté 1997: 8). The most infamous of these incidents occurred on February 28, 1947, when a massacre of anti-KMT demonstrators took place in Taipei. Thus, the Taiwanese people were subjugated by force. In spite of its ability to repress anti-KMT

Figure 2: Taiwan's Economic Liberalization and Political Dynamics



movements on Taiwan, the Nationalists were unable to maintain their grip over the rest of China. By 1949, the Chinese Communists had overrun the entire Mainland and ended Nationalist rule there. Chiang Kai-shek fled with numerous Kuomintang followers to Taiwan, where he set up the government of the Republic of China "in exile."

For years Chiang dreamt of re-conquering the Mainland. He simply saw Taiwan as a springboard for the eventual invasion of China proper. Ongoing conflict with Communist China was used to justify the continued imposition of Martial Law on the island of Taiwan. All political activity contrary to KMT policies was suppressed. Up to the 1980s, mainlanders (individuals originally from Mainland China, not Taiwan) dominated the KMT. This was a source of ongoing tension with the local population. In spite of a repressive political rule and the state of siege under which Taiwan lived, the KMT oversaw the rapid economic development of Taiwan. Throughout the 1950s and 1960s, the government developed export-oriented policies that eventually provided Taiwan with a huge trade surplus. Taiwan's export led-development brought about the rise of an educated middle class and a vigorous civil society. Underground challenges to KMT rule grew in the 1970s, and in 1986 Chiang Ching-kuo, Chiang Kai-shek's son, began the process of democratizing Taiwan by legalizing the main opposition party, the Democratic Progressive Party (DPP). Martial Law was finally lifted in 1987, together with the law for the "Period of Mobilization for Suppressing the Communist Rebellion."

Both Chiang Kai-shek and Chiang Ching-kuo presided over periods of remarkable growth in Taiwan's economy. After attempting to implement some import-substitution policies in the 1950s, Chiang Kai-shek's regime committed itself to export-oriented economic policies. The Taiwanese government encouraged the formation of small and medium manufacturing companies that could compete on world markets; the KMT deliberately prevented the formation of large corporate conglomerates in order to avoid possible challenges to its own power (Cheng and Lin 1999: 231). While the Taiwanese government encouraged the export of products, stringent restrictions remained on imports and the ability of foreign financial entities to operate in Taiwan. The Taiwanese public

was prevented from investing capital abroad in order to ensure domestic investment went only into domestic economic activities (Goldstein 1997: 34-35). The wealth created by rapid economic growth was rather evenly distributed. This was partly the result of an effective land reform program implemented by the KMT in the 1950s (Cheng and Lin 1999: 230).

While equitable economic growth and land redistribution provided “social balance” to Taiwan, economic growth did bring political pressure to bear on the KMT. Changes at both the domestic and international level encouraged Chiang Ching-kuo to begin the democratization process. At the domestic level, the rise of civil society and growth of opposition raised the political costs of sustaining Martial Law. Economic growth and social development contributed to the rise of an educated middle class, more critical of the government and desirous of political rights for itself. It was necessary for the Kuomintang to appeal to this growing sector of the population through persuasion rather than coercion. Democratization would be one way of attracting the continued support of the middle class and acquiring legitimacy in its eyes. The continued repression of the population’s political rights ensured the strengthening of the DPP. President Chiang Ching-kuo was faced with the choice of maintaining a repressive policy or facing the DPP at the ballot box. In addition, as the passage of time made the possibility of re-unification with the Mainland more remote, the KMT's claim to be the legitimate government of all China began to ring hollow. The KMT's Mainland origins began to seem a political liability as Taiwanese society developed and experienced economic success while separated from the Mainland.

At the international level, democratization movements around other parts of the world had some influence on Taiwan’s public opinion. Specifically, the Taiwanese followed with great interest the “People Power” movement that toppled the Marcos dictatorship in the Philippines. The easing of cross-strait tensions with the accession of Deng Xiao-ping to power in China (in 1978) also led the KMT to consider relaxing its iron-grip on Taiwan’s political life. In the 1980s the two governments in Beijing and Taipei agreed to allow the establishment of postal and cultural links across the Taiwan Strait. Thus, the KMT could not use the excuse of national security as the reason for its ongoing

authoritarian rule as easily as before. In my view, domestic political considerations were essential to Chiang Ching-kuo's decision to commence the democratization process in 1986-88.

President Chiang Ching-kuo abolished Martial Law on July 15, 1987. Chiang apparently realized that Taiwan was ready for democratization, and that the KMT could still uphold its political hegemony in a democratic Taiwan. The KMT faced the following choice in the late 1980s: it could continue its authoritarian rule, and keep alienating large sectors of the local population, or it could preside over the democratization process and take credit for it. Chiang Ching-kuo and his successor (from 1988) Lee Tung-hui, decided in favour of the latter course. While wide sectors of the Taiwanese population favoured an end to authoritarian rule, public opinion generally credited the KMT with staging Taiwan's brilliant record of economic growth. In addition, inhabitants of Taiwan who considered themselves "Chinese" rather than "Taiwanese" continued to support the KMT's official goal of eventual reunification with Mainland China. Thus, when the KMT began the process of democratization it could count on the political support of large sectors of the voting population.

2.2. Economic Liberalization

This section will review the recent efforts of the Taiwanese government to liberalize domestic financial controls and to open Taiwan's internal market to greater foreign competition. I will conclude this section by briefly commenting on some of the socio-economic consequences of economic liberalization in Taiwan. Taiwan began the pursuit of a liberalizing foreign economic policy in the 1970s and 1980s. This process was accelerated in the late 1980s and early 1990s, with the liberalization of Taiwan's foreign direct investment, foreign exchange, and capital markets (see Table 1 for general economic indicators).

--- Table 1 around here ---

Liberalizing Measures Up To 1987:

While today market forces largely govern Taiwan's economic and financial markets, this was

TABLE 1: MAJOR INDICATORS OF TAIWAN'S ECONOMY, 1987-1998

	1987	1989	1991	1993	1995	1997	1998
GNP (US\$ million at Current Prices)	103,641	152,565	183,736	226,243	262,978	284,777	262,272
Total Value of Exports (US\$ million)¹	53,679	66,304	76,178	85,091	111,659	122,081	110,582
Exports/GNP Ratio (%)	51.8%	43.4%	41.4%	37.6%	42.4%	42.8%	42.1%
Total Value of Imports (US\$ million)²	34,983	52,265	62,861	77,061	103,550	114,425	104,665
Imports/GNP Ratio (%)	33.7%	34.2%	34.2%	34%	39.3%	40.2%	40%
Total Outward Investment (US\$ million)	102.7	930.9	1,656	1,552.2	1,356.9	2,893.8	3,296.3
Total Foreign and Overseas Chinese Investment in Taiwan (US\$ million)	1,418.8	2,418.3	1,778.4	2,301.7	2,925.3	4,266.6	3,738.7
Real Growth Rate of Fixed Capital Formation by Government (%)			22.6	17.5	3.8	1.1	-0.1
Real Growth Rate of Fixed Capital Formation by Public Enterprises (%)			6.6	-7.7	-0.5	-3.4	3.9

Source:

Council for Economic Planning and Development, Republic of China (1999: 4, 13-14, 206, 260, 264)

Notes:

1. Freight on board.
2. Cost, insurance, and freight.

not the case until recently. Only in the late 1970s and early 1980s did the government start to relax its control over industrial and financial policies. We can identify four phases in Taiwan's recent industrialization: first, the phase of import-substitution policies in the 1950s; second, the export-oriented industrialization phase of the 1960s; third, the second phase of import substitution during the 1970s; and fourth, the liberalization and globalization phase since the early 1980s (Hsiao and Cheng 1999: 116). The 1961 *Statute for the Encouragement of Investment* placed some considerable restrictions on foreign investment in Taiwan. Taiwan began a sustained effort to open its markets after recovering from the second oil crisis – exchange rate regulations were liberalized and tariff and quota levels were reduced (Ravich 2000: 121). In February 1979 the foreign exchange system was officially converted from a fixed exchange rate regime to a flexible regime (Lin 1996: 160). In November of 1980 the Central Bank of China promulgated the *Essentials of Interest Rate Adjustment*, which “permitted a wider range in the difference between maximum and minimum loan rates on certificates of deposit and on some other money market instruments” (Lin 1996: 159).

By the early to mid-1980s, Taiwan was ready for liberalization because of its high savings rate, successive balanced government budgets, and a low inflation rate (Lin 1996: 158). “To further international integration and maintain a steady flow of foreign direct investment, a central state trading system was established in the foreign exchange market in 1982” (Ravich 2000: 121). In order to absorb increased foreign reserves and money supplies, it was necessary for the economy to rely on more flexible interest rates and foreign exchange rates (Lin 1996: 158). An economic slowdown in 1984 sparked concerns over the international competitiveness of Taiwan's enterprises. This led to the creation of an economic reform committee under the Executive Yuan in order to draft proposals for “economic rejuvenation.” The committee's final proposals included economic liberalization and internationalization, a reduction of the public sector, and more private participation in certain areas of the economy (McBeath 1998: 167). After March 1985, differences in prime rates among banks “were not only officially recognized, but actually encouraged” (Lin 1996: 159). The Central Interbank Call Rate System was abolished so each bank could determine its own rates. In September 1985 the

Regulations for Interest Rate Management were abolished, an act that would allow for wider ranges between maximum and minimum loan rates (Ibid.).

Taiwan's huge trade surpluses in the mid-1980s caused a rapid appreciation of the NT dollar; in 1986-87 the Central Bank intervened to slow down the appreciation. However, the gradual quality of the appreciation caused the market to continuously expect further appreciations – this resulted in a huge speculative capital inflow that fuelled the initial problems created by the trade surplus and inflated stock and real estate markets (Lin 1996: 161). Under pressure from its main trading partners, especially the United States, efforts to liberalize Taiwan's economy were accelerated in the 1980s (Hsiao and Cheng 1999: 119). Direct foreign investment helped build Taiwan's export market and technology (Ravich 2000: 121). "Taiwan was able to overcome the economic setbacks of the late 1970s and early 1980s by relying on the mechanisms that had originally created its stunning growth – successfully shifting from low-tech, low skilled agriculture and manufacturing to higher-value-added, higher-skilled production (thereby increasing the level of productivity) and by opening its financial sector to more competition" (Ravich 2000: 123). In 1986 foreign branches were allowed to set-up branches in Taiwan (Ravich 2000: 121). In May 1987 foreign exchange controls were relaxed to allow and to encourage direct capital outflow by the non-bank private sector (e.g., the allowable outward yearly remittance per adult was increased to US \$5 million) and in June 1987 for the first time capital movement was permitted to the general public (Lin 1996: 162-63).

Liberalizing Measures Since 1987:

In 1987 foreign exchange controls were removed; import tariffs and import restrictions were reduced; Taiwan "opened its domestic market to foreign competition in fast food services, banks, insurance, and leasing agencies" (Ravich 2000: 121). Average tariff levels dropped from 32% in 1980 to 13% in 1989. Taiwan's "sluggish" economic growth in the mid-1980s "stimulated a search for ways to improve economic efficiency and productivity" (McBeath 1998: 188). The removal of government protection for Taiwanese enterprises in the domestic market is forcing these companies to

change their *modus operandi*. The entry of foreign competitors into Taiwan's domestic banking and insurance market has also placed new strains on Taiwanese financial institutions. Since the mid-1980s there has been an ongoing drive to liberalize Taiwan's domestic financial markets. The initial de-regulation of the domestic capital market, foreign exchange market, securities market, and banking industry took place in the late 1980s (Lin 1996: 168-169). These measures have increased the economic importance of the financial sector and have induced a much tighter links between the capital market in Taiwan and the global capital market (Lin 1996: 157). "In particular, the relaxation of restrictions on capital movements in the 1987-1991 period formed the necessary foundation for globalization, and the revised Banking Law of July 1989 contributed greatly to both the liberalization and globalization processes" (Lin 1996: 169). This law removed controls on all deposit and loan interest rates; today, market forces largely determine interest rates in Taiwan (Lin 1996: 159). Between 1989 and 1993 restrictions on outward and inward capital movement by the public were continuously reduced due in part to the pressure on the NT dollar to appreciate (Lin 1996: 163).

The NT dollar's value was allowed to float within certain limits until 1989, when it was allowed to float freely (Ravich 2000: 122). In July of the same year, the revised *Banking Law* was implemented, which entailed the abolition of all controls over interest rates; "the banking market in Taiwan has become very competitive" (Yu 1998: 152). International capital movement was permitted to the general public for the first time in June 1987, and between May 1987 and October 1992, the individual limit of capital private citizens were allowed to import or export was steadily increased up to US \$5 million (Lin 1996: 162-163).¹ The timing of the liberalization of capital movement was effective: restrictions to the outward movement of remittances were relaxed when there was no pressure to export capital, while restrictions on the inward movement of capital were relaxed when there was no pressure to import capital. The liberalization of the securities market has also been one of the government's goals in the past years (Lin 1996: 168). The forecast for the

¹ The allowed yearly limit on outward remittance was rapidly increased up to US \$5 million by the end of 1987. In contrast, the allowed yearly limit on inward remittance did not reach that amount until October 1992 (Lin 1996: 163).

1991-1996 period predicted a faster growth rate for imports (8.7%) than for exports (6.1%), as Taiwan's domestic markets were opened to foreign competition in the banking, insurance, leasing, and fast food sectors (Ravich 2000: 121). Taiwan's stock exchange was open to foreign investors in 1991 due to pressure from the United States. As a result of negotiations for entrance in the World Trade Organization, Taiwan raised the ceiling for individual foreign institutional investors in Taiwan's stock exchange to \$600 million (from \$50 million). The allowable foreign ownership proportion in each Taiwanese company was raised to 15% for individual foreign institutions (from 5%), while the total foreign ownership proportion in each local enterprise was raised to 30% from 10% (Chu 1999b: 192).

The 1990s have also seen the implementation of plans to privatize state-owned enterprises (SOE) in Taiwan.² According to Gerald McBeath, "[Taiwan's economy] is a mature industrial economy that is probably freer of government intervention and more liberal than at any previous time" (McBeath 1998: 251). In part those plans were a result of concern over Taiwan's international competitiveness; in part this was done to anticipate foreign pressures on the Taiwanese government to step-up its liberalization program (McBeath 1998: 164-167). For the past years, the indirect effect of SOEs in Taiwan has been to check conglomerate and multinational control of Taiwan's political economy (and thus sustain the power of the state) (McBeath 1998: 167). Between 1969 and 1995, GDP share of the SOEs declined from 17.8% to 10.8% (McBeath 1998: 166). The privatization program is ongoing; within the next few years the government will continue privatizing a number of prominent SOEs. However, employees of these corporations are resistant to changes that represent an uncertain future (McBeath 1998: 180-181). Moreover, the KMT is "suspect" in regards to the privatization of SOEs because even if it initiated the program, it has forged numerous alliances with conglomerate groups (or even KMT enterprises themselves), which stand to benefit from privatization (McBeath 1998: 179). There are fears within Taiwan that big business will control the ongoing privatization program (McBeath 1998: 180). On its part, the DPP supports privatization and it poses

² In 1989, 122 public enterprises employed almost 280,000 workers (McBeath 1998: 178).

as a champion of small and medium enterprises (McBeath 1998: 179-180).

Socio-Economic Results of Economic Liberalization:

Overall, economic globalization and deregulation have been a success in Taiwan (Lin 1996: 169). This opening was done sequentially; Taiwan already had a sound industrial base before economic liberalization took place (Cotton 2000: 153). While there are some indications that differences in wealth may have increased slightly over the past decade (see Table 2), liberalization in Taiwan has been a much less traumatic process than in South Korea. Liberalization has not resulted in financial disorder or in the increased market domination of powerful conglomerates. This has much to do with both the antecedent conditions of the Taiwanese economy and sound economic management. Taiwan's economic growth in the 1960s and 1970s distributed newly created wealth in an equitable manner. The fact that Taiwan's industrial and manufacturing sectors are largely composed of small enterprises has made the Taiwanese economy flexible enough to respond adequately to changes in market conditions (Noble 1999: 150). This has also resulted in an overall absence of conflict between business and organized labour that might have been exacerbated by economic liberalization. In addition, the Taiwanese government skilfully began to implement liberal economic policies before democratization took place; this fact minimized the level of political input into the decision-making process.

--- Table 2 around here ---

In spite of Taiwan's ability to sustain its economic growth, liberalization has brought some dislocation to Taiwan's economy in recent years. The number of factory closing has increased while unemployment hit a ten-year high in 1996 (Goldstein 1997: 67-68). Taiwanese banks and corporations are in the process of adapting to a new environment. No longer can they depend on the government to protect them from foreign competition. These changes are affecting the priorities of economic and political actors in Taiwan. The need to be competitive and adapt to changing circumstances can breed a climate of political uncertainty for many sectors of the population.

TABLE 2: DISTRIBUTION OF PERSONAL INCOME BY HOUSEHOLD IN TAIWAN, 1987-1997

	1987	1989	1991	1993	1995	1997
Ratio of Highest Fifth's Income to Lowest Fifth's	4.69	4.94	4.97	5.42	5.34	5.41

Source: Council for Economic Planning and Development, Republic of China (1998: 16)

In recent years the income gap has widened, and it is increasingly difficult for small enterprises to enter the domestic market (Chu and Lin 1996: 87). Thus, on one hand successful economic liberalization prevented the opposition from using the issue of the economy against the KMT. On the other hand, liberalization has also made prominent the need to maintain Taiwan's competitiveness in a global economy. This realization has also favoured the KMT politically by making its disciplined fiscal approach more attractive than the economic policies of its rivals. In addition, liberalization has left certain social groups more vulnerable to economic change; if these groups value stability they will support the KMT. The magnitude of economic policy changes may have been minimized by the fact that Taiwan has not suffered any serious economic downturn, but this does not mean that change has not taken place or that the public does not perceive it.

2.3. Domestic Political Space

In the late 1980s and throughout the 1990s, the conservative forces (represented by the KMT and later also by the New Party and James Soong) still dominated Taiwan's political space, contrary to what Milner and Keohane's hypothesis might lead us to believe. As Table 3 shows, conservative forces have consistently won over 50% of the total vote in national elections since 1989.³ Furthermore, as Table 4 indicates, conservative forces have continued to occupy a clear majority of the seats in the Legislative Yuan and the National Assembly throughout the 1990s. Thus, Taiwan's conservatives have maintained control over the "electoral" aspect of Taiwan's political space. Conservatives have also continued to dominate the "ideological/policy discourse" dimension of political space (in Taiwan's context, debates over economic policy and national identity/re-unification). As the ruling party oversaw Taiwan's rapid and equitable economic growth and managed the transition to democracy quite smoothly it was able to gain considerable credit for its economic policies. Public opinion and even opposition groups recognized the KMT's achievements,

³ Table 3 also includes the 1997 Municipal Assemblies elections, in which the KMT garnered fewer votes than the DPP.

as we will describe in detail later.⁴ In contrast, the DPP's level of public support on economic issues suffered from its general perception throughout the 1990s as a "leftist party inclined toward socialism" (Copper 1998: 54). Furthermore, on the question of national identity/re-unification with China, the DPP has been unable to overturn the KMT's ideological dominance (see Table 5). The DPP, the KMT's main rival for political space, was quickly increasing its public support. The DPP benefited politically from its long opposition to authoritarian rule and its stand as a champion of "Taiwanese" nationhood and the less favoured social classes. Throughout the 1990s, the DPP was able to harass and weaken the KMT's ideological control over Taiwanese society. However, the KMT maintained its dominance over the policy agenda even on non-economic issues (as exemplified in Table 5).⁵

--- Tables 3, 4 and 5 around here ---

Political Space, 1987-1996:

The size of Taiwan's political space expanded rapidly after 1987 as a series of political-institutional reforms took place. In July of that year Martial Law was abolished. In June 1990 the KMT and the DPP agreed to hold a direct presidential election in the near future (Ravich 2000: 128). In 1992, after the retirement of the last deputies that had been elected before 1949, Taiwan held the first "non-supplementary" (i.e., all seats were "up for grabs") election for the Legislative Yuan. In addition, opposition groups such as the DPP gained increasingly free access to the media. In spite of these institutional changes, Taiwan's conservatives were able to maintain their predominance over domestic political space. As Yun-han Chu points out in a perceptive article (1999a), after initial gains by the DPP between 1989 and 1993, fluctuations within Taiwan's electoral landscape subsequently decreased. An apparent "point of equilibrium" was reached after 1994: the DPP was unable to

⁴ Widespread corruption, mainlander origins, and heavy-handed tactics, though, hurt the KMT politically. The DPP exploited this to its political advantage.

