

Democratization and Economic Growth: What's In Store for South Korea?

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Is democracy incompatible with economic growth? To a number of states which have embarked on a process of transition from an authoritarian, state-led economy to a democratic, market-led one, the process of unraveling this thesis on "transitional incompatibility" has not been an easy one. A case in point is South Korea — the economic dragon of East Asia — which, after having attained a considerable level of growth in the late 1970s, largely under the auspices of authoritarian rule, made headway towards democratization. Studies in recent years, however, show how its economy has been decelerating since the onset of democracy, even as others consider the converse true with economic growth and market forces undermining democratization. At the center of the paradox are the *chaebols* — seekers of state-assigned rents committed to the pursuit of national development, on the one hand, and political patrons who finance politicians with business money during elections, on the other. In the end, one finds consolation in the thesis that at per capita GNP levels as South Korea's, democracy is most likely to survive. The quality of that democracy is, however, an entirely different story.

In the late 1980s, dictatorial polities in Northeast Asia have embarked on a difficult process of democratization. This paper seeks to investigate the possible linkages between democratization and economic growth in one of the East Asian dragons — South Korea. It attained Newly Industrializing Country (NIC) status in the late 1970s under the auspices of a bureaucratic-authoritarian developmental state. With the twin processes of democratization and economic maturation and reform, the South Korean state had to retreat from its *dirigiste* role vis-a-vis the economy. On the other hand, Korean democracy has yet to be fully consolidated and the Korean state still retains significant capacity to continue administering the economy.

Can the South Koreans continue to achieve rapid economic growth while invigorating their democracy? Or are they faced with a trade-off between democratization and economic growth, i.e., will democratization adversely affect the prospects for further economic expansion? Will the South Koreans choose to stimulate economic growth at the expense of further democratization of their polity, i.e., will they stop at a "dominant party" democracy (quite similar to Japan) to ensure lasting prosperity? Or

will they opt instead to consolidate their democracy even if the economy falters? Or are these questions false dilemmas?

These questions are raised given the realization that in the 1990s and immediately beyond, South Korean society faces a crucial period of democratic consolidation, and economic adjustment and restructuring. For the first time since the constitution of South Korea as an independent nation-state, its polity is headed by a civilian president, Kim Young-sam. In response to the pressures of globalization and the requirements of economic maturation, the South Korean economy must likewise be reformed and restructured. As Ahn (1996:13-14) aptly observed: "The economy of South Korea now faces a task of moving successfully from an exporter of largely cheap manufactures to an economic structure capable of vying with more aggressive competitors in the global market of high-technology and knowledge-intensive industries." On the other hand, the relation between further democratization and economic overhauling is quite compelling for South Korea as well as the other East Asian NICs. Long-time South Korean opposition politician Kim Dae-jung asserts that democracy will be ever more indispensable in East Asia in the 1990s and the next century. Freedom of information and creative discourse will be required, in his opinion, for the transition to an information- and high-technology sensitive economy from a middle-level technology- and labor-intensive industrial one (cited in Han 1995: 8).¹

A related question is the continued dominance of the gigantic *chaebols* (conglomerates) in the South Korean economy and polity. The high concentration of wealth and power in the hands of about three-dozen *chaebol* families will not only be a hindrance to the further development of a balanced and dynamic economy. It will likewise impede further democratization, in both its procedural and substantive meanings, given the inordinate influence of business "donations" on electoral outcomes. This is a crucial issue given the observation that *chaebol* power seemed to increase visibly under the civilian Kim government compared to the previous authoritarian regimes (Han 1995: 14-15). The economic logic of internationalization and globalization, which favors internationally competitive economic organizations (due to the large size and market reach, and internal efficiencies) may have forced the Kim government to rely further on the *chaebols*.

Democracy and Economic Development

Are democracy and economic growth really incompatible with each other? One view argues that democracy is subversive of economic growth. This argument acquired widespread acceptance in the past decades under the influence of Samuel Huntington (1968; also Huntington and Dominguez: 1975). In this opinion, democracy generates an explosion of demands for current consumption which, in turn, reduces funds for investment, and ultimately, economic growth. This theory obviously borrows from Adam Smith's 18th-century ideas on capital accumulation and economic expansion. A more contemporary observer, Fukuyama (1992), repeats the Aristotelian tirade that democracies tend to transfer wealth from the rich to the poor in the interest of social justice, to protect or subsidize failing industries, to spend more on social services than on capital goods, and the like.

In a rather playful but tightly reasoned think-piece, Olson (1993) essays an opposite position. He argues that the inherent uncertainty of succession in dictatorships and the autocrat's incentive to capture the assets of his subjects (whose "returns" over his tenure may be less than their total value) implies that autocracies will rarely have good economic performance for more than a generation. Whenever an autocrat has a sufficiently short time horizon², it is in his interest to confiscate the property of his subjects, to abrogate any contract he signed in borrowing money from them, and generally to ignore the long-run economic consequences of his actions.

In contrast, Olson believes that an economy will be able to reap all potential gains from investment and from long-term transactions only if it has a government that is believed to be both strong enough to last but inhibited from violating individual rights to property and rights to contract enforcement. The conditions that are needed to have the individual rights necessary for maximum economic development are exactly the same conditions needed to have a lasting democracy. The same court system, independent judiciary, and respect for law and individual rights that are called for a robust democracy are also required for security of property and contract rights.

At any rate, an earlier empirical study of several country case studies made by Przeworski and Limongi (1993) indicates that the jury has yet

to reach a verdict on this case. However, in a more recent study covering a greater number of countries (135) that existed any time between 1950 and 1990, and which focused on the question whether the observed close relation between levels of economic development and the incidence of democratic regimes is due to democracies being more likely to emerge or more likely to survive only in the more developed countries, the duo found that the level of economic development *does not* affect the probability of transitions to democracy but that affluence does make democratic regimes more stable (Przeworski and Limongi 1997). The relation between affluence and democratic stability is direct and monotonic, and the breakdown of democracies at middle levels of development is peculiar only to the southern cone of Latin America.

What could be the plausible explanation behind these findings? Lipset (1959) thought that wealth moderates in many ways the ferocity of distributional conflicts in democracies for the simple reason that there is more to move around. But there may be other equally plausible explanations. For instance, wealth may just be a proxy variable for education, and highly educated persons are more likely to embrace democratic values. Przeworski and Limongi themselves offer a more technical explanation using the microeconomic concepts of marginal returns and marginal utility. Their explanation runs like this:

Suppose that the political forces competing over the distribution of income chose between complying with the verdicts of democratic competition, in which case, each can expect to get some share of the total income, or risking a fight over dictatorship, which is costly but which gives the victor all of the income. Now suppose that the marginal utility of consumption is lower at higher levels of consumption. Thus, the gain for winning the struggle for dictatorship is smaller. In turn, if the production function has diminishing marginal returns in capital stock, the "catch-up" from destroying a part of it during the war for dictatorship is faster at lower levels of wealth. Hence, in poor countries, the value of becoming a dictator is greater and the accumulation cost of destroying capital stock is lower. In wealthy countries, by contrast, the gain from getting all rather than a part of total income is smaller and the recuperation from destruction is slower. Hence, struggle for dictatorship is more attractive in poorer countries (Przeworski and Limongi 1997: 165-66).

How about the other way around: can economic development and restructuring threaten democracy and democratization? Again, traditional wisdom here is unequivocal ever since Lipset (1959) asserted that only nations with considerable level of economic development can have democratic polities. In the 1970s, various tin-horn dictatorships in Latin America, Africa and even in the Philippines, claimed that democracy was one luxury that poor nations cannot afford. And the proffered path was to suspend democracy first so that economic development could be pursued. Of the various Third World autocracies, only the East Asian dragons were able to deliver the goods.

Recent scholarship on globalization and market reform indicate possible tensions between democracy and economic growth and change. Globalization has been defined as "the process by which independent states, their economies, societies, and peoples become increasingly integrated into the international economy and society" (Hernandez 1996: 119). This process consequently "entails the erosion of national sovereignty, the opening up of domestic economies and societies to external influences, the increasing social and physical mobility of peoples, and the consequent economic, social, cultural, and political challenges posed to the nation-state" by the changes it wrought. With this process, the problem of the so-called democratic deficit arises since globalization increases the inroads into national life of external, unelected, and therefore, domestically unaccountable forces and institutions. In the Philippines, for instance, much of the opposition against the International Monetary Fund and the World Bank is cast along these lines.

These fears are articulated by many scholars. According to Przeworski (1992), trade and market reforms tend to create and amplify enormous tensions by bringing about changes in the distribution of income, shifts in power relations, and profound cultural transformations. There are supposedly two reasons behind this effect. The first stems from the strategy's competitive nature: all countries cannot simultaneously have trade and BOP surpluses. Eventually, some will win and so others must lose. Moreover, the winners and losers will not be nation-states but sub-national regions, sectors, industries, and particular social groups. Sharp increases in regional, sectoral, and social inequality across and within nations will follow. At the same time, this strategy requires national governments to relinquish some of the traditional elements of national economic policy. As a result, national governments suffer a serious

decline in their capacity to compensate losers and manage social tensions. Democracy accordingly suffers as well when decisions that were once controlled by elected national officials, pass into the hands of actors who cannot be voted in or out.

Przeworski also complains that in most cases, market reforms tend to be initiated from above and launched by surprise, independently of public opinion and without the participation of organized political forces. Reforms tend to be enacted by fiat, or railroaded through compliant and ill-informed legislatures without any changes reflecting the divergence of interests and opinions. The political style of implementation tends towards rule by decree; government seeks to mobilize supporters rather than accept the compromises that might result from public consultation. Society is supposedly taught that it can vote but cannot choose.

Meanwhile, Dahl (1992) offers other sources of friction between democracy and competitive markets apart from arguing that it is essential to shield democratic processes from the market. i.e., votes must not be sold or bought and government officials should not sell their services. One source of conflict arises because persons who believe themselves injured by the market reform will accept these outcomes as desirable only if they act not from rational self-interest, but rather from a commitment to the common good. The latter is of course a far-fetched assumption. The fact is that, when persons injured by market outcomes are confronted with the argument that the greater good of society requires a competitive market even if they themselves are injured in the process, they are likely to reply: "So what?" In fact, in a market economy where everyone supposedly acts from motives of rational self-interest, prevailing norms and practices are not likely to encourage strong dedication to the public good.