⁵ In the context of Taiwan's politics, therefore, conservatives are associated with: a desire for eventual reunification with Mainland China, Chinese (rather than "Taiwanese") cultural identity, proximity to big business interests and established pressure groups such as farmers, and traditional social values.

TABLE 3: VOTE SHARES OBTAINED BY POLITICAL PARTIES IN TAIWAN, 1989-2000

	1989 Legislative Yuan	1991 National Assembly	1992 Legislative Yuan	1994 Taiwan Governor	1995 Legislative Yuan	1996 National Assembly	1996 ROC President	1997 Municipal Assemblies	1998 Legislative Yuan	2000 ROC President
KMT	59.7%	71.7%	52.5%	56.2%	46%	49.6%	54%	42%	46.4%	23.1%
DPP	28.7%	23.9%	30.7%	39.4%	33.1%	33.1%	21.1%	43%	29.6%	39.3%
New Party¹	N/A	N/A	N/A	4.3%	12.9%	13.6%	14.9%	N/A	7.1%	0.1%
Independent	11.6%	4.8%	16.7%	0.7%	7.8%	6.8%	9.9%	N/A	16.8%	36.8% ²
CONSERVATIVE TOTAL	59.7%	71.7%	52.5%	60.5%	58.9%	63.2%	68.9%	N/A	53.5%	59.9%

Sources:

- a) Chu, Yun-han (1999a: 71, 73, 76)
- b) Elections in Taiwan (2000)
- c) Baum, Julian (1997: 15)

Notes:

- 1. KMT defectors of largely Mainland extraction formed the New Party (NP) in 1993. The NP is an advocate of keeping the "pan-Chinese" ideal alive (its founders felt KMT Chairman Lee Tung-hui was not doing enough to further this goal).
- 2. James Soong, former Governor of Taiwan Province and long-time KMT stalwart, was expelled from the KMT in 1999 and ran as an independent (using the support and resources of other KMT members who joined him).

TABLE 4: SEAT DISTRIBUTION¹ FOLLOWING TAIWAN'S NATIONAL LEGISLATIVE ELECTIONS, 1989-1998

	1989 Legislative² Yuan	1991 National³ Assembly	1992 Legislative⁴ Yuan	1995 Legislative Yuan	1996 National Assembly	1998 Legislative Yuan
KMT	76.9%	78.2%	62.7%	51.8%	54.8%	54.6%
DPP	16.6%	20.3%	31.7%	32.9%	29.6%	31.1%
New Party⁵	N/A	N/A	N/A	12.8%	13.8%	4.8%
Independent	6.3%	1.5%	5.6%	2.4%	1.8%	0.8%
CONSERVATIVE TOTAL	76.9%	78.2%	62.7%	64.6%	68.6%	59.4%

Sources:

- a) Hsiao, Hsin-Huang Michael and Cheng Hsiao-shih (1999: 124)
- b) Rigger, Shelley (1999: 138-139, 158)
- c) Elections in Taiwan (2000)
- d) Lui, Fei-lung (1992: 166)

Notes:

- 1. % of total seats.
- 2. The Legislative Yuan is the legislative branch of the ROC central government.
- 3. The National Assembly is the institutional organ charged with enacting constitutional amendments. These were the first "non-supplementary" (without the participation of legislators elected on the Mainland before 1949) elections to the National Assembly.
- 4. First "non-supplementary" elections to the Legislative Yuan.
- 5. The New Party was founded in 1993 by a KMT splinter group.

TABLE 5: OPINION SURVEYS IN TAIWAN ON CHINESE UNIFICATION AND NATIONAL IDENTITY, 1993 AND 1996

Taiwan independence vs. Chinese unification	1993	1996
Pro-independence	13.2%	31.8%
Pro-unification	39.3%	37.6%
Pro-<i>status quo</i>	10.8%	17.9%
Other	3.9%	2%
No answer	32.9%	10.8%

National Identity	1993	1996
Taiwanese	27.1%	35.7%
Chinese	33.4%	20.8%
Both Taiwanese and Chinese	33.8%	50.4%
No answer	5.7%	2.9%

Source:
Cheng Tung-jen and Chia-lung Lin (1999: 248)

continue increasing its vote share, and in the mid- and late-1990s the KMT retained its political hegemony, albeit in a less extreme way than before. The KMT's electoral decline was halted by 1994-1996, and "the erosion of the KMT's electoral strength in elections for national representative bodies was balanced by impressive gains in the two newly instituted popular elections for the executive offices (of President and Governor of the "Province" of Taiwan)" (Chu 1999a: 73). In Chu's view, the DPP did worse the closer the elective offices at stake were to the apex of executive power (1999a: 76). While the DPP significantly increased its share of the political space, it was not able to break the KMT's hegemony, in part due to its lack of rural support and its inability to break the KMT's hold over large sections of the middle class (Chu 1999a: 85; Copper 1998: 147).

The KMT's vote share did drop sharply between elections in 1989 (70%) and 1993 (47.4%). However, this decline did not continue and the KMT's vote share stabilized after 1994. In the election for Governor of the "Province" of Taiwan that year, James Soong, a KMT stalwart, received 56.2% of the votes cast.⁶ In the 1994 gubernatorial (to choose the governor of the "province" of Taiwan) and mayoral elections, economic issues had little salience. "The fact that the economy was doing well no doubt helped the KMT since it [was] the ruling party and [was] the party of the *status quo*" (Copper 1998: 53). Expansionary DPP policies appeared in an unfavourable light due to excessive government spending and the need to maintain international competitiveness (Copper 1998: 54). In 1994 James Soong criticized the DPP for trying to "change the sky" with its radical policies (Copper 1998: 44). During the campaign leading to the 1995 Legislative Yuan election, the KMT continued to portray itself as the party of stability and economic growth. "The DPP's call for a free economy sounded good when talking of privatizing state- and part-owned enterprises, but not otherwise, insofar as the DPP had gone on record as advocating more public spending and was generally perceived by the electorate as a party favouring socialism" (Copper 1998: 70). Moreover, the KMT responded to demands for social services with its own social welfare program, thus

⁶ In 1994 the KMT also won the mayorship of Kaoshiung, Taiwan's second largest city, though its candidate lost the mayoral contest in Taipei.

managing to be “all things to all people” (Chu 1999a: 85).

Through its more varied social base and its greater presence in political institutions, the KMT was able throughout the 1990s to continue shaping the public debate over most political issues. In addition, Lee Tung-hui’s popularity as the first native Taiwanese president of the ROC was a great asset for the KMT.⁷ The public generally perceived the KMT’s economic and financial initiatives as necessary, while the DPP’s economic platforms were successfully portrayed by the KMT as “irresponsible.” In the realm of foreign affairs, the KMT’s position (officially in favour of eventual reunification with China, while seeking international recognition for the ROC as a sovereign entity) enjoyed more widespread support than the DPP’s pro-independence policy. It is true, though, that in the policy areas of crime and corruption the KMT was often on the defensive. Nevertheless, Lee Tung-hui held the political initiative during most of his tenure, while implementing institutional and economic reform.

A new phenomenon that appeared on Taiwan’s political scene in the early 1990s was the New Party (NP). In 1993 former KMT politicians who were critical of President Lee Tung-hui’s policies founded the NP. The NP’s founders were especially upset with what they saw as Lee’s lukewarm attitude toward reunification with China. To begin with, they were suspicious of the fact that Lee Tung-hui is a native Taiwanese. The NP accused Lee of secretly working toward Taiwan’s formal independence. In spite of its pro-unification stance, the NP was able to project a rather “modern” image as a new and “clean” party. While its politics were essentially conservative, it competed with the KMT for support among the professional classes and state employees, and with the DPP for support among small business owners and office workers (Chu 1999: 85). The NP, though, has been unable to break the KMT’s hold over the rural vote (Chu 1999: 85). The NP’s main political accomplishment consisted of weakening the KMT’s support among certain social classes and mainlander voters. In the 1996 presidential election the NP’s candidate garnered almost 15% of the

⁷ By 1988 sixteen out of the KMT’s thirty-one Central Standing Committee members were native Taiwanese (Ravich 2000: 128).

vote, but in recent times the NP's popularity has sagged. It remains to be seen whether NP supporters will return to the KMT fold or continue to split the conservative vote.

Evidence that the KMT continued to be regarded as the superior economic manager is provided by a study conducted by John Fuh Sheng Hsieh et al. (1998). The surveys conducted for this study before the 1996 presidential elections show that a majority of those polled felt the economic situation had worsened over the previous year.⁸ In spite of this, a majority also felt the economy would improve and rated Lee Tung-hui as the best economic manager of all candidates. Thus, voters rated the KMT's nominee as the best qualified to handle the economy in spite of the (slight) recent economic slowdown (Hsieh et al. 1998: 394). In fact, fully 70% of those surveyed named Lee as better able than other candidates to tackle economic issues. It appears that, in the first direct presidential election, the KMT benefited from both its past economic successes and the current economic uncertainty. This might be an indication that economic change and liberalization can actually help the incumbent that is perceived as a "safe" choice. Surveys around the time of the 1996 election also seem to indicate that, in spite of the publicity attached to it, national security was not the predominant issue on voters' minds. Uncertainty over the stock market, housing prices and the economy overall also led many voters to choose Lee, the "known quantity" (Copper 1998: 120).

While the DPP may have struck a cord with many Taiwanese voters when accusing the KMT of corruption and vowing to promote a "Taiwanese" rather than a "Chinese" identity in Taiwan, it was still viewed as an unknown quantity by many. The DPP's aim was "to win more support from the lower and middle classes, because during the process of democratization, the KMT had massively absorbed local factions and big businesses into its power centre, thereby transforming itself from a catch-all party to a centre-right coalition dominated by the politically and economically privileged" (Cheng and Lin 1999: 243). On issues such as Taiwan's relations with China or economic

⁸ According to this study's survey's, 66.8% of respondents felt Taiwan's economy had "gotten worse" over the year prior to the March 1996 election (Hsieh et al. 1998: 388).

management, the innovations proposed by the DPP may have appeared de-stabilizing to the island's middle class. The KMT was viewed as an experienced and stable party whose rule brought economic prosperity. In an era of globalization and change the KMT's experience was an electoral asset. In spite of its authoritarian past, the KMT always retained strong links with civil society (Cheng and Lin 1999: 232). This allowed it to compete for popular support on an equal footing with newer rivals. Yun-han Chu (1999a) has written that after democratization the KMT maintained its hold over the major socio-economic groups and state employees (see Table 6). In the 1995 electoral contests the KMT retained the support of 54% of office workers, 55% of self-employed workers, 64% of farmers, 51% of labourers, 60% of state employees, and 61% of housewives (Chu 1999a: 85).

--- Table 6 around here ---

Political Space, 1996-Present:

The glow from Lee Tung-hui's electoral victory in 1996 seemed to fade rather quickly. Concerns about public safety and cross-strait relations were at the forefront of public debate. Meanwhile, economic reform continued. Foreign competition increased further, and privatization of additional state-owned enterprises took place. The DPP continued to score points off the KMT by criticizing widespread corruption and posing as a champion of the "Taiwanese" identity. It is undeniable that in recent years the pro-independentist movement has been strengthened, though most voters may still favour the status quo with Mainland China. The DPP regrouped after its crushing defeat in the 1996 presidential elections, and in the November 1997 municipal elections for the first time obtained a greater share of the vote than the KMT (43% to 42%). The KMT did especially poorly in large cities. However, the following year the tables were turned. The KMT obtained a sizeable victory in the 1998 Legislative Yuan elections. Meanwhile, the effects of the Asian financial crisis were rocking East Asia. Taiwan was one of the few countries that were able to avoid financial collapse, though economic growth did slow somewhat in 1997-98. At any rate, the KMT's economic policies seemed to be vindicated by Taiwan's strong economic performance in the middle of a region-

TABLE 6: PARTISAN SUPPORT AMONG OCCUPATIONAL GROUPS IN TAIWAN: 1992 AND 1995 ELECTIONS

Occupation	1992 Election			1995 Election			
	KMT	DPP	Independent	KMT	DPP	NP	Independent
Business Owner	44%	50%	6%	46%	31%	16%	6%
Manager/Professional	77%	19%	4%	35%	25%	32%	8%
Office Worker	68%	28%	5%	54%	16%	22%	7%
Self-employed Labour	68%	29%	3%	55%	36%	5%	4%
Farmer	67%	25%	8%	64%	29%	5%	2%
Labour	58%	37%	6%	51%	31%	11%	7%
State Employee	85%	12%	2%	60%	16%	19%	4%
College Student	76%	15%	9%	24%	52%	21%	3%
Housewife	64%	31%	5%	61%	23%	9%	7%
Unemployed	71%	25%	4%	56%	19%	13%	13%

Source:
 Chu, Yun-han (1999a: 84)

wide recession.

Unfortunately for the KMT, the late 1990s saw the emergence of serious internal rifts within the party. Most KMT members assumed that Lien Chan, then-vice president, would be nominated by the party to be the KMT's presidential candidate in the 2000 elections (Lee Tung-hui would retire as president that year). However, James Soong, former Governor of the Province of Taiwan challenged the decision of party elders. Soong was a popular politician of Mainland extraction, who nevertheless performed very well in the 1994 gubernatorial election, garnering 56.2% of the vote. When it was made clear to him that Lien would be the party's nominee, Soong bolted the KMT with numerous followers. This represented a veritable split within the party. As a Mainlander, Soong could appeal to the sizeable Mainlander vote. As a populist, he could draw support from the mainstream middle class that had generally supported the KMT. In policy terms, though, he and his followers essentially seemed to represent continuity with KMT policies. In fact, among the three main candidates, his position on cross-strait relations was perceived as the most conciliatory toward Mainland China. Soong's defection ensured Chen's victory in the March 2000 elections with a plurality of the vote. At this moment it is not clear whether Soong will form his own political party or rejoin the KMT in some form of coalition.

Much has been made of the fact that Chen Sui-bian, the DPP's nominee, recently won the March 2000 presidential elections. The election of a DPP leader to the highest office is undoubtedly a historic change for Taiwan, but for the moment I do not think it represents a fundamental shift within Taiwan's political space for the following reason: Chen won with 39.3% of the vote, while Lien Chan and James Soong together received about 60% of the vote. Although Lien and Soong ran as rivals on separate tickets, both are KMT old-timers, steeped in KMT traditions and training. In some ways Soong represents a throwback from current KMT policies, as he is a mainlander whose China policy was seen as the most conciliatory of the three main candidates, as noted earlier. Moreover, Chen actually received a smaller percentage of the votes than the DPP attained in, for instance, the 1997 municipal elections, when the DPP obtained 43% to the KMT's 42%. It may be

that conservative forces in Taiwan will remain splintered, but it seems that if they decide to merge again it will be very difficult for the DPP to regain the political ascendant.⁹ The election results of March 2000 confirm that the largest chunk of political space in Taiwan is still held by conservatives (whether the KMT or KMT “defectors”). We have yet to see whether conservatives will hold this space united or divided.

The Effect of Economic Liberalization on Taiwan’s Political Space:

I would like to use the last part of this section to summarize the effect economic liberalization has had on Taiwan’s political space since 1986-87. Certainly economic liberalization alone cannot account for the ongoing success of conservatives in Taiwanese politics. In my view, however, the fact that the KMT has derived political benefits from economic liberalization has not been sufficiently highlighted in the current literature. The most salient political aspect of economic liberalization in Taiwan is its absence from public debates, even if economic concerns were clearly present among the public. Throughout the 1990s economic liberalization was not a cause of major controversy during successive electoral campaigns. Thus, the political role of economic liberalization in the 1990s was *implicit* rather than explicit. While on one hand economic growth helped create the class of Taiwanese that pushed for democratization and supported the DPP, on the other hand it appears that Taiwan’s economic success was generally recognized as an achievement of the KMT. Taiwan’s economic liberalization in the 1980s and 1990s was well managed, gradual, and had less socio-economic impact than in other countries (it did not bring about severe social polarization). These developments allowed the KMT to take credit for economic prosperity and to largely “neutralize” economic issues during successive electoral campaigns.

At the same time, the changes brought about by economic liberalization allowed the KMT to play the “stability” card: the middle class viewed the KMT as a safe economic manager, especially in

⁹ One strong card the KMT still holds is its wealth, with assets conservatively estimated at US \$4 billion (Baum and Biers 2000:20).

light of the perceived need to increase Taiwan's competitiveness and maintain fiscal and monetary discipline. The DPP's more expansive economic policies were less attractive to the middle class. Throughout the elections of the 1990s, the KMT drew relatively more support from state employees, farmers, housewives and retirees (Rigger 1999: 137). These are some of the social classes that most acutely suffer from economic instability and who consequently value political and economic stability highly. Specifically, the KMT's continuing hold on the sizeable rural vote was a severe handicap for the DPP (Copper 1998: 147). The KMT's claims to be a steady economic manager resonated with those groups. Thus, the KMT has been able to use the economic issue to its advantage in two ways: it has taken credit for economic successes and at the same time it benefits from the change caused by economic liberalization by presenting itself as the party of stability.

In contrast to developments in South Korea, the effects of economic liberalization did not play an explicit, prominent role in Taiwan's electoral campaigns of the 1990s. Other issues (ethnic divisions between mainlanders and native Taiwanese, the threat from China, corruption, etc.) played a seemingly more prominent role in the eyes of voters. Notwithstanding this environment, did economic liberalization expand or contract the political space available to the KMT in democratizing Taiwan? It appears that the process of economic liberalization did not open up any "political space" for the DPP or other reformist forces. The electorate recognized the KMT as a superior economic manager, and in the face of new challenges presented by liberalization the KMT's image as a "steady hand" worked to its advantage.

The DPP's attacks on the KMT, though, seldom involved the use of economic liberalization issues. On one hand, rapid economic growth increased the economic power of new social elites, which "served as a counter-balance to the vested interests of the KMT . . ." (Ravich 2000: 130). Large sections of these new elites supported change and the DPP. In spite of this, it was very difficult to criticize the KMT on its economic record. The KMT was widely regarded as a competent economic manager. In fact, the new challenges Taiwan faced in an age of economic globalization made the DPP's "socialistic" policies appear rather risky. Thus, the process of economic

liberalization was one of the factors that helped safeguard the political space available to the KMT. Liberalization helped sustain economic growth, which could only benefit the ruling party; in addition, the uncertainty brought about by economic change made the proven economic managers, the KMT, seem more appealing.

The KMT has always been quick to take credit for Taiwan's remarkable economic growth. Nationalists have consistently pointed out that economic growth can only be maintained under a stable political environment – which the KMT alone can guarantee (Copper 1998: 149). This type of argument has considerable political appeal for the Taiwanese middle class that emerged in the two decades prior to democratization. At the same time, this middle class' new prominence greatly minimized the potential for polarization and confrontation within Taiwanese society (Cheng and Lin 1999: 251). According to Stephan Haggard and Robert R. Kaufman (1997), democratization under economic prosperity can give the ruling elite leverage and political confidence, while at the same time moderating the stance of opposition groups. This general observation accurately describes Taiwan's experience.