Another source of conflict can be traced to the obvious truth that in most cases, the argument for freer markets is too complex and abstract to be intelligible, much less convincing to the general public, not least to the victims. The costs of persuading those who disagree may prove prohibitive. In a democratic setting, the political elites may not be sufficiently independent of public opinion to carry out a policy that they believe to be rationally justified against the preferences of a substantial minority, let alone a majority.

A final source of conflict arises from the high cost of imposing competitive market outcomes on people in a democratic polity. If people who believe themselves to be injured by markets cannot be persuaded by rational arguments to accept their lot, they might be compelled to do so. But compulsion is costly; people who are harmed by policies enforced against their will have incentives to find and invent actions, both individual and collective, that will prevent or undermine effective enforcement. What immediately comes to mind are the many difficulties in enforcing the intellectual property covenants of GATT in this country, especially with computer software, audio-video products, books and the like.

At best, as Armijo, Biersteker and Lowenthal (1994) report, there may be two versions of the "transitional incompatibility" thesis for developing countries: one focusing on democratization's potential to undermine economic reform, and the other contending that the heavy cost of marketization can turn crucial social actors against democratization. The extreme pain of market reforms may lead political leaders, fearful of the results of succeeding elections, to abort reform efforts or to compromise and undermine the coherence of policy. In addition, the very freedom that is one of democracy's greatest features means that legions of special interests can organize and lobby against reform without end (Bhagwati 1995). Because of reform pains, on the other hand, disillusioned citizens may be susceptible to recruitment into extremist anti-system movements, while propertied or middle-income groups, frightened by lower class protest, may favor increased repression or curtailment of democracy in response.

On the other hand, Maravall (1994) presents a strong case that market reforms are more likely to succeed in a democracy. Political pluralism generates more and better information to use in economic decision making. Moreover, democratic institutions may reduce the transactions costs of economic reforms as well as restrict the predation of public resources. A free press and a political opposition serve as important "early warning systems" to help correct policy mistakes. He also bats for poor relief. Noting that the likelihood of successful economic reform in any single country depends, to a large extent, on the legitimacy of its regime, Maravall argues that when democracies protect those in the most vulnerable positions, they exhibit the humanity that is a basic component of their legitimacy.

The levelling of the economic playing field that could result from an economic reform policy of breaking up monopolies and an active competition policy is seen by Wilks (1997) as beneficial to democratization. He reasons that competition policy can be seen as the economic constitution of a market economy, analogous to the political constitution of a democracy. Just as political constitutions embody provisions for participation, equity, due process, accountability and justice, so could the economic constitution. In this light, the competition policy regime should establish freedom to compete fairly and freely in the market and protection for consumers. It should do so in a way that is transparent, responsive, and well-publicized. Nonetheless, in all regimes, competition policy walks a difficult path between the pressures of legal certainty, economic efficiency, and political expediency. In the Philippines, for instance, despite a clear-cut constitutional provision against monopolies and restraint of trade existing even since the 1973 charter of the Marcos dictatorship, not one enabling law has been passed. In South Korea, this issue gains greater salience given the omnipresence of the *chaebol*.

Empirical data on the nation's *chaebols*, however, give mixed signals on this question. It appears that while *chaebols* may be formidable in a tactical sense or a short-run basis, they may prove to be paper tigers in the long run. The Samsung Economic Institute found out that in the last 30 years, only 16 business groups among the top 100 conglomerates (in terms of sales volume) of 1965 remained among the top 100 in 1995. Among the top 10 conglomerates of 1965, only Cheil Jedang remained among the top 10 a decade later, and not a single business group continued to remain among the top 10 twenty years later in 1985 (*Joong-ang Ilbo* Online, May 29, 1997). This means that not one of the big corporate names today — Daewoo, Samsung, Hyundai, LG, Ssangyong, Jinro, and Hanbo — were on the top of the heap 10 or 15 years ago.

This development could be read in different ways. One positive view is to consider the low survival rate at the top as evidence of the degree of healthy market competition among the *chaebols*. A more nuanced but negative view is to relate *chaebol* fortunes with political patronage and changes in political regime. For instance, the top *chaebols* in 1965 may have achieved their dominance partly through the intercession of the Syngman Rhee government, acknowledged in the literature (Amsden 1989; Doner 1991; Jones and Sakong 1980; Kim 1976; and Lee 1992) to be the first rent-seeker-coddling regime in the post-war period. With

the change of regime to that of Park Chung-hee in 1961, then it would not be a surprise why only one stayed in the top 10 in 1975. One must also recall the shocking August decree adopted by Park's *Yushin* regime in August 1972 which erased the assets of financial groups in favor of industrialists. And thus, the top *chaebols* in 1975 would be associated with Park while those in 1985 would be associated with Chun, and those in 1995, with Kim. This interpretation privileges the cozy connections built between big business and government institutionalized during the Park regime through the policy of preferential credit to export winners and further nurtured by succeeding governments, including the incumbent Kim government.

A still more negative view sees the low survival rate to be mainly caused by poor *chaebol* management and over-extension. A cursory examination of the online editions of the newspaper *Joong-ang Ilbo* over the past two months reveals a rather striking string of financial troubles, bankruptcies, and near-bankruptcies involving the big corporate groups — Ssangyong³, Jinro⁴, Sam Lip⁵, Dainong⁶, among others. A charitable explanation would blame the current slump for these bankruptcies.

How about the question of the institutional design of democracy and democratic consolidation? In many influential articles, Linz (1990a, 1990b, and 1994) and Mainwaring (1993) argued for the incompatibility of presidentialism, multi-partyism and democratic consolidation implying that parliamentary arrangements were more congenial to democratic consolidation and that a two-party system was more desirable than a multi-party system in case of a presidential polity. These insights are of importance to contemporary South Korea as it is a multi-party presidential polity. However, the results of the work of Power and Gasiorowski (1997) on 56 democratic transitions between 1930 and 1995 contradicts recent scholarship on the relationship between institutional design and democratic consolidation by finding that: (1) the choice of constitutional type (presidential or parliamentary) is not significantly related to the likelihood of democratic survival in less-developed countries, and (2) in the Third World, multipartism and presidentialism does not appear to lessen the likelihood of democratic consolidation. We return to this important question in our concluding section.

The South Korean Economic Record in Recent Years

After making its mark in the 1980s as a full-fledged NIC, South Korea's economic growth decelerated in recent years giving strength to the notion that democratization is subversive of economic growth. According to various UN Human Development Reports, real GNP grew by an annual average of 8.7% during the 1980-1993 period. These years cover the regimes of Generals Chun Doo-hwan and Roh Tae-woo, the latter considered to be a partially democratic government. Comparatively, Thailand grew by 7.9%; Malaysia, 6.4%; Indonesia, 6.0%; the Philippines, 1.7%; and Mexico, 1.9%.

It managed to top this average only in 1995, growing at an astounding 9.1% before dipping to only but still respectable 6.9% in 1996. *Asiaweek* reports that the South Korean economy is projected to expand by only 6.5% in 1997, compared to 7.4% for Indonesia; 6.6%, Philippines; and 8.2%, Malaysia (*Asiaweek*, 10.1.97: 47-48). South Korean export performance followed a roller-coaster course since the middle of the 1980s. From a high average balance of trade of US\$5.58 billion for the 1985-1989 period, the appropriate figures dropped to a negative US\$2.32 billion trade deficit for the 1990-93 span, again with the decline registered during the democratic years.⁷ But even if we exclude reserves, exceptional financing and liabilities constituting foreign authorities' reserves, the nation's balance of payments remained in the black, averaging US\$2.96 billion for the 1985-89 period before dropping to only US\$456 million during the 1990-92 span.⁸ Inflation was kept at single-digit levels since the 1980s, averaging 6.3% for the 1980-93 period. Domestic demand may have gone down in the succeeding years with inflation projected at only 4.5% in 1997 (*Asiaweek*, 20.1.97. 46-48).

South Korean growth was accompanied by equity with the country's Gini coefficient registering at an average of 0.36 for the 1975-88 span, compared to Thailand's 0.47, Malaysia's 0.48, and 0.45 for the Philippines. During the 1980s, only 5% of its people were in absolute poverty compared to 30% in Thailand and 54% in the Philippines (*Human Development Report*, 1992 and 1994).

It is, however, a truism that when an economy matures, its growth rates must taper down. Such may be the case for South Korea as renewed growth must be based on industrial and economic restructuring.

Notwithstanding recent economic slowdown, it is nonetheless important to take note of South Korea's economic achievements. In late 1996, South Korea became the second Asian nation admitted to the exclusive ranks of the members of the Organization for Economic Cooperation and Development (OECD). During the 10-year period from 1985 to 1995, the nation was classified by the World Bank as one of the "high-income nations" on account of her recording the third highest rate of economic growth in the world, at 7.6% per annum, during the same period, following Thailand (8.4%) and China (8.0%) (*Joong-ang Ilbo Online*, May 7, 1997). In terms of the synthetic Human Development Index (HDI)⁹ developed by the United Nations, the South Koreans turned in a respectable performance in the 1990s. From being the 35th-ranked country in 1991 with an HDI of 0.884, South Korea steadily improved in rank to be the 29th in 1996 with an 0.886 HDI value. In comparison, Thailand was ranked 52nd in 1996, while Malaysia followed at 53rd. The Philippines ranked 95th in 1996 even as its HDI value improved to 0.665 from the 0.613 recorded in 1991. The improvement in South Korean HDI may be concretely understood in terms of average life expectancy. As of 1995, the average life expectancy of South Koreans was 73.5 years, an increase of 4.5 years from a decade ago. Based on UN statistics, the figure approaches the level of advanced nations (at 74.7 years) (*Joong-ang Ilbo Online*, May 9, 1997).