Marketization preceded democracy in Taiwan by about one decade; it taught the values of choice and competition that were later applied to politics (Ravich 2000: 96). Compared to South Korea's democratization process, Taiwan's experience has been more diffuse (as the pressures for transformation had a much broader base within the general population) and less dramatic (Ravich 2000: 97). This is attributable in part to the fact that economic growth created a large middle class in Taiwan but not a large working class. In other words, the fruits of prosperity were distributed equitably. In addition, as a broad-based political party, the KMT was often able to respond to societal impulses (Korean military rulers, on the other hand, were less subtle in their dealings with the public). The large middle class that emerged in the 1970s and 1980s is, to a large extent, the child of the KMT's economic management (even though some of this class' sectors have been most active in demanding democratization). In my view, the class that in Taiwan articulated most effectively popular demand for democratization is the same class that will ensure the continued viability of

KMT-type policies and values. The KMT built “a winning majority on a rare combination of flexibility and rigidity and a unique blend of symbols and pay-offs” (Chu 1999a: 94). In my opinion, this flexibility is perhaps the key quality that has allowed the KMT to politically exploit the new economic climate brought about by liberalization. In this regard, the DPP’s ideological rigidity may be a liability.

2.4. Alternative Explanations of Conservative Predominance

This section will analyze four possible alternative explanations of conservative political dominance in Taiwan’s recent history. The four explanations are: first, Taiwan’s general economic prosperity and equitable wealth distribution; second, Taiwan’s precarious national security status; third, the KMT’s organizational expertise and extensive resources; and fourth, social culture as a pillar of conservative rule. (While these four factors, alone or combined, cannot provide a complete account of domestic political dynamics in Taiwan, they do provide interesting insights into recent political developments there. Nevertheless, I believe a comprehensive study of Taiwan’s political space today must take into account the process of economic liberalization and its effects)

In my view, the equitable wealth distribution and economic growth achieved by Taiwan since the 1960s is in great measure responsible for the KMT’s ongoing political dominance. The attainment of high growth levels and fair income distribution occurred under the KMT’s auspices. Voters have credited the KMT with sound economic management and have rewarded the ruling party with ongoing political support. Simply put, the KMT, as the long-time ruling party, has long been associated with Taiwan’s spectacular economic successes. Not only did its economic policies secure strong economic growth, but they also secured the equitable distribution of new wealth. Arguably, the KMT’s conscious policy of encouraging the growth of small and medium enterprises (to avoid possible political challenges from big conglomerates) has been partly responsible for the absence of gross income inequalities.

I believe that economic growth and equitable wealth distribution alone are not sufficient to

explain the ongoing political dominance of the KMT. Since democratization, the economy has remained a prime concern for voters. To a large extent, the public has continued to vote “through its pocket.” However, simply stating that continuing economic growth is the reason the KMT has maintained its political dominance is too simplistic an assertion. Economic growth has, indeed, continued. However, since the mid-1980s the nature of Taiwan’s economy has been changing, and so has the nature of its growth. Not only has the nature of Taiwan’s economic growth changed, but also there are some indications that income gaps are widening and growth is slowing. In sum, I believe it is only partially correct to state, “Economic growth has ensured the KMT’s political dominance.” Such an argument overlooks the changes that have taken place within Taiwan’s economy in the last fifteen years, namely, increasing economic liberalization. An analysis of the political role of economic liberalization is essential to understanding the KMT’s political performance in the 1990s.

The ongoing threat from China might also be viewed as a possible explanation for the Nationalists ongoing political dominance in Taiwan. Some scholars have argued that a majority of voters view the KMT as the party best suited to cope with the threat from Mainland China (Cheng and Lin 1999: 250-251). On one hand, the KMT, as a “one-China” party, has been able to counter-balance risky “separatist” forces. On the other hand, it is a historically anti-communist party that has been able to co-opt large segments of the native Taiwanese elites; this can endear it to voters who value Taiwan’s own identity and oppose communist China (Cheng and Lin 1999: 251). In addition, the KMT has been seen as having the expertise and organizational capacity necessary to unify Taiwan in the face of external threat. Analysts have argued that China’s threatening stances in the 1990s helped perpetuate the KMT’s dominance longer than might have been natural. For instance, Chinese threats in 1996 were credited with motivating voters to support President Lee in larger numbers than expected, so that he was able to pass the 50% mark in the first direct presidential elections (he ended up with 54%). Gallup polls conducted in the fall of 1995 indicated that 61% of respondents approved of the *status quo* with China, which indicates strong support for President Lee Tung-hui’s “China policy” (Laliberté 1997: 33).

While it is not possible to deny the salience of the national security issue in domestic Taiwanese politics, this factor alone has not been the one to ensure ongoing KMT success. The drama attached to China's threats during election campaigns in Taiwan naturally seems to overshadow other issues at stake. However, we must not lose sight of two facts: first, in the minds of Taiwan's electors the economy has remained at least as important an issue as national security; second, the nature and "quantity" of Chinese threats has varied considerably between 1987 and 2000. In other words, just because national security is the most "visible" and dramatic issue at stake during electoral campaigns does not necessarily mean it is the most important. The "level" of Chinese aggressiveness appeared to increase most during the presidential campaigns of 1996 and 2000, while decreasing somewhat in between remaining at a rather low level before 1995. However, the KMT performed well throughout the 1990s and conservative presidential candidates combined obtained about 60% of the vote in 2000 (as noted earlier). In other words, while threat levels varied considerably, the KMT's political space varied little. The national security issue may have given the KMT the "edge" in one or two electoral campaigns, but it alone cannot explain the KMT's effective retention of considerable political space.

A further possible reason given for the Nationalists' ongoing political dominance is the KMT's organizational superiority. The KMT is a Leninist-type party organized around an autocratic leadership, experienced cadres, a large membership base, and huge financial assets. In spite of the authoritarian nature of its rule, the KMT always remained in touch with social sentiment and gained experience in electioneering through local elections in the 1960s and 1970s. In addition, the KMT, as a party, owns vast real estate properties and investments, from which it was able to draw endless resources to fight its electoral battles. No other party in Taiwan has enjoyed the KMT's amount of resources or political expertise. The DPP, until recently the main opposition party, was just founded in 1986, and has nowhere near the organization or resources of the Nationalists. In sum, it has been argued that the KMT retained its dominance over Taiwanese politics because it was a well-oiled and efficient political machine. According to Yun-han Chu, "[The KMT] builds a winning majority on a

rare combination of flexibility and rigidity and a unique blend of symbols and payoffs” (Chu 1999a: 94). Its long-time domination of state institutions, its resources, and its expertise have allowed the KMT to continue shaping the parameters of public policy debates (Ibid.).

Again, the KMT’s organizational capacity alone cannot explain its ability to retain a considerable chunk of Taiwan’s domestic political space. It is undeniable that the KMT has enjoyed huge logistical advantages over its rivals, especially at the beginning of the democratization process. However, to analyze the role played by the organizational abilities of parties in Taiwan, it is necessary to be aware of the following development: while the gap in logistical capabilities between the KMT and the DPP has continued to close (to the benefit of the DPP), the electoral gap between the two has stabilized (to the benefit of the KMT). In other words, even though the DPP continued to increase its logistical capacities throughout the 1990s, its vote-share stagnated after 1993-94. On the other hand, while the KMT’s relative logistical superiority continued to decline, it maintained control of its traditional political space. This seems to indicate that organizational superiority alone cannot tell the whole story of the KMT’s political performance in the 1990s.

It has also been argued that Chinese culture and Confucian values have played a role in preserving the KMT’s dominance within Taiwanese politics (Copper 1998: 147). Chinese cultural values are often characterized as promoting deference to authority and sustaining a conservative political culture. From this perspective it is posited that Confucian values imbued into members of a political community from a very early age encourage individuals to revere authority figures such as parents, elders, or political leaders. Questioning authority is discouraged. By implication, this type of attitude is supposed to benefit political incumbents, as those under their rule are less likely to challenge their authority. I believe, however, that Taiwan’s recent political experiences prove that Chinese culture and Confucian values are not at all incompatible with democracy. The resistance to authoritarian rule during the 1970s and 1980s and the high level of citizen involvement since democratization show that the Taiwanese people are no less ready to “question authority” than citizens of established democracies. To claim that the KMT has remained the choice of numerous

voters due to cultural conditioning seems to imply that the Taiwanese public is unwilling to judge for itself the performance of its political leaders; I disagree with this implication. Chinese culture is no more or less suited to democracy than other cultures.

2.5. Significance of Taiwan's Experience

Let us conclude this chapter by examining the broader significance of Taiwan's experience. In a 1992 article discussing the possibility that the proposed North American Free Trade Agreement (NAFTA) might aid political liberalization in Mexico, Peter Smith (1992: 7) offered Taiwan as an example of a country that had liberalized its economy but not its politics. Since 1992 Taiwan has continued to liberalize its political institutions and its economy, but in a free and competitive political environment conservatives appear to have retained their share of political space. This allows the case study of Taiwan to yield five general lessons relevant to the study of the political effect of economic liberalization: first, ongoing economic liberalization can actually buttress the position of conservative political forces; second, the middle classes appear as a basically conservative political force; third, the change and uncertainty wrought by economic reform can often help conservatives in the struggle for political space; fourth, liberalization may in fact benefit the social elements that support conservative rule; and fifth, the nature of the effect liberalization has on the political space may vary according to the way liberalization is implemented.

Political Conservatism:

Taiwan's recent experience is especially important because it shows that economic liberalization does not necessarily provoke social changes that undermine established political institutions. In fact, economic reform can help conservative forces maintain their electoral appeal. The KMT did experience a sharp diminishing of its political space right after Martial Law was lifted in 1987. It appears, though, that this decline is in large measure attributable to the fact that after 1987 the political arena in Taiwan was open to free competition, and the KMT no longer enjoyed the

privilege of being “the only game in town.” After 1993-94 an apparent “point of equilibrium” was reached, through which the KMT would hold a diminished but stable political lead over the DPP. Thus throughout the 1990s the KMT, through free and fair electoral competition, was able to maintain its political hegemony by persuasive, not coercive means. This development took place at a time when Taiwan was beginning to feel the effects of economic liberalization and domestic market opening. Interestingly, the recovery of the KMT’s political fortunes, after 1993, took place precisely when the effects of economic liberalization came to be increasingly felt by the Taiwanese public.

The Middle Classes:

A second general lesson we might draw from the Taiwanese experience pertains to the political behaviour of the middle classes.¹⁰ Modernization theory postulates that economic development can change the political make-up of societies by giving rise to “modern” social groups, such as the middle class, which will demand political reform. However, developments in Taiwan seem to show that the largest portion of the middle class actually stayed faithful to the KMT. According to a study by Chang Mau-kuei (1993), the “new” middle class (composed of professional, technical, and managerial workers, plus government employees) is likely to support the KMT, while small business owners and the working class are more sympathetic to the DPP (cited in Cheng 1993: 153-154). While Taiwan’s middle class has supported democratization, a majority of this very same class has continued to support the KMT as well – the middle class might be labelled “pro-reform” and “pro-KMT” (Cheng 1993: 154). “As long as its capacity to make credible policy commitments is not hampered, new social groups are more likely to look to the incumbent elite rather than the opposition for solutions” (Chu 1999a: 86-87). As Yun-han Chu (1999b: 197) points out, furthermore, underlying Taiwan’s economy is a very “fluid class structure.” This very fluidity has allowed conservative political coalitions (the KMT) to prevent opposition groups from making inroads with

¹⁰ Recent surveys in Taiwan reveal that fully 54.7% of respondents perceive themselves as “middle class.” 9.3% see themselves as “upper-middle class,” while 26.8% think they belong to the “lower-middle class” (Cheng and Lin 1998: 229).

specific social sectors with a distinctive set of socio-economic programs. Economic liberalization may have accentuated the fluidity of Taiwan's social structure and thus helped Taiwanese conservatives retain predominance over this country's political space. The middle class is often viewed as a reforming force within transitional democracies, but the case of Taiwan calls this assertion into question. On one hand, economic liberalization may provide the middle classes with increased opportunities; on the other hand, the middle classes may expect sustained regulation and spending from the government in order to maintain social welfare programs (Chang 1993: 155-156).

Uncertainty:

The third lesson to extract from recent developments in Taiwan is that conservative political groups can exploit the climate of uncertainty brought about by economic change for their own ends. This is illustrated by the KMT's successful use of its reputation as a competent economic manager, and by the support the KMT continues to receive from state employees, housewives, retirees, and rural inhabitants (Rigger 1999: 141). It is apparent that economic liberalization generally brings some degree of dislocation when it is initially introduced in most countries. Naturally, this dislocation often creates severe feelings of apprehension within wide sections of the public. Taiwan's experience shows that, in the electorate's mind, established political parties are often credited with greater ability than an inexperienced opposition to manage the economy through changing times. In Taiwan, state employees and rural dwellers stand to lose the most from privatization and increased foreign competition. Scholar Sheu Jia-you (1989) calculated that in the early 1990s 33.5% of the middle class worked in the public sector (cited in Chang 1993: 133). The continuing support of farmers and state employees for the KMT indicates that both groups prefer the KMT's moderation and experience to the DPP's novel proposals (perhaps ironically, as the KMT initiated economic liberalization).

Farmers, like state employees, have a lot to lose from economic liberalization and have continued to support the KMT. In 1995 10.6% of the workforce was engaged in some type of agricultural activity (McBeath 1998: 190). Perhaps due to the fact that the KMT controls farmer's

associations and supports farming interests, agriculture in Taiwan has remained highly protected: as of 1997-98, the average tariff on imported agricultural products was 21% (for industrial products, the average was 7%) (McBeath 1998: 190-191). Some one hundred foreign agricultural products are banned from Taiwan's domestic market, and Taiwanese agriculture is still not cost-efficient (Ibid.). Gerald McBeath (1998) has stated that farmers have organized themselves effectively into political lobbies. The liberalization of the farming sector has taken place in areas where Taiwan has few producers. Rice, chicken or pork producers have remained largely protected by the government, which, for instance, has had to purchase surplus rice from local farmers (McBeath 1998: 191). By protecting agricultural interests in an era of rapid liberalization, the KMT can count on the ongoing political support of farmers in Taiwan. This shows that conservatives can often "have their cake and eat it": they can liberalize and at the same time exploit the uncertainty provoked by liberalization.

The Beneficiaries of Economic Liberalization:

At the same time, a further lesson we can extract from this case study is that economic reform often strengthens the social groups that traditionally support conservative rule. In Taiwan privatization and economic reform have largely benefited big business and the new middle classes, traditional pillars of KMT rule. It may be true that internationalization creates new opportunities and new social dynamics that reformers can exploit; yet Taiwan's experience apparently proves that conservative social groups like big business and the middle classes are best equipped to take advantage of new opportunities. One good example of this is the expansion of the PX Store System, which was able to take advantage of newly liberalized business rules (Chang 1993: 155). Politically, the economic strengthening of big business and the middle classes relative to other social groups can only benefit conservative political elements.

The Way Economic Liberalization is Implemented:

The final general lesson provided by this case study is the fact that the political effects of

internationalization may depend on the way in which economic liberalization is implemented.

Taiwan opened its financial and industrial markets in sequence, having established a sound industrial base first (Cotton 2000: 153). At the time it began to implement market-opening policies, Taiwan had a low foreign debt, huge foreign reserves, and a high savings rate (Chu 1999b: 184). This prevented any major economic dislocation from occurring during the liberalization process, and may have been what saved Taiwan from the 1997 Asian financial crisis. The incumbent party in Taiwan benefited politically from the effective sequencing of economic reform measures. This seems to imply that any evaluation of the political effect of economic liberalization must closely take into account the way in which liberalization is carried out.

CHAPTER THREE: THE REPUBLIC OF KOREA (SOUTH KOREA)

Economic liberalization in South Korea was initiated in the early 1980s. As in Taiwan, the de-regulation of Korea's economy ran parallel to the "de-regulation" of political life. As in Taiwan, conservative political leaders and parties have been able to retain their dominance over the domestic political space (see Figure 3). Reformist elements have even been unable to take political advantage of the socio-economic dislocation caused by the 1997 financial crisis. As Tables 7 and 8 show,¹ conservative candidates have continued to dominate the electoral aspect of South Korea's political space. Moreover, they have largely continued to shape policy and ideological debates on such socio-economic issues as labour and student movements. South Korean conservatives are associated with the interests of big business conglomerates, anti-organized labour policies, and a "hawkish" stance on national security, as well as traditional cultural values. In contrast, reformers such as Kim Dae-jung are generally identified with pro-labour union stances (and student activists), anti-conglomerate positions, and more conciliatory policy toward North Korea. Two episodes are highly symbolic in this context: first, the middle class' right-wing turn in 1991, when it refused to participate in that year's large anti-government protests around the country; and second, the fact that in order to become politically competitive Kim has had to alter his policy stances and move them closer to the paradigms set by South Korean conservatism. South Korea's experience provides added weight to the argument that economic liberalization need not lead to a realignment of political space in favour of reformers.

--- Figure 3, as well as Tables 7 and 8 around here ---

3.1. Historical Background

The Japanese occupation of Korea ended in August 1945, when Japan surrendered to the

¹ As is noted in Table 8, I did not classify Kim Young Sam as a conservative candidate in the 1987 and 1988 elections. Had I done so, the conservative vote share would have increased to 72.7% and 73.4%, respectively. In such a case, the trend of conservative electoral performance in Korea would have paralleled that of Taiwanese conservative forces: we would see a gradual decline in conservative vote share right after democratization and a subsequent stabilization of electoral positions with conservatives still dominating

Figure 3: South Korea's Economic Liberalization and Political Dynamics

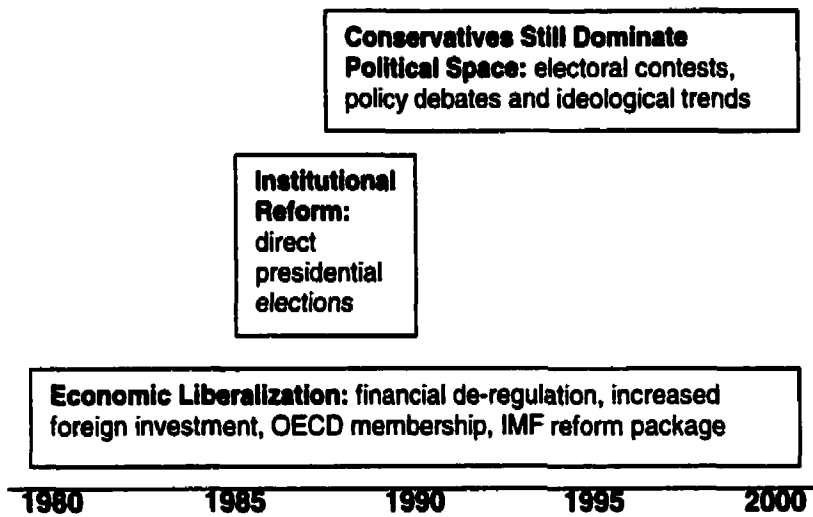


TABLE 7: VOTE SHARES OBTAINED BY KEY POLITICAL FIGURES IN SOUTH KOREA, 1987-2000¹

	1987 Presidential Election	1988 Assembly Election	1992 Assembly Election	1992 Presidential Election	1995 Local Election	1996 Assembly Election	1997 Presidential Election	2000 Assembly Election
*Roh Tae Woo ²	36.6%	34%						
*Kim Young Sam/ Lee Hoi Chang ³	28%	23.8%	38.5%	42%	33.3%	34.5%	38.7%	39%
*Kim Jong Pil/ Park Tae Joon ⁴	8.1%	15.6%			17.3%	16.2%		9.8%
*Rhee In-je ⁵							19.2%	
*Chung Ju Young ⁶			17.4%	16.3%				
Kim Dae-jung	27.1%	19.3%	29.2%	33.8%	30.1%	25.3%	40.3%	35.9%
Lee Ki Taek						11.2%		
CONSERVATIVE TOTAL	44.7%	49.6%	55.9%	59.3%	50.6%	50.7%	57.9%	49.7%

Sources:

- a) Kim, Byung-Kook (2000a: 61)
- b) Elections in Korea (2000)

Notes:

*Conservative political figures

1. Table 8 tracks election results obtained by key political figures, not parties, because South Korean politics are largely personality-based. Political parties often change names or merge.

2. In 1990, President Roh's ruling Democratic Justice Party merged with the moderate/conservative parties of Kim Young Sam and Kim Jong Pil.

3. Lee Hoi Chang succeeded President Kim Young Sam as leader of the ruling party (renamed Grand National Party) in 1997.

4. Park Tae Joon succeeded Kim Jong Pil as head of the conservative United Liberal Democrats (founded by Kim in 1995).

5. In 1997 Rhee In-je bolted the ruling Grand National Party in 1997. He ran as an independent that year, splitting the conservative vote.