Yet there are clear signs which indicate what must be done in order to restart the economy on a sounder economic basis. The country's current economic malaise seems to stem from its overly monopolistic and top-heavy industrial structure. In a survey of 46 nations done by the International Institute for Management Development of Switzerland, South Korea's overall national competitiveness was ranked 30th, followed closely by the Philippines, which ranked 31st. In terms of competitiveness, its Asian rivals are doing so much better than South Korea with Singapore, second; Hongkong, third; Malaysia, 17th; Taiwan, 23rd; and Thailand, 29th (*Joong-ang Ilbo Online*, May 20, 1997). In a more recent evaluation done by the World Economic Forum covering 53 countries, Singapore and Hongkong topped the list, while Taiwan and Malaysia were

also among the 10 most competitive countries in 1997 (*Philippine Star*, May 31, 1997).

One clear source of the nation's non-competitiveness is the heavy burden of "quasi-taxation" on small- and medium-sized firms. The term "quasi-taxes" refers to a variety of almost mandatory donations, contributions, aid and sponsorships, association fees which are estimated to reach over 10-trillion won (approximately US\$11.14 billion at current exchange rates) a year. According to the Board of Audit and Inspection, it will examine about 100 institutions including government agencies such as the Ministry of Environment, private bodies like the Korea Chamber of Commerce and Industry, as well as local governments, which impose these quasi-taxes to determine the legitimacy and proper use of the solicited money. The BAI admitted several instances when guidelines were created without any legal grounds to levy either arbitrary or overlapping levies on firms (*Joong-ang Ilbo Online*, June 2, 1997).

Such an audit is welcomed if not overdue. If the scale and magnitude of the problem is correctly estimated, then quasi-taxes constitutes a real drag on South Korean business. Weber had long observed that one of the key institutional requirements of capitalism was a predictable and stable legal and taxation regime which, in turn, affords the basis for rational and strategic planning. To make a stronger point, Weber even claimed that capitalist businessmen can live with paying a "bribe" for as long as it is non-arbitrary. But he was begging the issue; what is a non-arbitrary "bribe" except a tax imposed by government?

The rather dismal record in competitiveness is also corroborated by South Korea's index of economic freedom, a measure of economic openness and market liberalization. It is a measure not entirely unrelated to the degree of industrial monopolization and/or concentration. The higher a nation's index, the less monopolized will be its industrial structure and the less difficult it would be for would-be entrants, domestic or foreign, from any economic sector to come in. In a report released by the Fraser Institute of Canada, South Korea's economic freedom index in 1995 was scored 6.68 points out of a perfect score of 10, and ranked the 20th among 115 countries in the world. Again, it was bested by its Asian rivals with Hongkong ranking first at 9.31 points and Singapore, second at 8.25. It was even beaten by the Philippines who came in 10th

with a score of 7.04 points, and Taiwan, ranked 16th, with 6.78 points (*Joong-ang Ilbo* Online, May 27, 1997).

The "flying geese" pattern of Northeast Asian development benefited South Korea and Taiwan at the expense of Japan with the latter having to graduate into higher value-added products in order to compete internationally. The same pattern will afflict South Korea. The lack of competitiveness has indeed worked to the advantage of South Korea's Asian rivals. It has caused the phenomenon of overseas-produced, Korean-branded goods to box out domestically produced products in the home market itself. While South Koreans had the perception that products manufactured in China and Southeast Asia were inferior in quality, recent reports indicate that a substantial volume of electronic products produced overseas by the nation's three key electronic appliance manufacturers — LG, Samsung and Daewoo — are being exported back to Korea for sale. These products' advantage: their lower cost.¹⁰ Industry sources report that about 6,000 to 8,000 units of LG Electronics' video cassette recorders (VCRs) produced in its Indonesian plant were sold each month in South Korea this year since their introduction at the end of 1996. This volume is equivalent to about 20 percent of LG's total VCRs being sold domestically. Samsung Electronics also plans to bring in 50,000 to 60,000 units of refrigerators produced in its Chinese plant this year. The number of different types of audio equipment produced in China, which were first brought into the nation in mid-1995, increased greatly so that three out of five units sold by the three top manufacturers in the first quarter of the year were made in China (*Joong-ang Ilbo* Online, May 4, 1997).

Apart from its relative lack of competitiveness and economic freedom, South Korea also suffers from what the Federation of Korean Industries' Free Industry Center identified as a "high-cost structure." The said organization found out that South Korea's *chaebols* had executives whose numbers exceed the world's prestigious companies by as high as 100 times. The top-heavy structure was not limited to business ranks; South Korean labor union officials also outnumbered those in the US and Japan by three to seven times as well. In addition, the number of members of parliament and the power exercised by the executive branch are considered to be excessively high (*Joong-ang Ilbo* Online, April 21, 1997).

These structural defects had an adverse effect on corporate profitability of manufacturers. According to a Bank of Korea survey of 3,071 manufacturing companies with over one billion won in annual sales, the growth in sales by manufacturing firms (2,103 firms) dropped to 10.3% in 1996 from 1995's 20.4 percent. In the main, domestic manufacturers earned a mere 10 won per unit of goods worth 1,000 won in 1996. The light manufacturers were most particularly affected since they lost five won each time they sold 1,000 won worth of goods (*Joong-ang Ilbo* Online, May 13, 1997). A result of these poor economic indicators is a decline in consumption expenditures. Influenced by the protracted slump afflicting the nation, the rate of increase in expenditures by the nation's urban working families dropped to a 12-year, all-time low.¹¹

Reflections on Recent Economic Performance and Political Events

It is quite clear that while South Korea's economy has slowed down in recent years, it is still a robust one. Its gross national product (GNP) managed to grow by 5.4 percent in the first quarter of 1997, higher than the projected five percent.¹² The nation's foreign exchange holdings, which have been on a steady decline since December 1996, increased for the first time in four months.¹³ The rise was attributed to an increased export earnings, signalling a possible turnaround in the nation's trade balance. In April of this year, the increase in exports surpassed that of imports for the first time in 10 months since June 1996 due mainly to the steel, petrochemical and automobile industries.¹⁴ The increase in exports may be accelerated as soon as the current world-wide recovery in PC-related industries could be completed.¹⁵ In addition, several technological breakthroughs have been achieved recently, indicating that the shift to a knowledge-intensive, high-technology economy may be forthcoming.¹⁶

There is, therefore, no immediate danger that economic deterioration could lead to a decisive stop to the democratization process. But is democratization irreversible? Or will democratization proceed apace? Of course, the state of the economy will be crucial in the consolidation of South Korean democracy. But without a cataclysmic economic collapse, what factors could affect the course of South Korean politics?

Opinion on this important question is divided even among South Korean observers. The optimists include Ahn (1996) who believes that

authoritarian regression is less likely in South Korea than in the new democracies of Latin America and Central and East Europe. He cites four supportive factors: the growing economy, Korea's ethnic homogeneity and religious pluralism, effective state and competent bureaucracy, and a strongly entrenched civilian control over the military. In my opinion, Ahn is too sanguine about these factors especially about civilian control over the military. It is true that the government of Kim Young-sam has done a lot to clip the powers of the military including the dismantling of the secret *Hanahoe* military clique and the sentencing of Chun and Roh. Nonetheless, it is quite clear as in the experience of other militarized societies that military clout does not suddenly disappear.

The pessimists, meanwhile, are represented by Han and Park (1993) and H. Lee (1994). Han and Park look at South Korean democratization as the tail-end of a process of modernization — where a complex syndrome of social and economic changes involving rational and secularized thinking, political awakening, industrialization, and social mobility — accompanied the rapid expansion of the economy. Nonetheless, they believe that the process is an open-ended one and that there exists strong impediments to further democratization. They include the authoritarian elements in Korea's traditional society, the discontinuities introduced in the colonial period, the unhappy experiences with democracy during the Rhee and Chang periods, the security threat from the North, and the deep political cleavage between the Left and the Right.

Following Huntington's ideas, the key to democratic consolidation is the institutionalization of a stable party system to remedy what could be considered a serious imbalance between the overdeveloped "output" (ala Easton) institutions such as the bureaucracy, the military and big business and the underdevelopment of "input" institutions such as political parties and non-business interest groups. The relative weakness of political parties in South Korea is illustrated by the fact that the life span of ruling parties coincide with the terms of sitting presidents from Rhee up to Roh. It remains to be seen if Kim Young-sam's party will outlive his term.

What needs to be done, in the opinion of Lee (1994), is the transformation of the present parties from person-dominated, region-based groups¹⁷ to grassroots, issue- or program-based organizations capable of delivering "goods" to their members and supporters. What is

primary, however, is to secure elite responsiveness to popular demands without sliding to mindless and costly populism.

In addition, the South Korean polity must be decentralized so as to help transform the nature of its essentially zero-sum political game. South Korean political parties, like Philippine political parties, are little more than electoral machines built to ensure their leaders' election. As a result, party politics mainly consists of personal maneuverings for power and influence. This is accentuated by two factors: parties are differentiated on the basis of regional, rather than relevant socio-economic cleavages such as class, gender, occupation, etc.; and the strong presidential system with a non-political, non-accountable cabinet. According to Moriss (1996), this system engenders a winner-take-all, zero-sum political game since there is really just one political office worth fighting for — the presidency. In South Korea, leaders of the ruling party do not hold high offices of state, such as Foreign Minister, unlike in Westminsterian parliamentary polities. The party leader cannot gain the support of faction leaders by offering them such positions; the only position with which to buy support is that of the next presidential candidate. Furthermore, the South Korean legislature is weak and has usually been subservient to the President; there are likewise no powerful positions as committee chairs or Senate leader. Before 1992, local officials were appointed by the center rather than elected directly by the people. This means that there were no sub-national offices of any stature which could provide opportunities for an able politician to demonstrate his expertise.¹⁸

When all these are combined with the certainty of a one-term presidency, it is not surprising if much of South Korean politics consists of maneuvering for the next presidential elections. It also follows that when the election takes place, the results will largely depend on the personal standing of the candidates, rather than their administrative records, and the alliances and bargains they can strike. Again, a review of the political news over the April-May 1997 period, months before the start of the official campaign in late 1997, should raise a chuckle and impress Filipino analysts of the similarities of both polities. The ruling New Korea Party (NKP) is currently racked with intramurals and maneuverings over party constitution amendments as each faction promotes its leader to be the next party presidential bet. To date, there are about six presidential hopefuls within the NKP including party chair Lee Hoi-chang (*Joong-ang Ilbo* Online, May 21, 1997). The main opposition NCNP is not

far behind; Kim Dae-jung again managed to get himself declared as party president and presidential candidate. When he runs in December 1997, Kim will be making his fourth bid for the presidency (*Joong-ang Ilbo* Online, May 20, 1997).