6. Mr. Chung, founder of Hyeundae, entered politics as "South Korea's Ross Perot" (Oh 1999).

7. I do not classify Kim Young Sam as a conservative candidate in this election since he ran as a moderate reformer challenging the government candidate, Roh Tae Woo. Kim Young Sam joined the conservative camp definitively in 1990, when he merged his party with President Roh's.

TABLE 8: SEAT DISTRIBUTION¹ FOLLOWING SOUTH KOREA'S NATIONAL ASSEMBLY ELECTIONS, 1988-2000

	1988	1992	1996	2000
Roh Tae Woo	41.8%	N/A	N/A	N/A
Kim Young Sam / Lee Hoi Chang²	19.7%	49.4%	46.4%	48.7%
Kim Jong Pil / Park Tae Joon	11.7%	N/A ³	16.7%	6.2%
Kim Dae-jung	23.4%	32.4%	26.4%	42.1%
Other	3.3%	18%	10.3%	2.9%
CONSERVATIVE TOTAL	53.5%	60.1%⁴	63.1%	54.9%

Sources:

- a) Oh, John Kie-chiang (1999: 111, 116)
- b) Ahn, Chung-si and Jaung Hoon (1999: 147)
- c) Elections in Korea (2000)

Notes:

- 1. % of total seats in Assembly.
- 2. In 1990 Kim Young Sam's Reunification Democratic Party and Kim Jong Pil's New Democratic Republican Party merged with President Roh's Democratic Justice Party to form the Democratic Liberal Party (DLP). The DLP was renamed the New Korea Party in 1995. In 1997, Lee Hoi Chang was elected leader of the New Korea Party, which was renamed Grand National Party.
- 3. Kim Jong Pil and his supporters were part of the ruling Democratic Liberal Party between 1990 and 1995.
- 4. The Unification National Party, created by Chung Ju Young, founder of the Hyundai *chaebol*, obtained 10.7% of the seats in the National Assembly in 1992.

allies and World War II was officially ended in the Pacific. As part of the ceasefire agreements, United States troops would temporarily occupy the southern half of Korea (up to the 38th Parallel) while Soviet troops would occupy the northern half of the Korean peninsula. Both these forces were to maintain order and ensure the orderly repatriation of Japanese troops, pending the convocation of free elections throughout Korea. However, the Soviets quickly gave Korean communists, under the leadership of Kim Il-sung, control of the northern half of Korea. Kim modeled North Korea after the Stalinist regime and created a totalitarian dictatorship. In the South, the Americans supported the bid for political power of Syngman Rhee (1875-1965), a nationalist-conservative politician who had lived in exile in the United States. Rhee counted on the support of landed elites, Korean Christians, and former members of the old Japanese colonial bureaucracy (Nam 1989: 2-3). In 1950 Kim Il-sung ordered the invasion of South Korea in order to re-unify the peninsula. A bloody civil war raged for three years. An armistice was finally signed in 1953, though tension between the two Koreas has remained high ever since.

Syngman Rhee was finally overthrown by a combination of student protests and social unrest in 1960. He had ruled South Korea with an iron fist, intimidating political opponents and rigging elections. South Korea's economy was in a very difficult situation in the 1950s. Aid from the United States was vital to support a minimum of economic activity. In 1961, the South Korean armed forces, led by Major General Park Chung Hee, staged a military coup and acquired supreme political power. According to military leaders, the coup was necessary to rid the state of corrupt politicians, to unify the nation, and to strengthen South Korea in the face of North Korea's threats. Park held supreme power in Korea between 1961 and 1979, when he was assassinated. While his regime oversaw and guided South Korea's transformation from a Third World country into an economic powerhouse, Park's rule was politically oppressive. The feared Korean Central Intelligence Agency (KCIA) hounded political opponents throughout Park's tenure. In addition, regionalist tensions continued to surface throughout the 1960s and 1970s. The *Kyongsang* province in the Southeast, Park's home region, was apparently more favoured with government support than the Southwest (Gills 1996: 260).

Park, however, was able to claim a measure of popular support thanks to his skilful economic management and the constant threat posed by North Korea, which caused many South Koreans to place their faith in their own “strongman.”

After some toying with import-substitution economic policies, in the mid-1960s the Park regime decided to pursue export-driven economic growth for South Korea. The government encouraged the formation of large industrial conglomerates, the *chaebol*, in the 1960s, which were to spearhead South Korea’s economic recovery (Gills 1996: 260). Park’s economic planners would draw-up overall economic goals for the South Korean economy and would identify certain market sectors favourable to the participation of new firms. Particular *chaebol* were then assigned appropriate market sectors according to government criteria with overall national economic goals in mind. The Korean government’s level of intervention in industrial development was thus extremely high: the state would set long-term economic goals and at the same time determine the different corporations’ area of action. South Korea’s industrial production, manufacturing, and exports in general grew at an astonishing rate. In the 1970s large sectors of South Korea’s population began to share in the increase of wealth. Throughout the 1960s and 1970s the South Korean government essentially followed a statist approach to economic development while leaving limited room to private initiative, yet respecting private property and private economic transactions. Nevertheless, capital movements were severely restricted, high tariffs for imports and other protectionist measures stayed in place, and the government retained a large proportion of bank property shares.

South Korea’s economic development gave rise to a new middle class that was politically conscious and willing to claim political rights. This new middle classes, educated and critical of the government’s political tactics, easily became a force for reform in South Korea’s political life. Economic growth also strengthened the fabric of civil society, making it more independent and complex. It would become much more difficult for authoritarian governments to manipulate a prosperous and confident society. On the other hand, the economic growth that commenced under President Park’s tenure seemed to lend considerable moral legitimacy to an authoritarian regime able

to manage the nation's economy effectively and achieve a high level of coordination among the main economic actors. In addition, some sectors of the new middle classes were alarmed by the radical proposals of certain leaders of the opposition. Park and his successor General Chun Doo Hwan could count on the support of the sections of the middle class that felt comfortable with traditionalist social values and who did not wish to jeopardize South Korea's recent economic gains.

Democracy finally came to South Korea in 1987, when the government agreed to hold direct presidential elections. The Chun regime made this concession after much foot-dragging. Negotiations on constitutional reform between the government and opposition groups had been going on since the mid-1980s. However, on April 13, 1987, Chun took the "grave" decision of suspending debate on constitutional reform; as excuses, Chun gave the divisions within the opposition and the need for stability at the time of the 1988 Seoul Summer Olympics. The presidential elections scheduled for 1987 would be held under the old rules of indirect democracy (Han and Chung 1999: 211). A storm of protests and massive street demonstrations greeted President Chun's announcement. In order to avoid being discredited and to take the political initiative, Roh Tae Woo, a former general and the current presidential nominee of the ruling Democratic Justice Party, endorsed the proposal of holding direct presidential elections. He also called for constitutional changes and political amnesty for opposition figures (Han and Chung 1999: 212).² President Chun reluctantly acquiesced to his nominee's proposals. Direct presidential elections were held on December 16, 1987. The ruling party's candidate, Roh, won the election with a plurality of the vote (36.6%).

3.2. Economic Liberalization

The ongoing implementation of market-opening policies in South Korea ran parallel to the democratization process. Thanks to economic growth and the rise of the private sector, the South Korean state's control over society was curtailed. In turn, the rise of South Korea's pro-democracy

² Roh may have called for the restoration of Kim Dae-jung's political rights in 1987 in order to ensure the opposition would not field a single presidential candidate in the 1987 election (Oh 1999: 99). As it turned-out, Roh's gamble paid-off, since Kim Dae-jung and Kim Young Sam split the anti-government vote.

movement was intimately linked to the social changes brought about by economic development. This section will look at some of the main steps taken toward economic liberalization and review the overall impact of market-oriented reforms. Despite the new prosperity acquired by Koreans over the past twenty or thirty years, market-opening reforms have sparked considerable socio-economic change within South Korean society, not all of it pleasant for the public (for general economic indicators, see Table 9).

--- Table 9 around here ---

Liberalizing Measures Up To 1987:

As mentioned above, while Park Chung Hee's regime promoted export-led growth, it retained tight control over large sectors of the economy and took an active role in economic planning. Park's governments maintained key protectionist measures in place and practiced monetary and fiscal regulation. The existence of high levels of government regulation began to change under the Chun Doo Hwan regime (1980-1988). As South Korea's economy grew and became more complex, "the private sector and other social groups became more vocal about the negative aspects of the state-centred developmental policy: these criticisms produced pressures for more liberalization" (Ahn and Jaung 1999: 142). The Chun government shifted to a policy of economic liberalization in the early 1980s, in part due to the growing influence of neo-liberal ideas among economic planners in the developing world (Han and Chung 1999: 208-209). The Chun government was convinced that the difficulties experienced by the heavy industrial sector around 1980 could have been avoided had free market forces been stronger (Han and Chung 1999: 209). In addition, by the early 1980s increased consumption in South Korea had led to a serious deterioration of the current account balance, which threatened South Korea's creditworthiness; the government hoped that neo-liberal "stabilization" policies would help reduce the size of current account deficits (Ibid.). "Many policy makers also held the belief that restoring price stability would help restore Korea's rapid growth, improving its international competitiveness by breaking the price-wage spiral and inducing private savings" (Ibid.).

TABLE 9: MAJOR INDICATORS OF SOUTH KOREA'S ECONOMY, 1987-1997

	1987	1989	1991	1993	1995	1997
Gross National Product (US\$ million)	133,400	179,800	292,000	330,800	452,600	437,400
Total Exports (US\$ million)	472.8	623.7	718.7	822.3	1,250.5	1,361.6
Exports/GNP Ratio (%)	35.4%	28.3%	24.6%	24.9%	27.6%	31.1%
Total Imports (US\$ million)	41,019.8	61,464.8	81,524.9	83,800.1	135,118.9	144,616.2
Imports/GNP Ratio (%)	30.7%	27.9%	27.9%	25.3%	29.9%	33.1%
Direct Investment Overseas (US\$ million)	409.7	569.5	1,115.4	1,262	3,066.9	2,917.8
Foreign Investment in Korea (US\$ million)	1,063.3	1,090.3	1,396	1,044.3	1,941.4	6,971
Gross Foreign Liabilities (US\$ million)	35,568	29,372	39,135	43,870	78,439	158,060
Net Foreign Assets (Billion Won)	-1,605	9,104	8,075	17,539	22,600	20,332
Foreign Loan Arrivals (US\$ million)	2,667	1,332	429	643	503	6,697

Sources:

a) National Statistical Office, Republic of Korea (1998: 11-12, 15, 345-346)

b) Lim, Yang Taek (2000: 20, 23)

The main beneficiary of Chun neo-liberal reforms was the South Korean middle class (Im 2000: 25).

After 1981, the Chun regime reduced tariffs and export-subsidies, made efforts to dismantle trade barriers, and promoted financial liberalization. Several measures were implemented in order to attain price stability. Fiscal and monetary policy was tightened, real estate speculation was banned, wage increases were restricted (as labour union activity was suppressed), and price support programs for agricultural commodities were reduced. "In some years, the government did not hesitate to freeze national budgets if there were signs of inflationary pressures" (Han and Chung 1999: 209). Lending regulations for banks were relaxed (e.g., credit rates were allowed to fluctuate according to clients' credit ratings) and non-bank financial institutions were gradually admitted into the domestic market (Ravich 2000: 82). However, progress in the efforts to liberalize South Korea's economy was slow: there was constant conflict between efforts to liberalize the economy and efforts to stabilize it (through wage restraints, credit controls, or price regulation for properties, all of which increased the level of government intervention in the economy) (Han and Chung 1999: 209). According to Jua and Kim, the "market opening was not a policy choice for Korea. Rather, it was dictated by global trends of liberalization and multilateral negotiation . . ." (1999: 258). This view implies that trade liberalization in South Korea was undertaken as a reactive measure in response to worldwide economic developments. This argument appears reasonable in view of the strength of protectionist forces (the *chaebol*, the agricultural and manufacturing sectors, etc.) and the high level of nationalist feeling in South Korea. In spite of considerable opposition to economic de-regulation within Korea, efforts to liberalize this country's trade relations have borne fruit. In 1980, 68.6% of all imports were subject to automatic approval; in 1990, the proportion had risen to 96.3%. In turn, the average tariff on imports decreased from 24.9% in 1980 to 7.9% in 1994 (Jua and Kim 1999: 259).

Liberalizing Measures Since 1987:

The liberalization of South Korea's financial markets and capital movements advanced at a slower rate than trade liberalization. Three of the key reasons for the delay in implementing financial

de-regulation were the fear of interest rate increases, successive governments' desire to retain the political leverage provided by financial controls, and the large number of bad loans in existence. Nevertheless, some measures to liberalize financial markets were enacted before the 1997 financial crisis, and more measures followed after (in part due to international pressure). In June 1993, President Kim Young Sam's government unveiled its five-year economic plan, which highlighted "reforms," "de-regulation," and "internationalization." The government hoped to "align" the Korean economy with "growing liberalization" and "globalization trends" (Oh 1999: 137). This plan also provided for the liberalization of capital markets and securities businesses. South Korea became a member of the Organization for Economic Cooperation and Development (OECD) in 1996. This step "provided a significant momentum for financial reform and capital account liberalization in Korea" (Jua and Kim 1999: 258). In 1994, South Korea began to abide by the World Trade Organization's (WTO's) rules, which "obliged Korea to adopt import-export liberalization and free-trade policies" (Oh 1999: 194). Interestingly, on December 9, 1993, President Kim Young Sam "apologized" to the public "for his failure to stop the opening of the rice market to foreign imports contrary to his election pledge" (Oh 1999: 220).

The level of foreign direct investment into the South Korean economy has also increased considerably in the last ten years. In 1993, FDI increased by 16.8% compared to the previous year; in the first half of 1997 it was projected to increase by 252% (Jua and Kim 1999: 260). In the wake of South Korea's 1997 financial crisis, the conditions attached to the International Monetary Fund's bail-out package included further capital market liberalization requirements. Efforts have also been made recently by the Korean government to liberalize the labour market, providing for more flexible hours and reducing obstacles to lay-offs (Han and Chung 1999: 222). From Han and Chung's perspective, the most pressing challenge for South Korea's economy in the 1990s was the deterioration in its terms of trade. The import prices of raw materials (e.g., oil) increased, while the *won* appreciated by 11% against the *yen* between July 1995 and the end of 1996; the export sectors of petrochemicals, semi-conductors, and steel were the hardest hit. The high costs of input factors (such

as capital, labour, real estate, and logistics) and low relative productivity were at the root of South Korea's economic problems. These structural deficiencies were compounded by the weak financial structure of major business groups like *Hanbo*, *Sammi*, or *Kia* (Han and Chung 1999: 220-221).

The exogenous causes of Korea's declining terms of trade and competitiveness clearly constrained the choices available to South Korean economic policy makers. An expansionary fiscal and monetary policy would increase the current account deficit and the *won*'s value, as well as cause inflation to rise; import restrictions would provoke reprisals from trading partners and prevent the competitive restructuring of Korean corporations. South Korea's economic managers have opted for a policy of stability hoping that the current account deficit will decrease as the economy becomes more competitive. The government cut its 1997 budget by 2 trillion *won* and kept up a non-expansionary monetary policy – inflation was held down at 4-5% (Han and Chung 1999: 221-222). The capital market reform of 1998 eliminated restrictions on foreign ownership of local stocks, foreign direct investment, and foreign borrowing by private companies (Park 2000: 64-65). "To increase competition in the banking sector, in December 1997 the General Banking Act was revised to allow foreign banks to establish bank subsidiaries in Korea" (Country Economic Review 1999: 15). However, South Korea's record on structural reform is at best mixed. For instance, the government continues to bail out insolvent banks, which then bail out insolvent *chaebol* (Bong 1999: 440).

Socio-Economic Results of Economic Liberalization:

While the international environment and the need to increase Korea's economic competitiveness may encourage economic liberalization, it is still not clear whether the South Korean economy has developed built-in defences against the instability that economic liberalization has provoked. "The government's disincentive for deregulation could arise either from its rent-seeking motivation or from the lack of confidence in the market mechanism and resulting fear of market failure" (Jua and Kim 1999: 262). In addition, the sectors of the economy that would suffer from liberalization are resisting further moves in that direction (Ibid.). "Given the monopolistic structure

of the domestic market in Korea, the producers' cost of trade liberalization – i.e., reduced profit margin – may well be substantiated” (Jua and Kim 1999: 255-256). Democratization has allowed economic policy to be greatly influenced by political considerations that focus narrowly on the interests of their own constituents (Kwon 1999: 293). Key social groups feel insecure under the new (liberal) economic conditions. For instance, in February 1989, 20,000 farmers demonstrated in front of the National Assembly demanding the abolition of the irrigation tax and government purchase of excess agricultural products (Han and Chung 1999: 217).

However, economic and financial de-regulation left a regulatory “vacuum” in South Korea: market self-regulation was not yet in place when government regulation was removed (Yoon 1999). This “vacuum” helped bring about the financial crash of 1997. Other scholars have suggested that economic liberalization has actually increased the market share of the big conglomerates, the *chaebol* (Suh 1998: 57-58), which have generally financed conservative politicians. South Korea began the pursuit of a liberal foreign economic policy in the mid-1980s, somewhat later than Taiwan (Haggard 1995: 138-9). In South Korea's case, liberalization has clearly brought about negative side effects.

3.3. Domestic Political Space

This section provides an analysis of the domestic political dynamics in South Korea since 1987 and the political impact economic liberalization has had on South Korea's political space. On one hand, the infrastructure of Korean political parties is traditionally unstable. “Of the four major parties that competed in the first founding election of the Sixth Republic in 1987, not one has kept its initial name nor maintained its original organizational structure” (Shin 1999: 179-180). This instability makes it difficult for parties to build broad bases of popular loyalty and support. On the other hand, all major political parties are organized in a markedly hierarchical manner that allows bosses to manipulate the party machinery at will. According to Shin, “[a]ll Korean political parties are ideologically conservative ‘cadre’ parties; they have failed to recruit active members from among the masses and offer no ideologically alternative policies or programs of policy action” (1999: 179-

180). Ahn and Jaung add: “Korean politics has become increasingly contentious and confrontational as industrialization has developed, but the cleavage between workers and employers cannot easily be translated into party conflict because of legal constraints [on the ability of organized labour to intervene directly in party politics]” (1999: 146). These constraints and the determination of existing parties to discourage the formation of new parties allows status quo political parties to maintain their dominance of the political scene (Ibid.). Strong regionalist sentiment among the public and the high level of protagonism of individual political leaders are other reasons for which Korean political parties are not “institutionalized” (Ahn and Jaung 1999: 148). “A rubber-stamp legislature, an imperial president, a presidential power cult, a politics of ‘pushing through’ instead of persuasion and compromise, and artificial reshuffling of parties after elections are familiar phenomena in Korea” (Ahn and Jaung 1999: 145). Presidents in South Korea still view political parties as instruments to be used arbitrarily (Guillermo O’Donnell called such behaviour “delegative democracy” in the context of Latin American politics) (Ibid.).

Political Space, 1987-1997:

While the momentous events of 1987 had seen a temporary alliance of the middle classes with workers and students to overthrow the Chun Doo Hwan regime, the following years saw the middle classes “retreating” to more conservative stances. President Roh Tae Woo and conservative political elements were able to co-opt the middle classes by portraying the political crisis of 1987-1991 as a *bo-hyuk* (conservative-radical) conflict (Potter 1997: 232). The middle classes, at the government’s instigation, began to fear the instability brought by increased strikes and the possible loss of economic competitiveness provoked by growing wages (Han and Chung 1999: 216-217). Under democracy, organized labour union activity became more effective, and, as Table 10 shows, the Roh Tae Woo years (1988-1993) saw a notable increase in the number of strikes in the transport, hospital and mines sectors (Ibid.). The decrease in political repression and more effective union action enabled workers’ salaries to grow considerably. For instance, between 1987 and 1990, wages

increased 23% more than productivity (Han and Chung 1999: 218). By 1990-1991, it became clear that the middle class no longer supported the aims of labour union and student activists. This “divorce” between the middle classes, on one hand, and students and labour unions, on the other, represented the first conservative political success under a democratic system. While the middle class supported the democratization of political institutions in 1987, it subsequently came to favour “reforms within stability” (Oh 1999: 116). On January 22, 1990, the Reunification Democratic Party (RDP), led by Kim Young Sam, and the New Democratic Republican Party (NDP), led by Kim Jong Pil, merged with the ruling conservative Democratic Justice Party (DJP) to form the Democratic Liberal Party (DLP). “The DJP had originally been formed as an institutional framework to buttress the rule of Chun Doo Hwan and his power group” (Ahn and Jaung 1999: 148). The new DLP would control 217 of the 299 seats in the National Assembly (Oh 1999: 116).