All of these remarks about political institutionalization and political parties nonetheless must be qualified in the light of the observed devaluation of political parties the world over. As discussed by Sakwa (1994) in his analysis of the growth of political parties in post-socialist Russia, political parties may have a fundamental role to play in the development of modern representative democracy. They connect civil and political society; advance the perceived interests of individuals, groups and social strata while aiming consciously to develop these constituencies; and provide a link between civil society and the state, espousing the claims of the one and enforcing the rules of the other. Classical analyses, notably that of Rokkan (1970), attribute the features of emerging party systems to the cleavage lines generated by the great processes of nation and state building (e.g., workers and capitalists, church and state, centre and periphery), giving rise to certain categories of parties (e.g., socialist, Christian, conservative, liberal, etc.), though the correspondence between the cleavage and a particular party may be based on any number of independent variables. In addition, according to Rokkan, there is an extraordinary continuity in the political alignments and party systems in Europe between those of the 1920s and the 1960s, suggesting that parties first in the game capture most of the resources available to support a party (e.g., voters' loyalty, programmes, etc.) leaving the system "frozen" and making it very difficult for new parties to break in, irrespective of the changes that may have transformed society. Rokkan suggested differing processes of political mobilization between the establishment phase of party alignment and the continuity phase, with changes later tending to be channelled through existing parties rather than through the establishment of new ones.

The problem of party formation in South Korea probably reflects the general crisis, or at least, the "unfreezing," of parties in contemporary politics. The shift from materialist to post-materialist preferences in the value system of voters and the apparent decline in the role of parties as such, eclipsed by new forms of participation such as social movements and alternative forms of political communication (e.g., satellite television, e-mail, etc.), have given rise to a new volatility in established party

systems. The fluidity, and possibly indeed exhaustion, of existing party political systems has been exacerbated by the demise of the bloc politics associated with the Cold War that provided an artificial environment sustaining continuities that might otherwise have given way to new forms of voter alignment and political participation. In particular, the old cleavages between Left and Right had long become an unclear compass in the confused modern political terrain, and the idea of the Left as a party had certainly come to an end in many parts of the world. The age of mass parties appears over, and parties in general appear obsolete as vehicles of popular mobilisation, regional and national identity, individual development.

In Sakwa's opinion, the general crisis of parties, however, also has deeper causes. While post-modernism might well be an over-used and abused term, it does nevertheless signal problems characteristic of our times. In particular, the fusion of microprocessing technology and communications has accelerated the creation of an information society in which politics has become even more spectral, reduced to the level of images and attractions that have little relation to the irreducible realities of public life. As many post-modernists have noted, the media has rendered the professional politician "structurally incompetent" by generating a set of demands associated with performance on air and image projection, and at the same time, a political space has been formed that displaces parties and parliaments. In the Philippines, for instance, the political strength of Miriam Defensor Santiago or even of Vice President Joseph Estrada is not in any, or in a major way, connected to a strong party organization but rather to strong showings at popularity surveys.

So while the current economic and business news may seem dismal, South Korea's political worries may be a larger concern. In its outgoing year, the government of President Kim Young-sam is hobbled by corruption and financial scandal the proportions of which threaten to engulf all of the nation's major political parties including those of the opposition. A parliamentary inquiry into the bankruptcy of the Hanbo group conducted through April 1997 revealed large-scale bribery by the group of several key politicians since 1992. While the nation was still reeling from these revelations, Kim's second son, Hyun-chul, was subsequently arrested for accepting billions of won in bribes from businessmen who were his high school classmates, in exchange probably for preferential treatment from the government.

The result of these revelations tend to tarnish the image of Kim, who started his regime in 1993 with a clean reputation and a promise not to allow big business to influence policy through the infamous method of "political contributions" (Choi and Lee 1995; Cha 1993; and Nam 1994). Concretely, the Hanbo scandal brought forth very strong allegations that Chung Tai-soo, founder and owner of the Hanbo business group, financed Kim's 1992 presidential campaign as well as offered campaign money to the opposition leaders Kim Dae-jung's and Kim Jong-pil's presidential campaigns also in 1992. The Hanbo leader apparently wanted to hedge his bets so he gambled on the three Kims.¹⁹

The Hanbo scandal predictably threw serious questions about the 1992 presidential campaign and its funding. During the controversy, it was discovered that the then ruling Democratic Liberal Party (DLP)²⁰ of successful presidential candidate Kim Young-sam and Kim Dae-jung's opposition Democratic Party destroyed the original documents of all major accounts related to campaign funds immediately following elections. The destruction of the accounting documents by the two parties is aggravating suspicions that they attempted to conceal the size of their campaign funds which, in turn, raises the possibility of their having committed illegal acts, including spending funds in excess of legally stipulated amounts or of falsifying documents (*Joong-ang Ilbo* Online, May 7, 1997). The controversy further escalated when a ruling party official who had worked as an assistant manager in accounting for the then DLP during the 1992 period revealed that the party had spent at least over 100 million won on President Kim's campaign. Of course, the opposition parties went to town with the hypocritical Kim Dae-jung, a declared presidential candidate for the December 1997 polls as the most active in seeking Kim's blood, if not his resignation or public apology.