Conservatives’ ability to co-opt a moderate like Kim Young Sam, a long-time pro-democracy fighter, provided conservatives, at least in the short-term, with a firm grip over South Korea’s domestic political space. The conservative tendencies of the middle class were confirmed in 1991. In April/May of that year demonstrations attended by about 200,000 workers and students took place in 87 cities after the beating death of a student by the police on April 25. Contrary to what happened in 1987, the middle classes and white-collar workers were absent from these protests (Oh 1999: 115).³ *The New York Times* reported that the middle class was “fed-up” with the radicalism of students and labour unions (Ibid.). (For an illustration of the level of labour unrest in Korea, see Table 10.) In December 1992, Kim Young Sam won the presidential election with a respectable 42% of the vote. He campaigned on a platform of relative moderation and conservatism, promising an end to corruption and more equitable economic policies. Kim Dae-jung, his main rival, suffered at the polls due to his “radical” image. He advocated “social-democratic” measures, such as protection of the South Korean rice market and price controls (Bedeski 1994: 54). He also advocated arms control,

³ The Korean labour union movement itself was divided between those who wanted to collaborate with opposition parties and those who thought workers should pursue an “independent class strategy” (Cho 1998: 241).

reunification, turning the Demilitarized Zone into a tourist area, and reducing the military service to eighteen months (down from twenty-four) (Ibid.). Kim Dae-jung's vulnerability lay in his image as a radical, a supporter of student unrest and left-wing labour agitation; his political enemies even accused him of having contacts with North Korean spies (Shim 1992: 17). Kim Young Sam stood for stability and reform "within the system" (Shim 1992: 18). His approval ratings shortly after his inauguration surpassed 80% (Oh 1999: 133).⁴

--- Table 10 around here ---

During the electoral campaign for the April 11, 1996 National Assembly Elections, "[the] ruling party darkly foresaw political confusion and chaos, should the opposition groups win in the Assembly elections on the heels of the opposition victory in the local government elections. 'Which do you choose? Stability or confusion? I expect you to make the right choice,' President Kim declared at his party's national convention" (Oh 1999: 181). He stated that if the opposition won, no new reforms would be enacted. During this electoral campaign, "Kim Dae-jung, once champion of the downtrodden, now consciously struck a centrist – even a pro-business – stance as he tried to tone down his image as a firebrand liberal to appeal to a wide segment of voters at the centre and the right. [On his part] Kim Jong Pil took pride in being 'the true conservative' whom the followers of authoritarian leaders of the military-dominated republics should support" (Oh 1999: 197). Conservative forces gained a majority of the vote. "In post-vote interviews many [voters] related that they had cast their ballots in favour of those legislators who would support stability, the ruling party's campaign theme" (Oh 1999: 191). The election results caused the marginalization of labour interests the National Assembly (in addition, the government and mass media began to blame high wages as the culprit of the declining competitiveness of South Korea's export sector) (Oh 1999: 197).⁵

⁴ Kim Young Sam used his popularity to enact some useful reforms that would consolidate democracy further. For example, he disbanded the clique within the officer corps that had supported military rule in the past and ensured the promotion of younger officers.

⁵ In March 1997, the ruling party was able to revise existing labour laws in order to, among other things, allow managers to move workers from non-strike sites to replace striking workers. In addition, management would no longer be obliged to pay striking employees (Oh 1999: 205).

TABLE 10: LABOUR DISPUTES IN SOUTH KOREA, 1987-1995

	Number of Cases	Number of Participants¹	Loss of Workdays¹
1987	3,749	1,262	6,947
1989	1,616	409	6,351
1991²	234	175	3,271
1993	144	109	1,308
1995	88	50	393

Source:

Kim, Byung-Kook and Hyun-Chin Lim (2000: 113)

Notes:

1. In thousands

2. After 1991 the level of strike activity dropped dramatically. This was in part due to activists' realization that they no longer enjoyed the middle class' support.

Political Space, 1997-Present:

Recent elections have not seen a noticeable weakening of conservative political coalitions in South Korea. In spite of President Kim Young Sam's unpopularity in 1997 (due especially to revelations of financial scandals involving his son), conservative presidential candidates did well in the 1997 election.⁶ That year, Kim Dae-jung, a long-time opponent of authoritarian rule, was elected president with 40% of the popular vote. The two main conservative candidates, Lee Hoi Chang and Rhee In-je, won 56% of the popular vote. "If Rhee had not split the ruling camp, Lee would probably have been the winner" (Oh 1999: 231). Kim Dae-jung's victory also owed a lot to his alliance with the conservative United Liberal Democrats (ULD) of Kim Jong Pil, which nominated him as its candidate. Thanks to the ULD's endorsement, Kim obtained a sizeable number of votes from *Chungchong* province where he had been unsuccessful in the past (Oh 1999: 231). Thus, in spite of the social trauma caused by the 1997 financial collapse, a considerable majority of South Korean voters placed its trust in conservative candidates. Moreover, Kim made a serious effort to portray himself as a moderate and attract middle class voters. Immediately after the election, he selected Kim Jong Pil as his prime minister. Kim Jong Pil had served successive military governments in various capacities; at one point he personally ordered the KCIA to assassinate Kim Dae-jung (Shim 1999). The insecurity created by the 1997 financial may have actually helped conservative politicians play on the public's fears for political purposes. Thus, it appears that conservative political forces have retained control of a large portion of the political space in spite (or because of) economic change.

Kim Dae-jung's political position today appears rather strong, especially after his initiative to meet with North Korea's leader, Kim Jong Pil, in Pyongyang. Kim Dae-jung has been striving since 1998 to project a moderate image, shedding his supposed "radicalism." His government has forged ahead with economic reform (albeit with mixed results) and the South Korean economy has been steadily improving. On the other hand, the president's party, the Millennium Democratic Party lost

⁶ By December 1996, only 17.7% of those polled in a survey believed Kim Young Sam was doing a "fine job" as president (Oh 1999: 209).

the May 2000 National Assembly elections to the conservative Grand National Party (GNP), which won a plurality of the votes cast with 39%. The GNP obtained 133 seats in the legislature, four seats shy of a majority (Shim 2000: 13). The second largest conservative party, the ULD, obtained 9.8% of the vote. It seems that President Kim will be able to muster a thin majority in the Assembly thanks to his “marriage of convenience” with the ULD, whose current leader, Lee Han Dong, was recently named prime minister by Kim (Lee 2000a: 15). The president’s alliance with the ULD will allow him to retain some capacity to manoeuvre within the political scene.

While Kim Dae-jung’s position today appears secure enough, the reformist political forces on which he depends have not achieved a fundamental re-alignment of South Korea’s political space. What is more, the conservative GNP and its leader, Lee Hoi Chang, are gaining momentum. Lee, a 65-year old former Supreme Court Judge, opposes the privatization of state-owned enterprises and the sale of troubled industries, like Daewoo, to foreign buyers. In an interview with *Far Eastern Economic Review*, Lee stated the following in regards to government economic policy: “If necessary, the government should inject public funds quickly and at an early stage while pursuing bold restructuring to normalize the situation” (Far Eastern Economic Review 2000: 22). While he does not oppose President Kim’s “Sunshine” policy toward North Korea, Lee insists the North must respond by opening-up (Shim 2000: 13). Lee Hoi Chang would be in a very strong position should he decide to seek his party’s nomination to run for president again in 2002.⁷ Thus, in spite of the socio-economic fluctuations brought about by economic reform in Korea, the political breakthrough Korean reformers might have hoped for has not occurred up to this point.

The Effect of Economic Liberalization on South Korea’s Political Space:

This section ends by briefly summarizing the ways in which economic liberalization may have affected South Korea’s political space. Economic liberalization and democratization had three

⁷ Lee Hoi Chang, it must be pointed out, is politically handicapped by the fact his two sons avoided compulsory military service. This revelation caused a stir during the 1997 presidential election.

principal results for the South Korean state. First, the authority of the state was eroded, as it was no longer “insulated” from society. Second, economic policy became less consistent in many areas, as democratic administrations were forced to pander to their constituencies and supporters. By making the state more vulnerable to pressure groups, democratization limited the state’s ability to respond quickly to changing situations (Ahn and Jaung 1999: 160-162). Thus, by implication democratization and economic liberalization both weakened the coercive power of conservative coalitions in South Korea.

In spite of the loss of political *control* by conservative political elements, evidence seems to indicate that their electoral and ideological appeal among Korean voters has not diminished. In my opinion, the political impact of economic liberalization is one of the reasons conservative parties have been able to protect their political space. On one hand, liberalization has had the effect of benefiting the “natural” supporters of conservative parties, such as the *chaebol* and the middle classes. On the other hand, conservative politicians can use the negative effects of economic liberalization (financial instability, industrial problems, worsening labour relations, etc.) to play up the need for “stability” and “security.” These arguments can resonate with large sectors of the voting public. There have been complaints that President Kim Dae-jung’s market-opening measures have mostly benefited foreigners and have increased the income gap in Korea (French 2000: A13). The middle class lent its active support to reformist elements during the struggle for democratization in 1987. “[However], when democratization moves in the economic sector – specifically, the unbridled freedom to strike and consequent wage hikes – seemed to threaten economic growth and stability, as well as social order in 1991, the middle class seemed to switch its support to the conservative forces in government, political parties and management” (Oh 1999: 115). The middle class felt threatened by post-democratization demands for economic equality and thus resisted measures promoting economic equality.

While the socio-political effects of economic growth were already salient in the late 1970s, attempts to restore a democratic regime after Park’s murder in 1979 failed. Four key facts aided the

military in its suppression of the pro-democracy movement in 1980. First, the power of and collusion among the military and bureaucratic establishments remained intact after Park Chung Hee's death in 1979. Second, the main opposition figures and political parties remained divided. Third, the middle class' feared the instability democratization might bring. "The 'middle class' had grown during the Park regime and acquired a vested interest in socio-economic stability and continuity. It was still too insecure about its political and economic status to opt decisively for political freedom and democracy at the risk of sacrificing the country's continued economic growth and its own newly secured socio-economic status" (Han and Chung 1999: 205-206). The final reason was the officer corps' cohesiveness and its inherent belief in its right to intervene in politics to "protect" society (Han and Chung 1999: 205-207).

Between the 1960s and the early 1990s, both the armed forces and the *chaebol* were the most powerful institutions in South Korea's political life. With the consolidation of democracy and the end of direct military intervention in the nation's political life, the political power of the *chaebol* increased (Oh 1999: 210). The withdrawal of one of its "competitors" from the race for political space automatically increased the relative political importance of the *chaebol*. Democratization and open political competition provided the *chaebol* with new opportunities to control politicians. The large conglomerates were also able to take advantage of de-regulation measures in order to increase their control of the domestic market (Oh 1999: 211). "When the economy turns down, Koreans are more eager than ever that the *chaebol* prosper" (Clifford 1998: 341). Economic liberalization has increased the *chaebol*'s market share (Suh 1998: 57-58). In fact, it is quite possible that the *chaebol* will co-opt the middle class in its fight against organized labour (Ravich 2000: 92). After the 1996 elections for the National Assembly, "[it] was widely felt that the ruling party, with its close collusion with the *chaebol*, which did not spare any money to assure a conservative majority in the Assembly, clearly violated the spirit and letter of the 1994 reform laws that dealt with fair and clean elections and campaign spending" (Oh 1999: 194). In late 1996 the ruling DLP and the Korea Employers'

Federation colluded to pass anti-labour bills in the Assembly (Oh 1999: 202-203).⁸

3.4. Alternative Explanations of Conservative Predominance

Economic liberalization alone cannot provide a complete picture of recent developments within South Korea's political space. Various alternative explanations have been proposed as reasons for ongoing conservative predominance over South Korean politics. This section will comment on four: first, regionalist sentiment among the Korean public (which often leads voters to choose leaders based on their provincial origin); second, South Korea's precarious national security situation (and voters' consequent dislike of any political trends that might resemble communism or socialism); third, general economic growth throughout the 1980s and most of the 1990s (under conservative management); and fourth, the influence of traditional Korean culture and Confucian values.

Perhaps paradoxically, democratization has brought an increase in regionalism, an old "bugaboo" of Korean politics (Ahn and Jaung 1999: 152). Regional loyalties have continued to play a key role in the outcome of all three presidential elections that have taken place since 1987 (Han and Chung 1999: 214). In the presidential elections of 1987, 1992, and 1997, the vast majority of voters in *Kyongsang* province (Southeast) voted for the candidate of the ruling party (a *Kyongsang* native in the first two elections). At the same time, the vast majority of voters from *Cholla* province (Southwest) voted for Kim Dae-jung (a *Cholla* native) in those three elections. It is difficult to exaggerate the amount of influence regionalist feeling has on South Korean politics. The fact that conservative candidates often hail from the populous Southeast region has helped their political fortunes considerably. Already in the 1960s and 1970s critics accused President Park of favouring *Kyongsang* with government investment funds and building projects, while ignoring *Cholla's* needs. While in the past regional inequalities could be blamed on the whims of an autocratic dictator, today democracy has laid bare and revealed to all the depth of regional animosities among ordinary Korean voters.

⁸ The power of the *chaebol* was weakened after the 1997 Asian Economic Crisis.

I do not deny that regionalism in South Korea is perhaps the single biggest factor in sustaining conservative political hegemony. The fact that Kim Dae-jung, the principal opposition leader before 1997, is from the Southwest region automatically means that large portions of the Southeast public distrust him. Nevertheless, the “regionalism factor” must be supplemented by other factors to provide a complete picture of recent Korean domestic political dynamics. I believe one of these “other factors” is economic liberalization. The trends that the internationalization of the South Korean economy has set in motion have often tended to strengthen the political appeal of conservatives in the countryside and among the middle classes. A pure regionalist perspective would be hard-pressed to explain the strong, ongoing appeal of conservative parties and leaders among the Korean middle classes and rural inhabitants. In my view, these sectors of the population see conservatives as the best representatives of their interests in an era of globalization. In addition, regionalism alone cannot explain current political dynamics in Seoul, where about 25% of South Korea’s population lives. The strong regionalist sentiment present among the public in *Cholla* and *Kyongsang* is somewhat diluted in Seoul. Kim Dae-jung has traditionally been very popular among the masses of the capital. However, conservative leaders have continued to successfully appeal to Seoul’s middle classes for support. Thus, while regionalism can explain a lot in South Korean politics, it must be combined with other explanations to provide a complete picture.

The security threat that North Korea still poses to the South is another possible explanation for the ongoing conservative hegemony within South Korea’s political space. North Korea still lives under a ruthless Stalinist regime that has not hesitated to blackmail the international community to achieve its ends. In 1994 North Korea attracted international attention with its threats to build nuclear warheads. In 1996 North Korea sent commandos across the border on a sabotaging mission. In 1998, clashes between the navies of the two Koreas occurred at sea. At the 1996 National Assembly elections, considerable sections of the public admitted to supporting the ruling party because of its hard-line stance toward North Korea (Oh 1999: 191-192). The South Korean people are by-and-large strongly anti-communist (notwithstanding radicals who hold an idealized vision of the North).

Remote association with communist or socialist ideas can still taint politicians in the eye of the public. Conservatives may have benefited considerably from their “hawkish” stances on national security issues.

It must be pointed out, though, that South Korea’s position today *vis-à-vis* the North is much stronger than it used to be, for example, in the 1970s. This state of affairs has been brought about by the South’s vibrant economic and social development over the past two or three decades (Han and Chung 1999: 216). Under Park Chung Hee’s rule, fear of a massive communist invasion was real enough, and South Koreans felt themselves to be in a very vulnerable position. South Korea may still be vulnerable to missile attacks or sabotage by the North. Today, however, the main fear among South Koreans is not that the North will invade and conquer, but that its communist regime will suddenly collapse, leaving a huge humanitarian crisis in its wake. Isolated incidents can still rattle the South’s public at particular junctures, but on the whole the military threat level from the North seems to have decreased considerably. A tough stance on security affairs might win conservative politicians some “extra” votes on election time, but it cannot account for conservatives’ solid political position at any given time (regardless of whether the North provokes an incident or not).

Another alternative explanation of conservative hegemony within South Korea’s political space is the view that general economic growth has ensured conservatives’ ongoing predominance. My objections to this argument are similar to the ones I expressed in regards to the same argument in the context of Taiwan’s experience. It does seem correct to state that throughout the 1980s President Chun Doo Hwan’s regime was able to gain at least the acquiescence of large sectors of the middle class to his dictatorial rule thanks to the economy’s spectacular growth in that decade. Overall economic growth and the general improvement of the middle class’ lifestyle under politically conservative economic management created a strong bond between the middle class and political conservatism. President Roh Tae Woo and Kim Young Sam benefited from this bond. Until the 1997 financial crisis conservatives were able to take political credit for South Korea’s economic growth and equitable wealth distribution. This growth endeared them especially to the new middle

classes that were grateful for their newfound prosperity.

However, as in the case of Taiwan, any discussion of the political effects of economic growth must take into consideration the fact that economic liberalization has run parallel to economic growth since the mid-1980s. The process of liberalization has been an important component of South Korea's recent economic policy, and any analysis of the impact of economic growth should also consider the role played by economic liberalization. A viewpoint that simply asserted that economic growth has propped up conservative hegemony in South Korea would overlook the fact that widening income gaps and regulatory vacuums have accompanied recent economic growth. In other words, the *type* of economic growth today is different from the *type* of economic growth of 1987, yet conservative political hegemony has continued. The structure of the Korean economy today is different from its structure ten or fifteen years ago, yet the make-up of South Korea's political space is remarkably similar. I believe it is important to ask what role structural changes in the economy played in perpetuating conservative predominance over the political space.

The fourth alternative explanation of ongoing conservative predominance in South Korean politics is "culture." It has been argued that traditional Korean culture and Confucian values emphasize respect for authority and deference to those superior in a hierarchical scale. In theory, these social rules sustain a conservative political culture that values obedience and respect for the state and its leaders. By implication, this type of political culture in Korea has helped conservatives maintain their political advantage even after democratization took place. My objections to this kind of argument as a complete explanation of political dynamics in South Korea are similar to my objections to the same argument in the case of Taiwan. The level of (sometimes heroic) resistance to authoritarian rule in the 1980s and the level of citizen participation in political life since 1986-87 show that Korean society is as suited to democracy as any other society, culturally speaking. In spite of the fact that South Koreans lived under authoritarian rule for long periods of time, democracy was always held up as a noble ideal that ought to be pursued. Military rule was generally considered an anomaly, which even the dictators tried to justify through various means.

3.5. Significance of South Korea's Experience

Due to the transitional nature of its democracy and the fact that its economy has undergone extensive reform, South Korea is a useful case through which to study the political effect of market-oriented reform. This case study's experience is particularly interesting because the political space held by conservative political groups does not seem to have been reduced by the process of economic liberalization. The case study of South Korea provides the same lessons relevant to the study of the political effect of economic liberalization as Taiwan: first, market-opening reform can actually help the political fortunes of conservative forces; second, the sense of uncertainty promoted by economic reform can often be exploited by conservative forces; third, the middle class appears as a basically conservative social group; fourth, the changes wrought by liberalization may in fact benefit the supporters of conservative rule; and fifth, in spite of the fact that liberalization brought about serious economic trauma, this not only did not hurt ruling elements, but may have actually helped them in the long-run. While these general lessons are essentially the same as those extracted from the case of Taiwan, the South Korean case provides its own set of nuances to these assertions.

Economic Liberalization and Conservatism:

The first general lesson provided by South Korea's political development is that economic liberalization need not hurt political conservatism. In fact, conservatives can exploit the state of flux created by market-opening reform for political purposes. Over the past two decades, the Korean economy has changed considerably, yet South Korea's political space has not. Economic reform does not seem to have provided political reformers with the chance to expand their political space. Rather, conservatives have been able to take advantage of the changes wrought by economic liberalization. At the very least, conservatives have been able to exploit new social conditions to deny reformers a political breakthrough. South Korea's institutional structure may have changed, but the political preferences of the population have not. Economic liberalization may indeed open-up political spaces, but South Korea's experience calls into question the assertion that reformers usually are the ones to

occupy these new political spaces. Kim Chae-Han has distinguished between “stability-seeking” voters, who vote for the current government despite (or because of) economic decline, and “retrospective” voters, who are likely to vote against the government in times of economic difficulties (1999: 60).

Economic inequalities have increased, especially since 1997.⁹ As the middle class faced early retirements, layoffs and wage reductions, the wealthy have taken advantage of the crisis by investing in liquid assets and benefiting from high interest rates (Lee 1999: 124). “Korea’s rapid entry into an open global economy is exacerbating the gap between the rich and the poor rather than promoting a more even distribution of economic benefits” (Joong Ang Ilbo 1999: 145). While the middle classes benefited from liberalization in the 1980s and early 1990s, they have suffered from the side effects of liberalization since 1996-97. Middle class income dropped by 11.8% in 1998 (Lee 1999: 124).¹⁰ While 68.5% of households in 1997 considered themselves part of the middle class, only 65.7% did in 1998 (JoongAng Ilbo 1999: 144). The rural sector has also been negatively affected by economic change. In 1990, the agricultural sector still employed one out of every five South Koreans (Kim 2000a: 75). It is possible for conservative politicians to continue co-opting these two social groups by taking credit for economic growth and offering limited protection from the negative side effects of liberalization. In addition, traditional institutional supporters of conservatism such as the *chaebol* can take advantage of economic change to increase their dominance of the economy further. For example, Korean conglomerates have been busy buying shares in state-owned firms that are about to be privatized (Lee 2000b: 41). Developments in South Korea contradict the assertion that internationalization increases the opportunities available for reformers to expand their political space.

⁹ Since the 1997 financial crisis, the proportion of the population classified as “extremely poor” rose from 3% to 6.8%, while the number of people eligible for welfare assistance rose from 1.48 million to 1.74 million. About 140,000 households previously classified as “middle class” fell into the “low-income” level after the crisis (Lee 1999: 121).

¹⁰ The average monthly income of middle class workers dropped from 1.93 million won in 1997 to 1.73 million in 1998 (JoongAng Ilbo 1999: 144).

The Middle Classes:

A further lesson that can be extracted from this case study is the observation that the middle class is an essentially conservative, not reformist, political force (for an illustration of South Korea's class stratification, see Table 11). It is true that in 1987 the middle class joined students and protestors in the demand for democracy. This demand represented a desire for an institutional change that would allow the middle class a voice in the country's governance. However, the middle class' action need not be interpreted as a desire to change the make-up of South Korea's domestic political space. After 1987 middle class voters continued to support conservative political candidates (who were sometimes direct successors to past military rulers). Such behaviour on the part of the middle class holds interesting implications for the debate on the political effect of economic liberalization. The view that internationalization leads to political change is partly premised on the assumption that economic openness and growth encourages the middle class to seek political change. While the Korean middle class did demand institutional change in 1987, its political choices since have prevented a fundamental realignment within South Korea's political space. Scholar Hagen Koo has called the Korean middle classes "progressive in a specific sense" (Koo 1993: 66).

— Table 11 around here —

The Beneficiaries of Economic Liberalization:

South Korea's experience also shows that by benefiting social groups that support conservative rule, changes wrought by liberalization can actually help preserve conservatives' political space. In the 1980s and 1990s, economic reforms largely benefited the new middle classes. Newfound prosperity may well have been one reason for which these social sectors largely continued to support conservative politicians while rejecting opposition policies as "risky." This improvement in the middle class' lifestyle can be associated at the same time with economic liberalization and conservative rule. Moreover, it is possible that by disproportionately hurting the Korean working class, internationalization has actually increased the relative importance of the middle class within

TABLE 11: DISTRIBUTION OF EMPLOYED PERSONS BY SOCIAL CLASS IN SOUTH KOREA, 1975-1995 (%)

Social Class	1975	1980	1985	1990	1995²
Upper Class	0.6%	0.9%	1.2%	1.3%	2.5%
New Middle Class¹	10.4%	14.5%	18.7%	23%	25.9%
Old Middle Class¹	13.1%	15.3%	17.3%	16.9%	21.1%
Working Class	27.1%	31.7%	36.8%	41.3%	37.3%
Farmers	48.8%	37.6%	26%	17.5%	12.8%

Source:
Shin Eui Hang (1999: 33)

- Notes:**
1. "New Middle Class" includes college educated professionals, clerical, and white-collar workers. "Old Middle Class" includes entrepreneurs and self-employed wholesale and retail traders.
 2. Preliminary data based on new occupational categories.

society. This can only benefit politicians supported by the middle class. Economic reforms have benefited other pillars of conservatism, such as big business. For instance, reduced government control over the economy has increased the private sector's relative influence in society. Conglomerates have also been able to increase their power due to the fact that Korea's democratic governments are naturally more vulnerable to outside pressures than dictatorial regimes (Kwon 1999: 243). Thus by strengthening conservative social elements, economic reform may have strengthened conservatism in general. Even though conservative politicians are no longer able to coerce the middle class or the private sector, they can rely on the voluntary support of such groups. And the fact that these groups have been strengthened by internationalization can only benefit the political positions of conservatives.

The Trauma of Economic Liberalization:

The last general lesson from the Korean lesson I would like to comment on pertains to the Asian Financial Crisis and subsequent political developments. The Korean population suffered serious economic trauma in 1997 and 1998. One of the causes of the financial crash is the fact that financial de-regulation in South Korea had not yet been replaced by sound market restraints of economic activity. The process of internationalization may thus be considered as one of the direct causes of economic recession. Yet in spite of the fact that the government of President Kim Young Sam was guilty of incompetent economic management, his party's presidential candidate, Lee Hoi Chang, did quite well in the December 1997 elections and nearly beat Kim Dae-jung. In fact, if Rhee In-je had not bolted the GNP to run as an independent and split the conservative vote, Lee might well have won the election (Oh 1999: 231). In spite of internal divisions, the 1997 presidential election showed that Korean conservatives controlled most of the country's political space even after financial ruin had hit the country. In my view, this provides some evidence to support the assertion that economic trauma provoked by economic change can actually encourage voters to support "moderate" and "stable" leaders while shunning "risky" reformers.

CHAPTER FOUR: ANALYZING INSTITUTIONS, DRAWING IMPLICATIONS

Thus far we have established that, under certain conditions, economic liberalization does not always open up political space for reformers. The experiences of Taiwan and South Korea support the argument that conservatives can exploit economic liberalization in order to preserve their own political space. Chapter Four will address two remaining tasks of this thesis: first, we will outline the key institutional differences between the two cases in order to acquire a more detailed understanding of the link between economic liberalization and the development of political space in each country; second, we will draw some general conclusions from the empirical evidence presented in this thesis and explore some further implications of our findings.

4.1. Institutional “Channels” Affecting the Process of Democratization

The respective experiences of Taiwan and South Korea yield a similar lesson, namely, the possibility that economic liberalization reinforces conservative *political-spatial* tendencies within a polity. In spite of this broad similarity, there is a stark difference between Taiwan’s and South Korea’s processes of economic liberalization and democratization: South Korea experienced higher levels of social and political conflict (e.g., labour unrest, student demonstrations, political uncertainty) than Taiwan did. I argue that these differences are at least in part a result of varying institutional configurations in both the economic structures and state-society relations.

Economic Institutions:

One can identify two key differences between Taiwan and South Korea in regards to the effect of economic liberalization on political space. First, the structure of Taiwan’s economy guaranteed greater adaptability to new economic conditions. South Korea and Taiwan started from similar light manufacturing bases, but restructured differently. Their economic paths diverged “because their leaders chose different policies to effect restructuring” (Shafer 1997: 115). While

Taiwan's productive base is composed largely of small and medium enterprises, large industrial conglomerates, the *chaebol*, dominate South Korea's base. In addition, until the 1970s mainlanders dominated the KMT, while native Taiwanese dominated business life. In Taiwan the KMT sought to avoid potential political challenges by big business groups and so encouraged the formation of small and medium enterprises (Shafer 1997: 116). In Korea the state encouraged economic concentration through the formation of "national champions," the *chaebol*, in order to more easily manage the national economy (Ibid.). Taiwan's medium and small enterprises have been able to cope well with changing market conditions and increased foreign competition. In addition, the high savings ratios and low debt-equity ratios of Taiwanese enterprises have allowed them to maintain their competitiveness in an era of economic globalization. On the other hand, the high level of ownership concentration in South Korea's economy has prevented a quick response by Korean enterprises to changing economic conditions. The *chaebol* have generally preferred to face new challenges through further expansion and further borrowing, rather than engaging in painful corporate restructuring. In addition, Korean conglomerates' traditional dependence on government assistance and guidance did not prepare them to face an era of freer economic competition.

Traditional business practices of Taiwanese and Korean firms have determined to a large degree their countries' reaction to economic liberalization. The rather distant relationship between state and business in Taiwan has encouraged Taiwanese corporations to maintain financial discipline. In Korea, however, cozy state-business relations encouraged conglomerates to recklessly expand and borrow, in the belief that government would always be available to bail them out or provide loans at below-market interest rates. Corporate debt management in both countries provides a sharp contrast. Between 1988 and 1996, the average ratio of corporate leverage – debt over equity – in Taiwan was 82%; in South Korea it was 348% (Woo-Cummings 1999: 123).

Taiwan has largely escaped socio-economic trauma thanks in large measure to the flexible qualities of its economic structure. South Korea, though, has been made vulnerable to the negative side effects of economic liberalization by the cumbersome and rigid qualities of its economic

institutions. While Taiwan's wealthiest five families control 14.5% of the country's total market capitalization, the five wealthiest South Korean families control 29% (Woo-Cummings 1997: 129). Small and medium enterprises in Taiwan provide 78% of all jobs on the island (Chu 1999b: 186). The character of Taiwan's economic structure has discouraged the formation of a strong organized labour movement, while in South Korea labour unions have played a prominent role in political life. This has contributed to greater polarization in South Korea's political life.

State-Society Relations:

The presence or absence of stable state control over the policy process in both countries is the second key difference between the two cases. This difference has played a vital role in "filtering" the political effects of economic liberalization. While in Taiwan the KMT retained control of the policy process throughout the democratization process, the political oversight of policy-making in Korea has been much more vague, due to the greater volatility of Korean political institutions. Throughout the 1980s and 1990s the political stability provided by the KMT's ongoing dominance allowed Taiwanese policy makers to plan unencumbered by partisan considerations. Moreover, the KMT's ties to a variety of relevant social groups (business, rural groups, etc.) shielded government departments from outside pressures. In contrast, the absence of stable political parties that Korean democratic presidents could depend on rendered the position of South Korea's executive branch politically insecure. Presidents Roh Tae Woo (1988-1993) and Kim Young Sam (1993-1998), unlike Lee Tung-hui in Taiwan, did not enjoy the support of an experienced political party with deep roots in South Korean society. Lacking the "protection" of a dependable and well-connected political institution, Korean presidents' policy-making process became vulnerable to outside pressure. Moreover, executive branches that relied solely on the political capital of a single person (the president) lacked the political muscle provided by the support of a large political organization. In turn, this weakened the ability of the executive branch to implement needed structural reforms.

Thanks to the KMT's cohesiveness, conservative rule in Taiwan appeared to be more stable than in Korea. The absence of an established "catch-all" conservative political party in South Korea gave more fluidity to this country's political space. In some sense, the differing structures of authoritarian rule in both countries carried over into democratic political dynamics. In Taiwan, an experienced political institution, the KMT, reinforced its links to the middle classes, big business and rural groups through its electoral appeal. The KMT's organizational excellence gave these social groups a concrete rallying point. In turn, the KMT could feed on the ongoing support of large sectors of the population. In Korea, however, politics, in democracy as in dictatorship, continued to be personality-based. Charismatic leaders collaborated with and "divorced" each other with some frequency, as political parties often changed names or merged. South Korean political parties are "cadre" parties that score low on all dimensions of institutionalization: ideological distinctiveness, organizational linkages, and institutional stability (Kim 2000a: 59-60). Taiwan's *Kuomintang*, on the other hand, scores high all these dimensions. Conservative social classes in South Korea could not look to one single political institution to represent their interests.¹

In other words, the nature of the KMT's authoritarian rule over Taiwan was very different from the nature of the dictatorial regimes established by the military in South Korea. Because of its roots in society, its co-optative capability, and its electoral functions, a one-party regime is usually better informed about socio-political pressure than a military regime (Cheng and Lin 1999: 232). One-party regimes are also better prepared than military ones to compete electorally with rival parties; they may have already imposed their control over the military (Ibid.). These assertions seem to hold true in the cases of Taiwan and South Korea. As an experienced political party with a

¹ Oddly enough, some of the recent political trends in Taiwan and South Korea seem to point to a reversal of characteristics between the two cases. The KMT retained its dominance over Taiwanese politics up to 1999-2000, when a disgruntled James Soong quit the party and decided to run as an independent. This example of "personality politics" cost the KMT its political hegemony, as it ensured the splitting of the conservative vote in the March 2000 presidential elections. A similar development took place in South Korea's 1997 presidential campaign, when Rhee In-je split the conservative camp by leaving the Grand National Party and running as an independent. However, the GNP now seems to be consolidating itself as Korea's main conservative party, especially after its victory in the May 2000 National Assembly elections.

relatively clear ideological platform (based on Sun Yat Sen's *Three Principles of the People*), the KMT was better able than Korea's military rulers to articulate a coherent political message. Throughout the 1960s and 1970s the KMT sponsored relatively competitive local elections in Taiwan, which enable its cadres to acquire experience in the organization of political campaigns. The KMT's ideological coherence, organizational expertise, and basic stability were key in providing Taiwan with a stable democratic transition. Simply put, the KMT retained important links to broad sections of Taiwanese society throughout decades of authoritarian rule. The KMT's links to a variety of constituencies provided Taiwan's ruling elites with a degree of political flexibility and level-headedness. In contrast, the constituency supporting dictators in South Korea was a single and isolated social group: the military. Between 1961 and 1987 (with a brief interruption in 1979-1980), two autocratic military dictators, presidents Park and Chun, ruled South Korea. As the military was their only reliable source of power, they did not enjoy as many ties to civil society as the KMT did in Taiwan. The fact that their base of support within Korean society was very narrow made them more insecure and therefore less flexible politically.

Stability vs. Instability:

The above noted differences between Taiwan's and South Korea's political economies caused the process of democratization to unfold in different ways. The demand for democratization in South Korea was much more widespread and sudden than in Taiwan where it was largely elite-led. Taiwan's middle classes were not as vocal as Korean middle classes in their opposition to authoritarian rule. In addition, the absence of a middle class-working class alliance was one of the factors that allowed the KMT to control the scope and pace of the democratization process in Taiwan (Winckler 2000: 125). By exerting greater pressure in favour of political change, South Korea's middle classes created a politically insecure environment for Korean conservative elites. Moreover, while South Korea's middle class formed temporary alliances with opposition groups to challenge the authoritarian regime, the Taiwanese middle class remained largely independent from political

associations with opposition groups (Hsiao and Koo 1997: 321). The onset of democratization saw, to some extent, a role reversal between Taiwanese and South Korean middle classes. In Taiwan, the fact that the middle class did not have to face a challenge from the working class, due to the latter's weakness, allowed the middle class to remain as a socially progressive force (Winckler 2000: 125). On the other hand, labour militancy and ongoing social instability in South Korea immediately after 1987 turned the Korean middle class into a force for political stability (Winckler 2000: 125). Thus the role of the middle classes during democratization was different in each case.

In sum, conservatives were able to retain predominance over political space in Taiwan and South Korea throughout the 1990s, as previously shown. In spite of the different impact of economic liberalization on both countries, political outcomes have been similar: conservatives in both polities have continued to dominate the political space. In my view, this development is closely related to the fact that economic liberalization generally means *change*. In turn, either success or failure in the face of change will lead broad sectors of the population to seek *stability*. Stability is, more often than not, associated with conservative political parties and leaders rather than with reformers. The adaptability of Taiwan's economic structure in the face of change allowed conservatives to take credit for economic liberalization, characterize the opposition's policies as irresponsible, and at the same time serve as a "refuge" for social groups made nervous by market-opening policies. While Korean conservatives have not as easily been able to take credit for modernizing South Korea's economy, their appeal as "guardians" of stability has been magnified by their country's economic woes in the face of globalization. Furthermore, economic and financial liberalization in Taiwan took place in an orderly and well-sequenced manner, while in South Korea liberalization has left a considerable regulatory vacuum. This may be a further reason why market-opening measures in Taiwan have not provoked a national trauma, as they have in South Korea.

4.2. The Political Effect of Economic Liberalization – General Lessons

Drawing upon lessons extracted from Chapters Two and Three and Section 4.1., this section

will attempt to outline under which conditions conservative political forces can take advantage of economic liberalization. Economic liberalization need not be equated with political liberalization. True political liberalization would require a fundamental realignment of the political space available to organized political groups. Political liberalization would also require a fundamental realignment of social coalitions and the political preferences of the public. While market-opening reforms can alter the social or economic cleavages within a society, these alterations do not always lead to political change. In fact, they can, under certain conditions, lead to a reinforcement of traditional political cleavages. On one hand, economic reform often benefits social groups that traditionally support political conservatism. On the other hand, economic change can provoke the kind of trauma that drives key sectors of the public to seek protection for its established interests from traditional political coalitions.

It seems difficult to deny that there is a very strong correlation between economic liberalization and political-institutional change. Economic openness generally leads to greater societal openness. This development tends to come into conflict with the continuing existence of authoritarian political regimes, for it is very difficult to maintain coercive control over a complex and energetic civil society. Economic liberalization can also increase the confidence and autonomy of new social sectors such as the middle class. Moreover, market-opening reform exposes a society to external influences and broadens its political perspectives. In sum, economic liberalization tends to diminish the level of control authoritarian governments are able to exercise over a polity. This vital fact generally facilitates, at the very least, the weakening of authoritarian rule. By definition, authoritarian regimes restrict direct participation in public affairs to small numbers of individuals. The weakening of authoritarian rule frequently leads social groups that were forcibly prevented from participating in public affairs to gain greater access to the political arena. The clash between the desire of previously marginalized groups to gain access to political levers of power (e.g., the middle class, which desires recognition of its newfound status), on one hand, and authoritarian institutional structures, on the other hand, often brings about a fundamental political-institutional change. Thus

there seems to be a clear positive relationship between economic liberalization and political-institutional reform, as postulated by Milner and Keohane (1996). The case studies of Taiwan and South Korea appear to lend support to such an assertion.

The political-institutional reform of previously authoritarian regimes represents a fundamental “break from the past” because it implies that, under new institutional rules, participation in public life is no longer limited to a select few. Moreover, coercion is no longer the main tool used by the state to govern. Political-institutional reform in democratizing polities theoretically means that citizens will be able to freely support the political groups of their own choice. Notwithstanding the fact that important continuities between the old and new regime may exist (in the bureaucracy, the judiciary, the armed forces, etc.), political-institutional reform does allow wide sections of the public a much broader margin of action within the political sphere. This development certainly represents a fundamental change. However, political-institutional change cannot be equated with purely political change. The fact that institutions change does not necessarily mean that the political preferences of the population will change too.

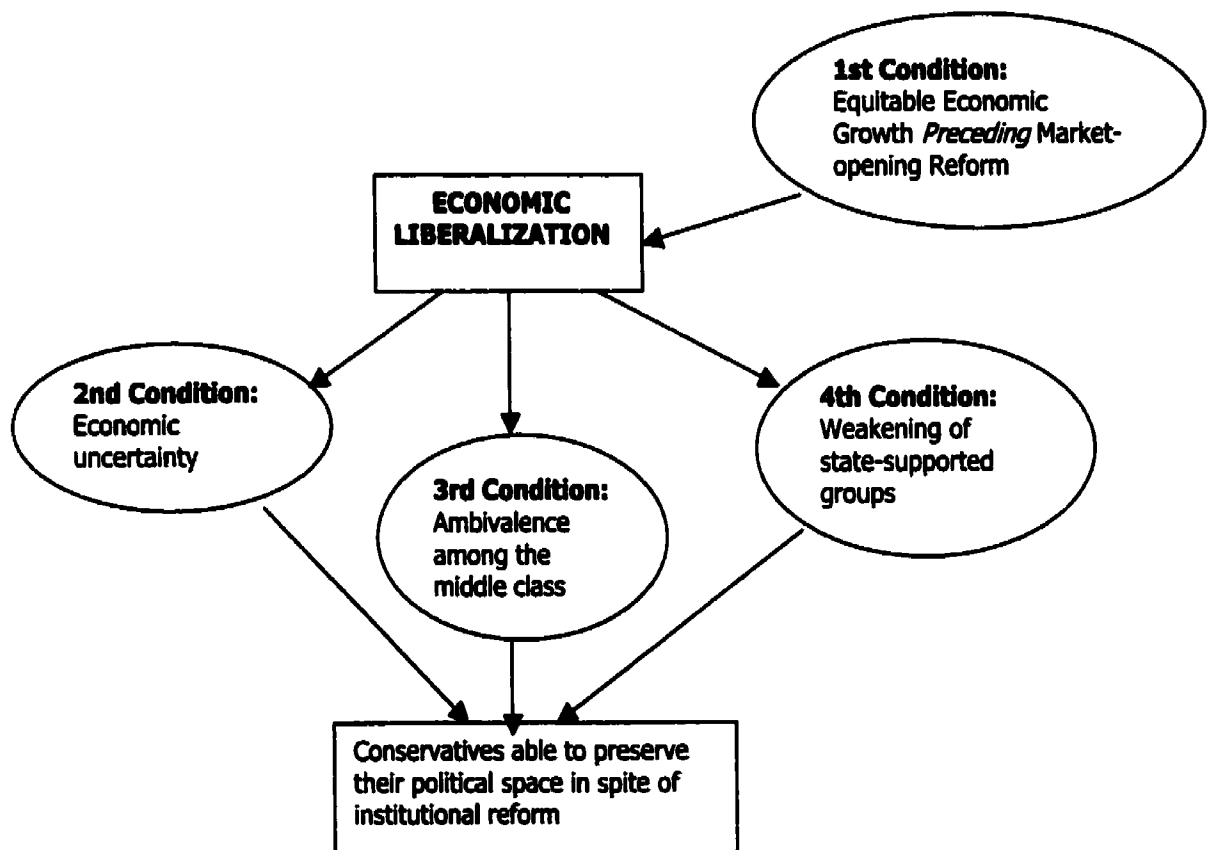
When dealing with “change” within a polity, therefore, it is important to distinguish between political-institutional change and political-spatial change. The former essentially refers to a change in the “rules” of competition for political power. Political-spatial change refers to changes in the actual distribution of power and, by implication, changes in alignments of political support. I believe the concept of political space is useful to analyze the level of political change within democratizing polities that are undergoing economic liberalization. Changes within the political space of a society are fairly accurate measurements of the amount of overall political change taking place. While political-institutional change and political-spatial change are separate concepts, both are closely linked. The institutional setting within which political competition takes place naturally plays a key role in determining political outcomes. However, while institutions carry large political weight, they may or *may not* lead to political-spatial change. Thus, this thesis’ main hypothesis does not necessarily contradict the assertion that market-opening reform leads to political-institutional change.

This thesis has aimed at two valuable goals: first, to correct the possible misperception created by existing literature that economic reform brings ongoing political-institutional and political-spatial change, and second, to specifically address the impact of economic reform on political space, an concrete area which current literature has paid little attention to. This section will now proceed to articulate the necessary conditions for economic liberalization to reinforce the position of conservative political coalitions and allow them to maintain control of the political space in transitional democracies in spite of political-institutional reform (see Figure 4).

— Figure 4 around here —

The first condition under which economic liberalization can help preserve the political space of conservatives is *economic success* (prior to liberalization). As liberalization often confronts an ambivalent population with uncertainty, conservative parties, in order to stay in power after political-institutional change has taken place, need to be viewed by the electorate as safer economic managers than reformers. This reputation can be acquired only if conservatives are associated with pre-democratization economic success. Voters in transitional democracies that face economic change seem likely to place their trust in politicians that can provide steady leadership in unsteady times. Voters are more likely to continue trusting conservatives if the latter are identified in the public's mind with past economic advances. The fact that Taiwan and South Korea experienced spectacular and equitable economic growth from the 1960s allowed conservative elites in these countries to acquire a reputation for effective economic management. When faced with the challenges posed by economic liberalization, large sectors of the public in Taiwan and South Korea, especially sectors made prosperous by recent economic development, were ready to continue placing their trust in conservative parties or leaders who had proved their competence. Had the economic policy of Taiwanese and Korean authoritarian rulers not been a success prior to political liberalization, their ideological successors would have not been able to paint themselves as successful economic managers. In such a situation the public might have been more willing to support reformist politicians to manage economic liberalization.

Figure 4: Conditions Required for Conservatives to Benefit from Economic Liberalization



The second general condition under which economic liberalization might help sustain the political space of conservatives is *uncertainty*. The voting public in transitional democracies generally faces a considerable degree of political uncertainty. The process of economic liberalization can heighten that sense of uncertainty by confronting the public with changing economic structures. Internationalization and de-regulation, the two main components of economic liberalization, can present a population with greater economic opportunities in the long-term. However, in the short-term liberalization means certain economic sectors will no longer be able to count on government protection, as citizens will have to adjust to new economic conditions. Thus liberalization often creates a sense of vulnerability among a citizenry confronted with sudden change. Evidence from the case studies analyzed by this thesis seems to suggest that voters in transitional democracies, in the face of uncertainty, are more ready to support political forces they are familiar with rather than opposition groups. Broad sections of the population in Taiwan and South Korea have felt more comfortable entrusting conservatives with the management of economic affairs in changing times, notwithstanding conservatives' links to recent authoritarian rule. By their very nature, conservative parties and leaders seek to prevent, delay, or moderate change. The public may be attracted to these basic characteristics of conservatism in times of social change and economic liberalization.

The third general condition under which economic liberalization aids the political fortunes of conservative coalitions is the existence of a large social group with an *ambivalent* attitude toward economic liberalization. Often what is called the "middle class" fits this description. That very ambivalence is the issue conservatives can exploit more easily than reformers. It is conceivable that if a majority of the population desired radical economic liberalization, it would be very difficult for traditional political forces to retain their political space. Under such conditions, parties and leaders associated with traditional values and "non-modern" constituencies (such as farmers) might appear redundant to most voters. Taiwanese and Korean conservatives, in spite of being the agents of economic liberalization, have retained strong links to rural interests and other established groups. If the middle classes in Taiwan and South Korea decide to fully embrace economic liberalization (which

would entail the destruction of many vested interests), it is difficult to see how conservatives might retain their political predominance. On the other hand, a society that completely rejected economic liberalization preferring instead autarchic economic policies would also reject conservatism in favour of more left-leaning political forces. Conservatism would not appeal to an electorate opposed to economic de-regulation and internationalization. Thus, what suits conservatives most seems to be an attitude of ambivalence among the middle class toward economic liberalization. Ambivalence allows conservatives to implement economic liberalization and take credit for its successes, while appearing to moderate the excesses of liberalization by retaining strong ties to social groups with vested interests in the “old” economy.

A final condition that enables conservatives to politically exploit economic liberalization is *the continued existence of still-notable but weakened social groups dependent on government protection*. Neo-liberal economic policies generally imply painful restructuring for state-subsidized sectors of the economy. Naturally, individuals dependent for their livelihood on such sectors are wary of change, and thus are likely to support conservative political groups. Paradoxically, it is often conservatives who implement economic liberalization. In spite of this fact, conservatives are frequently able to retain the overwhelming support of protected socio-economic groups. In my view, this is due to conservatives’ ability to retain tight institutional links to such groups and their natural identification with the *status quo*. In Taiwan, the KMT has been able to retain its hold over votes from farmers and the employees of public enterprises. In South Korea, conservative leaders have continued to appeal successfully to rural voters and receive considerable financial from the *chaebol*. If socio-economic groups dependent on public support were politically dominant, it would be difficult for conservatives to appeal to these groups and the middle classes at the same time. However, if subsidized sectors were no longer influential at all, an important source of conservative support would have disappeared. Evidence from Taiwan and South Korea seems to indicate that the continued existence of a weakened but still influential public or protected sector is a political asset for conservatism in transitional democracies.

4.3. Conclusion

Further research on the political impact of economic liberalization is still required. Economic globalization and the ideological ascendancy of neo-liberalism are relatively recent phenomena. Further examination of the political impact of economic internationalization may yield relevant conclusions on the relationship between economic policy and domestic politics. The further study of this relationship can also yield lessons on the ways in which voters and political parties react to economic change (or change in general). As economic liberalization opens a country's economy to external forces, the debate on the relationship between economic liberalization and domestic politics can be viewed as part of the "second image reversed" paradigm formulated by Peter Gourevitch (1978). This study has also led me to realize the need for further research on the topics of democratization and the political role of the middle class. The two case studies are examples of how democratization is often used by established elites to co-opt key social sectors. In both Taiwan and South Korea the middle class appears as an essentially conservative political force that does not wish to jeopardize its gains and is often unwilling to lend its support to reformist political elements.

This thesis has attempted to engage in the debate over the effect of economic liberalization on domestic politics in transitional democracies by analyzing the impact of the former on domestic political space in Taiwan and South Korea. I have attempted to contribute a new perspective to this debate by showing that economic internationalization can sometimes buttress the position of conservative political elements within the polities' political space. In other words, economic reform does not always go hand-in-hand with true political change. Economic reform can often provoke social change, which may in turn lead to fluctuations within a country's political space. However, these fluctuations do not necessarily help political reformers. In fact, they may create a fluid situation that conservatives, often endowed with greater resources and experience, are able to exploit in order to protect or expand their own political space (in persuasive, not coercive, ways). Thus during democratic transitions economic liberalization can provide conservatives with the means with which to either fight an effective rear-guard action or even counter-attack in the arena of political space.

This political result is the expression of internationalization's social effects. Market-opening measures bring unexpected social changes that can increase the public's sense of insecurity in regards to its economic prospects. This insecurity can solidify the support certain social groups lend to conservative political forces. Economic reform can thus benefit political conservatism by increasing its electoral appeal to the middle class of parties that advocate stability in the face of changing economic circumstances.²

This thesis has addressed the political-spatial dynamics overlooked by the existing literature on the political effect of economic liberalization in transitional democracies. Milner and Keohane have posited that internationalization aids domestic political change by creating new policy coalitions, triggering economic and political crises, and undermining government control over macro-economic policy (Milner and Keohane 1996: 243). As has been demonstrated, economic liberalization can actually reinforce traditional policy coalitions. Moreover, conservative political coalitions may be able to take political advantage of economic crises. Stephan Haggard and Sylvia Maxfield have argued on their part that financial liberalization leads to an increase in the power of mobile asset and capital owners, which in turn increases the demand for political reform (Haggard and Maxfield 1996: 245). However, as we have seen in the cases of Taiwan and Korea, these asset and capital owners would rather ally with conservative political forces to preserve their gains.

The political dynamics described above also carry interesting implications for the general concept of "second image reversed." This thesis' findings suggest that "chaos" at an international or external level – in this case, internationalization and general economic de-regulation – does not always translate into "chaos" or change at the domestic political level. In fact, the citizens of a polity that faces external change may be motivated by external "chaos" to embark on a quest for greater internal "stability" in order to offset the uncertainty presented by outside change. In other words,

² In my view, the coalition strengthened by economic liberalization is not so much between the state and business as between conservative political groups and conservative social sectors (including business, the middle class, and rural dwellers, among others). On this point I differ from Fields (1995), who focuses on the state-business relationship in Taiwan and Korea. I do agree with his observation that in both countries business groups "have become dominant players in these new liberal settings" (Fields 1995: 240).

external change can sometimes actually discourage internal change. This conclusion seems to be complementary to the assertion made by some international relations theorists that domestic change does not always lead to changes in foreign policy.

Let me now address the applicability of this thesis' findings to other countries in the world. It is interesting to note that, within the United States' foreign policy establishment, advocates of increased engagement with China and Russia (and even Mexico) argue that liberalizing the economies of these two countries will aid the cause of local political reformers. Such arguments state, for instance, that increasing the exposure of China's economy to international influences will strengthen democratic elements within China and weaken the Communist Party's hold over Chinese society. I believe the experience of Taiwan and South Korea casts some doubt on the validity of such arguments. Economic reform in China may well allow Chinese civil society to flourish; at the same time, it is providing the Communist Party with a new lease on life by letting it take credit for economic success and portray itself as a bastion of stability in times of radical change. Other lessons extracted from this thesis might point to the possibility of economic reform leading Chinese Communists to liberalize certain state institutions, while maintaining their overall political appeal among diverse social groups. In Russia, recent developments appear to confirm that economic liberalization can increase the political appeal of conservatives. At the moment, conservatives such as President Vladimir Putin have benefited from the anxiety caused by economic change. It is possible that if economic reform succeeds in Russia, conservatives will be well positioned to take credit for this.

Economic liberalization need not be equated with political liberalization. It is true that "there is an ongoing interaction between pressures from internationalization and resistance by entrenched interests and institutions" (Milner and Keohane 1996: 256). However, the ability of these entrenched interests to use internationalization to co-opt broad sectors of the population has been underestimated. It may be accurate to state that "pre-existing institutions and coalitions seem unable indefinitely to resist change" in the face of major economic changes (Milner and Keohane 1996: 254). I believe,

however, that these “pre-existing coalitions” have often been able to use economic reform in order to curtail political reform. Helen Milner and Robert Keohane write in *Internationalization and Domestic Politics* (1996: 258) that the fall of the Soviet Union shows how capitalism is still a force capable of destroying established institutions. This thesis has attempted to show that established institutions are able to use capitalism in order to preserve their own political space.

BIBLIOGRAPHY

- Ahn Chung-si and Jaung Hoon. 1999. "South Korea." Ian Marsh, Jean Blondel, and Takashi Inoguchi, Eds. Democracy, Governance, and Economic Performance: East and Southeast Asia. New York, NY: United Nations University Press, 137-166.
- Asian Development Bank, Economics and Development Resource Center. 1998. Key Indicators of Developing Asian and Pacific Countries. Vol. 29.
- Baum, Julian. 1997. "Brave New World: A stunning opposition sweep of local elections raises the once-unthinkable prospect of a pro-independence regime in Taipei. What would a DPP government look like?" Far Eastern Economic Review. Vol. 160, No. 50 (December 11), 14-15.
- Baum, Julian and Dan Biers. 2000. "When a Giant [the KMT] Falls." Far Eastern Economic Review. Vol. 163, No. 14 (April 6), 18-20.
- Bedeski, Robert. 1994. The Transformation of South Korea: Reform and Reconstruction in the Sixth Republic Under Roh Tae Woo, 1987-1992. New York, NY: Routledge.
- Bong Joon Yoon. 1999. "The Korean Financial Crisis, the Chaebol, and Economic Reform." Korean Observer. Vol. 30, No. 3 (Autumn), 411-441.
- Bunbongkarn, Suchit. 1999. "Thailand: Democracy Under Siege." James W. Morley, Ed. Driven By Growth: Political Change in the Asia-Pacific Region. Armonk, NY: ME Sharpe, 161-175.
- Chang Mau-Kuei. 1993. "Middle Class and Social and Political Movements in Taiwan: Questions and Some Preliminary Observations." Hsin-Huang Michael Hsiao, Ed. Discovery of the Middle Classes in East Asia. Taipei, ROC: Institute of Ethnology, Academia Sinica, 121-176.
- Cheng Tun-jen and Chia-lung Lin. 1999. "Taiwan: A Long Decade of Democratic Transition." James W. Morley, Ed. Driven By Growth: Political Change in the Asia-Pacific Region. Armonk, NY: ME Sharpe, 224-251.
- Cho, Hyorae. 1998. "The Failure of the Political Movements of the Korean Working Class." The Review of Korean Studies. Vol. 1 (September), 238-250.
- Cho, Hee-Yeon and Eun Mee Kim. 1998. "State Autonomy and its Social Conditions for Economic Development in South Korea and Taiwan." The Four Asian Tigers: Economic Development and the Global Political Economy. Eun Mee Kim, Ed. San Diego, CA: Academic Press, 125-158.
- Chu, Yun-han and Tse-min Lin. 1996. "The Process of Democratic Consolidation in Taiwan: Social Cleavage, Electoral Competition, and the Emerging Party System." Hung-mao Tien, Ed. Taiwan's Electoral Process and Democratic Transition. New York, NY: ME Sharpe, 79-104.
- Chu, Yun-han, Fu Hu and Chung-in Moon. 1997. "South Korea and Taiwan: The International Context." Larry Diamond, Marc F. Plattner, Yun-han Chu, and Hung-mao Tien, Eds.

Consolidating the Third Wave Democracies: Regional Challenges. Baltimore, MY: The Johns Hopkins University Press, 267-294.

- Chu, Yun-han. 1999a. "A Born-Again Dominant Party? The Transformation of the Kuomintang and Taiwan's Regime Transition." Hermann Giliomee and Charles Simkins, Eds. The Awkward Embrace: One-Party Domination and Democracy. Amsterdam, The Netherlands: Harwood Academic Publishers, 61-95.
- _____. 1999b. "Surviving the East Asian Financial Storm: The Political Foundation of Taiwan's Economic Resilience." T. J. Pempel, Ed. The Politics of the Asian Economic Crisis. Ithaca, NY: Cornell University Press, 184-202.
- Clifford, Mark L. 1998. Troubled Tiger: Business Men, Bureaucrats, and Generals in South Korea. Armonk, NY: ME Sharpe.
- Copper, John F. 1998. Taiwan's Mid-1990s Elections: Taking the Final Steps to Democracy. Westport, CT: Praeger Publishers.
- Cotton, James. 1997. "East Asian Democracy: Progress and Limits." Larry Diamond, Marc F. Plattner, Yun-han Chu, and Hung-mao Tien, Eds. Consolidating Third Wave Democracies: Regional Challenges. Baltimore, MY: The Johns Hopkins University Press, 95-119.
- Cotton, James. 2000. "The Asian Crisis and the Perils of Enterprise Association: Explaining the Different Outcomes in Singapore, Taiwan and Korea." Richard Robison, Mark Beeson, Kanishka Jayasuriya and Hyuk-Rae Kim, Eds. Politics and the Markets in the Wake of the Asian Crisis. London, UK: Routledge, 151-168.
- Council for Economic Planning and Development, Republic of China. 1999. Taiwan Statistical Data Book.
- Country Economic Review. 1999. Republic of Korea.
- Davis, Diane E. 1995. "New Age Politics Drives NAFTA." Forum for Applied Research and Public Policy. Vol. 10, No. 2 (Summer), 43-49.
- Delhaise, Philippe. 1998. Asia in Crisis: The Implosion of the Banking and Finance Systems. Singapore: John Wiley and Sons (Asia) Pte., Ltd.
- Diamond, Larry. 1997. "Consolidating Democracy in the Americas." Annals of the American Academy of Political and Social Science. Vol. 550 (March), 12-41.
- The Economist (Editorial). 2000. "The Union expects Europe's voters to fit its Political Space." The Economist. Vol. 354, No. 8161 (March 11), 53-54.
- Elections in Korea (South). 2000. Internet website. URL: <http://www.agora.stm.it/elections/election/korea-south.htm>. Downloaded May 18, 2000.
- Elections in Taiwan (Republic of China). 2000. Internet website. URL: <http://www.agora.stm.it/elections/election/taiwan.htm>. Downloaded May 18, 2000.

- Evangelista, Matthew. 1997. "Domestic Structure and International Change." Michael W. Doyle and G. John Ikenberry, Eds. New Thinking in International Relations. Boulder, CO: Westview Press, 202-228.
- Falvey, Rodney E. 1996. "Trade Liberalization and Economic Development." Current Issues in Economic Development: An Asian Perspective. Hong Kong, China: Oxford University Press, 192-228.
- Far Eastern Economic Review (Interview with Lee Hoi Chang). 2000. "Point of Departure: South Korea's newly empowered opposition leader vows to promote the politics of cooperation, not confrontation." Far Eastern Economic Review. Vol. 163, No. 20 (May 18), 22.
- Fields, Karl J. 1995. Enterprise and the State in Korea and Taiwan. Ithaca, NY: Cornell University Press.
- _____. 1997. "Strong States and Business Organization in Korea and Taiwan." Sylvia Maxfield and Ben Ross Schneider, Eds. Business and the State in Developing Countries. Ithaca, NY: Cornell University Press, 123-151.
- Geddes, Barbara. 1999. "What do we know about Democratization after twenty years?" Annual Review of Political Science. Vol. 2, 115-144.
- Gills, B.K. 1997. Korea versus Korea: A Case of Contested Legitimacy. London, UK: Routledge.
- Gilpin, Robert. 1987. The Political Economy of International Relations. Princeton, NJ: Princeton University Press.
- Gold, Thomas B. 1997. "Taiwan: Still Defying the Odds." Larry Diamond, Marc F. Plattner, Yun-han Chu, and Hung-mao Tien, Eds. Consolidating Third Wave Democracies: Regional Challenges. Baltimore, MD: The Johns Hopkins University Press, 162-191.
- Goldstein, Judith. 1989. "The Impact of Ideas on American Trade Policy: The Origins of US Agricultural and Manufacturing Policies." International Organization. Vol. 43, No. 1 (Winter), 31-72.
- Goldstein, Steven M. 1997. Taiwan Faces the Twenty-First Century: Continuing the "Miracle." New York, NY: Foreign Policy Association.
- Gourevitch, Peter. 1978. "The Second Image Reversed: The International Sources of Domestic Politics." International Organization. Vol. 32, No. 4 (Autumn), 881-912.
- _____. 1986. Politics in Hard Times: Comparative Responses to International Economic Crises. Ithaca, NY: Cornell University Press.
- Graham, Ann and Joanna Regulska. 1997. "Expanding Political Space for Women in Poland: An Analysis of Three Communities." Communist and Post-Communist Studies. Vol. 30 (March), 65-82.
- Haggard, Stephan. 1988. "The Institutional Foundations of Hegemony: Explaining the Reciprocal Trade Agreements Act of 1934." International Organization. Vol. 42, No. 1 (Winter), 91-120.

- _____. 1990. Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries. Ithaca, NY: Cornell University Press.
- Haggard, Stephan and Robert R. Kaufman. 1992. The Politics of Economic Adjustment. Princeton, NJ: Princeton University Press.
- Haggard, Stephan and Robert R. Kaufman. 1995. The Political Economy of Democratic Transitions. Princeton, NJ: Princeton University Press.
- Haggard, Stephan and Sylvia Maxfield. 1996. "The Political Economy of Financial Internationalization in the Developing World." Robert Keohane and Helen V. Milner, Eds. Internationalization and Domestic Politics. New York, NY: Cambridge University Press, 209-236.
- Hall, Peter, Ed. 1989. The Political Power of Economic Ideas: Keynesianism Across Nations. Princeton, NJ: Princeton University Press.
- Han, Sung-Joo and Oknim Chung. 1999. "South Korea: Economic Management and Democratization." James W. Morley, Ed. Driven By Growth: Political Change in the Asia-Pacific Region. Armonk, NY: ME Sharpe, Inc., 197-223.
- Heintzman, Ralph. 1994. "Political Space and Economic Space: Quebec and the Empire of the St. Lawrence." Journal of Canadian Studies. Vol. 29 (Summer), 19-63.
- Hsiao, Hsin-Huang Michael and Hagen Koo. 1997. "The Middle Classes and Democratization." Larry Diamond, Marc F. Plattner, Yun-han Chu, and Hung-mao Tien, Eds. Consolidating the Third Wave Democracies: Themes and Perspectives. Baltimore, MY: The Johns Hopkins University Press, 312-333.
- Hsiao, Hsin-Huang Michael and Cheng Hsiao-shih. 1999. "Taiwan." Ian Marsh, Jean Blondel, and Takashi Inoguchi, Eds. Democracy, Governance, and Economic Performance: East and Southeast Asia. New York, NY: United Nations University Press, 109-136.
- Hsieh, John Fuh Sheng, Dean Lacy, and Emerson M.S. Niou. 1998. "Retrospective and Prospective Voting in a One-Party-Dominant Democracy: Taiwan's 1996 Presidential Election." Public Choice. Vol. 97, No. 3 (December), 383-399.
- Huang, Teh-fu. 1997. "Party Systems in Taiwan and South Korea." Larry Diamond, Marc F. Plattner, Yun-han Chu, and Hung-mao Tien, Eds. Consolidating the Third Wave Democracies: Themes and Perspectives. Baltimore, MY: The Johns Hopkins University Press, 135-159.
- Huntington, Samuel P. 1991. The Third Wave: Democratization in the Late Twentieth Century. University of Oklahoma Press.
- Im, Hyung Baeg. 2000. "South Korean Democratic Consolidation in Comparative Perspective." Consolidating Democracy in South Korea. Larry Diamond and Byung-Kook Kim, Eds. Boulder, CO: Lynne Rienner Publishers, 21-52.
- Jarvis, Anthony P. and Albert J. Paolini. "Locating the State." Joseph A. Camilleri, Anthony P. Jarvis, and Albert J. Paolini, Eds. The State in Transition: Re-imagining Political Space. Boulder, CO: Lynne Rienner Publishers, Inc., 3-19

- Jesudason, James V. 1999. "The Resilience of One-Party Dominance in Malaysia and Singapore." Hermann Giliomee and Charles Simkins. The Awkward Embrace: One-Party Domination and Democracy. Amsterdam, The Netherlands: Harwood Academic Publishers, 127-172.
- JoongAng Ilbo (Editorial). May 13, 1999. "Rebuilding the Middle Class Needs to be Accelerated." Korea Focus. Vol. 7, No. 3 (May-June), 143-145.
- Jua, Sung-hee and Jun-il Kim. 1999. "Korea's Economic Reform: Political Economy and Future Strategy." Chung-in Moon and Jongryn Mo, Eds. Democratization and Globalization in Korea: Assessments and Prospects. Seoul, Korea: Yonsei University Press, 247-272.
- Katzenstein, Peter J. 1978. "Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy." Peter J. Katzenstein, Ed. Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States. Madison, WI: The University of Wisconsin Press, 3-22.
- Kienle, Eberhard. 1998. "Destabilization through Partnership? Euro-Mediterranean Relations after the Barcelona Declaration." Mediterranean Politics. Vol. 3, No. 2 (Autumn), 1-20.
- Kim, Byung-Kook. 2000a. "Party Politics in South Korea's Democracy: The Crisis of Success." Larry Diamond and Byung-Kook Kim, Eds. Consolidating Democracy in South Korea. Boulder, CO: Lynne Rienner Publishers, 53-85.
- _____. 2000b. "Electoral Politics and Economic Crisis, 1997-1998." Larry Diamond and Byung-Kook Kim, Eds. Consolidating Democracy in South Korea. Boulder, CO: Lynne Rienner Publishers, 173-201.
- Kim, Byung-Kook and Hyun-Chin Lim. 2000. "Labor Against Itself: Structural Dilemmas of State Monism." Larry Diamond and Byung-Kook Kim, Eds. Consolidating Democracy in South Korea. Boulder, CO: Lynne Rienner Publishers, 111-137.
- Kim, Chae-Han. 1999. "Elections and Macroeconomic Policy: An Examination of Political Business Cycle Theory." Jongryn Mo and Chung-In Moon, Eds. Democracy and the Korean Economy. Stanford, CA: Hoover Institution Press, 55-71.
- Kim, Jun Il and Jongryn Mo. 1999. "Democratization and Macroeconomic Policy." Jongryn Mo and Chung-in Moon, Eds. Democracy and the Korean Economy. Stanford, CA: Hoover Institution Press, 74-96.
- Koo, Hagen. 1993. "The Social and Political Character of the Korean Middle Classes." Hsin-Huang Michael Hsiao, Ed. Discovery of the Middle Classes in East Asia. Taipei, ROC: Institute of Ethnology, Academia Sinica, 55-75.
- Kwon, Soonwon. 1999. "Economic Justice and Social Welfare: New Principles of Economic Policy." Chung-in Moon and Jongryn Mo, Eds. Democratization and Globalization in Korea: Assessments and Prospects. Seoul, Korea: Yonsei University Press, 273-302.
- Kwon, Sun Phil. 1997. "Policy Issues in the 1996 Election [South Korea]." Korea Observer. Vol. 28 (Spring), 75-103.

- Laffont, Jean-Jacques. 1996. "Regulation, Privatization, and Incentives in Developing Countries." M.G. Quibria and J. Malcolm Dowling, Eds. Current Issues in Economic Development: An Asian Perspective. Hong Kong, China: Oxford University Press, 164-191.
- Laliberté, André. 1997. Taiwan: Between Two Nationalisms. Working Paper No. 12 (January). Institute of International Relations, the University of British Columbia.
- Lee, Charles S. 2000a. "Point of No Return; high stakes elections will determine the ruling party's ability to press forward with vital economic changes [in Korea]." Far Eastern Economic Review. Vol. 163, No. 16 (April 20), 40-41.
- _____. 2000b. "Spotlight: Building Bridges." Far Eastern Economic Review. Vol. 163, No. 22 (June 1), 15.
- Lee, Gun-Young. 1999. "The Gloom of the Middle Classes." Korea Focus. Vol. 7, No. 4 (July-August), 124-126.
- Lee Heng. 1994. "Uncertain Promise: Democratic Consolidation in South Korea." Edward Friedman, Ed. The Politics of Democratization: Generalizing East Asian Experiences. Boulder, CO: Westview Press, 148-158.
- Lee Jungja. 1995. "Institution Building and Democratic Transition: A Comparative Study of Korea and Taiwan." Korea Observer. Vol. 26, No. 3 (Autumn), 419-440.
- Lin, Christina Y. 1996. "Financial Policies in a Maturing Taiwan Economy." Linda Fung-Yee Ng and Cyau Tuan, Eds. Three Chinese Economies. Sha Tin, N.T., Hong Kong: The Chinese University Press, 157-175.
- Lyons, William E. and David Lowery. 1986. "The Organization of Political Space and Citizen Responses to Dissatisfaction in Urban Communities: An Integrative Model." The Journal of Politics. Vol. 48 (May), 321-346.
- McBeath, Gerald A. 1998. Wealth and Freedom: Taiwan's New Political Economy. Aldershot, UK: Ashgate Publishing, Ltd.
- Magnusson, Warren. 1996. The Search for Political Space: Globalization, Social Movements, and the Urban Political Experience. Toronto, ON: University of Toronto Press.
- Milner, Helen V. and Robert O. Keohane. 1996. "Internationalization and Domestic Politics: An Introduction." Robert O. Keohane and Helen V. Milner, Eds. Internationalization and Domestic Politics. New York, NY: Cambridge University Press, 3-24.
- Milner, Helen V. and Robert O. Keohane. 1996. "Internationalization and Domestic Politics: A Conclusion." Robert O. Keohane and Helen V. Milner, Eds. Internationalization and Domestic Politics. New York, NY: Cambridge University Press, 243-258.
- Moon, Chung-in and Song-min Kim. 2000. "Democracy and Economic Performance in South Korea." Larry Diamond and Byung-Kook Kim, Eds. Consolidating Democracy in South Korea. Boulder, CO: Lynne Rienner Publishers, 139-172.

- Morales, Isidro. 1997. "The Mexican Crisis and the Weakness of the NAFTA Consensus." Annals of the American Academy of Political and Social Science. Vol. 550 (March), 130-152.
- Muller, Harald and Thomas Risse-Kappen. 1993. "From the Outside In and from the Inside Out: International Relations, Domestic Policy and Foreign Policy." David Skidmore and Valerie Hudson, Eds. The Limits of State Autonomy: Societal Groups and Foreign Policy Formulation. Boulder, CO: Westview Press, 25-48.
- Mundell, Robert. 1995. "Stabilization and Liberalization Policies in Semi-Open Economies." Sebastian Edwards, Ed. Capital Controls, Exchange Rates, and Monetary Policy in the World Economy. New York, NY: Cambridge University Press, 19-33.
- Nam Koon Woo. 1989. South Korean Politics: The Search for Political Consensus and Stability. Lanham: University Press of America.
- National Statistical Office, Republic of Korea. 1998. Korea Statistical Yearbook.
- Nonneman, Gerd. 1996a. "Economic Liberalization: The Debate." Gerd Nonneman, Ed. Political and Economic Liberalization: Dynamics and Linkages in Comparative Perspective. Boulder, CO: Lynne Rienner Publishers, Inc., 1-30.
- _____. 1996b. "Linkages Between Economic and Political Liberalization: Some Concluding Observations." Gerd Nonneman, Ed. Political and Economic Liberalization: Dynamics and Linkages in Comparative Perspective. Boulder, CO: Lynne Rienner Publishers, Inc., 307-313
- Oh, John Kie-chiang. 1999. Korean Politics: The Quest for Democratization and Economic Development. Ithaca, NY: Cornell University Press.
- Park Tong Whan. 1998. "South Korea in 1997: clearing the last hurdle to political and economic maturation." Asian Survey. Vol. 38, No. 1 (January), 1-10.
- Park Woo-sung. 2000. "Korea's Economy before and after the Financial Crisis." Korea Focus. Vol. 8, No. 1 (January-February), 60-70.
- Pérez Correa, Fernando. 1997. "El Espacio Político en el Siglo XX." Revista Mexicana de Ciencias Políticas y Sociales. Vol. 168 (April-June), 75-90.
- Potter, David. 1997. "Democratization at the Same Time in South Korea and Taiwan." David Potter, David Goldblatt, Margaret Kiloh, and Paul Lewis, Eds. Democratization. Cambridge, UK: Polity Press, 219-239.
- Przeworski, Adam. 1991. Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America. New York, NY: Cambridge University Press.
- Putnam, Robert D. 1988. "Diplomacy and Domestic Politics: The Logic of Two-Level Games." International Organization. Vol. 42, 427-460.
- Ravich, Samantha F. 2000. Marketization and Democracy: East Asian Experiences. New York, NY: Cambridge University Press.
- Rigger, Shelley. 1999. Politics in Taiwan: Voting for Democracy. London, UK: Routledge.

- Rogowski, Ronald. 1989. Commerce and Coalitions: How Trade Affects Domestic Political Alignments. Princeton, NJ: Princeton University Press.
- Rosenbluth, Frances McCall. 1996. "Internationalization and Electoral Politics in Japan." Robert Keohane and Helen V. Milner, Eds. Internationalization and Domestic Politics. New York, NY: Cambridge University Press, 137-156.
- Schamis, Hector, E. 1999. "Distributional Coalitions and the Politics of Economic Reform in Latin America." World Politics. Vol. 51, No. 2 (January), 236-268.
- Shafer, Michael. 1997. "The Political Economy of Sectors and Sectoral Change: Korea Then and Now." Sylvia Maxfield and Ben Ross Schneider, Eds. Business and the State in Developing Countries. Ithaca, NY: Cornell University Press, 88-121.
- Shiau, Chyuan-Jenq. 1996. "Elections and the Changing State-Business Relationship." Hung-mao Tien, Ed. Taiwan's Electoral Politics and Democratic Transition. Armonk, NY: ME Sharpe, 213-225.
- Shim Jae Hoon. 1992. "Imperfect Choices: at a time of economic and political transition, two Kims and a maverick tycoon present a leadership dilemma to voters in the December 18 residential election." Far Eastern Economic Review. Vol. 155, No. 49 (December 10), 16-18.
- _____. 1993. "Civilian Madate: radicals loose out in presidential poll [South Korea]." Far Eastern Economic Review. Vol. 156, No. 1 (January 7), 21.
- _____. 1997. "See No Evil: Alliance of former foes puts politics before economy." Far Eastern Economic Review. Vol. 160, No. 50 (December 11), 31.
- _____. 2000. "Tough Opponent [Lee Hoi Chang]." Far Eastern Economic Review. Vol. 163, No. 17 (April 13), 13.
- Shin, Doh C. 1999. Mass Politics and Culture in Democratizing Korea. New York, NY: Cambridge University Press.
- Shin, Eui Hang. 1999. "Social Change, Elections, and the Middle Class in Korea." East Asia. Vol. 17, No. 3 (Autumn), 28-60.
- Shin, Myungsung. 1999. "Change and Continuity in South Korean Electoral Politics: An Evaluation of the 15th National Assembly Elections." Journal of East Asian Affairs. Vol. 13, No. 1 (Spring-Summer), 196-220.
- Smith, Peter H. 1992. "The Political Impact of Free Trade on Mexico." Journal of Interamerican Studies and World Affairs. Vol. 34, No. 1 (Spring), 1-25.
- Somjee, Geeta. 1999. Book Review: "Women's Struggle for Political Space," by Sudhir Varma (New Delhi: Rawat Publications, 1999). International Journal of Comparative Sociology (Leiden, Netherlands). Vol. 40, No. 3 (August), 395-397.
- Suh Moon-gi. 1998. Developmental Transformation in South Korea: from State-Sponsored Growth to the Quest for Quality of Life. Westport, CT: Praeger.

- Sun Phil Kwon. 1997. "Policy Issues in the 1996 General Election." Korea Observer. Vol. 28, No. 1 (Spring), 75-103.
- Tien, Hung-mao. 1994. "Towards Peaceful Resolution of Mainland-Taiwan Conflicts: The Promise of Democratization." Edward Friedman, Ed. The Politics of Democratization: Generalizing East Asian Experiences. Boulder, CO: Westview Press, 185-201.
- _____. 1996. "Elections and Taiwan's Democratic Development." Hung-mao Tien, Ed. Taiwan's Electoral Politics and Democratic Transition. Armonk, NY: ME Sharpe, 3-26.
- Wachman, Alan. 1994. Taiwan: National Identity and Democratization. Armonk: ME Sharpe.
- Waldner, David. 1999. State Building and Late Development. Ithaca, NY: Cornell University Press.
- Walker, Brett L. 1996. "Reappraising the Sakoku Paradigm: the Ezo Trade and the Extension of Tokugawa Political Space into Hokkaido." Journal of Asian History. Vol. 30, No. 2, 169-192.
- Winckler, Edwin A. 2000. "Taiwan's Transitions" (Review Essay). The China Journal. Issue 43 (January), 119-132.
- Woo-Cummings, Meredith. 1999. "The State, Democracy, and the Reform of the Corporate Sector in Korea." T. J. Pempel, Ed. The Politics of the Asian Economic Crisis. Ithaca, NY: Cornell University Press, 116-142.
- Wu, Nai-Teh and Chia-Long Lin. 1993. "Democratic Consensus and Social Cleavage: The Role of the Middle Class in Political Liberalization in Taiwan." Hsin-Huang Michael Hsiao, Ed. Discovery of the Middle Classes in East Asia. Taipei, ROC: Institute of Ethnology, Academia Sinica, 201-218.
- Yoon Young-mou. 2000. "Challenges for Korean Workers in the 21st Century." Seminar Talk given through the Centre for Korean Research and Canada Asia Pacific Resource Network at the University of British Columbia (February 10).
- Yu Hai-Chin. 1998. "Asymmetric Information, Collateral, and Interest Rate: The Case of Taiwan." J. Jay Choi and John A. Doukas, Eds. Emerging Capital Markets: Financial and Investment Issues. Westport, CT: Greenwood Publishing Group, Inc., 149-166