Concluding Remarks

The current brouhaha over campaign funds and business contributions simply indicates one of the more enduring strands of South Korean politics which stretches back to its beginnings in the 1950s — the cozy partnership between state and big business, or the so-called sword-won coalition. The American-sponsored Syngman Rhee government initiated the unsustainable practice of awarding presidential cronies with "carpetbagging" licenses in the export-import trade and the disposition of leftover American war material. Then the state, under Park Chung Hee,

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successfully used strategic trade and industrial policies to pick "winning" industries, sectors, and firms to help transform the economy into an industrialized export winner in less than three decades. This strategy is essentially one where rents were assigned by the state to selected firms in pursuit of national development goals. Under this arrangement, the *chaebols* continued to enjoy assigned rents for as long as they were able to comply with performance standards set by the developmental state. It has surely bred corruption; but the prevalence of corruption can be quite compatible with rapid industrial and capitalist development, as the South Korean experience would demonstrate. An ancillary proviso to this social contract was the obligation of big business to

make financial contributions to the ruling regime for explicitly political purposes. However, business contributions of this nature will assume greater importance after Park.

The onset of democracy in 1987 is not entirely unrelated to the rapid economic growth enjoyed by South Korea as a result of the above development strategy. In this setting, South Korean big business has gained a stronger bargaining power vis-a-vis the state. In theory, therefore, it is no longer content that the state merely assigns rents. Private businesses are now in a better position to seek and compete for rents created by state action. It can be argued that democratic institutions and practices (especially electoral competition) opens up the system to the influence of a wider array of actors.

In addition, electoral systems offer "non-corrupt" channels for influence that do not exist in authoritarian setups. As Scott (1972:94) argued, "[F]or a businessman to give money to a civil servant is generally illegal, whereas the same amount given to a politician's campaign fund may 'buy' just as much influence over government decisions but is quite proper." This insight seems to be substantiated by the conviction of the

two post-Park leaders of Korea — Chun Doo Hwan and Roh Tae Woo — for corruption and accumulation of slush funds contributed by the Korean *chaebols*.

Thus, one could predictably react in cynicism to Kim Dae-jung's repeated calls for Kim to reveal all on the 1992 campaign funds or to resign. It must be recalled that both the ruling and the main opposition parties destroyed their accounting records immediately after the 1992 elections. Which South Korean party is really untainted by business contributions? In the Hanbo patriarch list appeared leading politicians from all parties. Unless the parties are themselves strengthened and institutionalized, the influence of business money will remain strong.

A too dismal scenario must not be painted though. One can inquire into corruption's impact on the institutionalization of South Korea's political parties. This question draws its inspiration from Huntington (1989) who offers the insight that while corruption may help build political parties, it undermines the conditions of its own existence. Corruption thrives in the absence of recognized patterns of political authority and organization and, therefore, will not prosper with political organization. Corruption thus perverts political parties but also strengthens them by making critically-needed resources available to partymen. But this is not a forgone conclusion. In some cases, the results may be positive; but in other cases, parties themselves are so fractured that new resources will not help.

The South Korean experience since the late 1960s has shown that corruption and rent-seeking generated by strategic industrial policy are not incompatible with, though it may retard, economic growth and competitiveness. Our earlier discussion noted first the institutional features, such as arbitrary taxation, top-heavy industrial and corporate structures, and excessive industrial concentration, which must be alleviated to elevate the economy on a new plane for further expansion as well as the indigenous technological breakthroughs, which suggest a positive economic overhaul in the future.

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In this sense, politics remains the greater concern. In drawing up the future prospects of the Korean democratization process, one must pause to review its achievements, the most notable of which, thus far, is the lawful conviction of two of its former chief executives. In contrast, the Philippines has a longer experience with formal democracy and has redemocratized earlier. Yet, it has still to properly judge the Marcoses. The arrest of his son may be embarrassing to President Kim and may have added to his woes in his outgoing year. But the arrest itself should be seen as another sign of the strength of Korea's institutions and legal processes.

Can South Korean democratization be reversed? Consolation can be sought in the findings of Przeworski and Limongi (1997) that at per capita incomes above US\$6,000, democracies are most likely to survive forever. If that is indeed the case, then we need only to worry about the quality of South Korean democracy. ●

Notes

- 1 Freedom of information is not an absolute good; it could be disruptive, criminal or counter-productive as shown by a recent case of hacking in South Korea where tens of thousands of Internet subscribers were advised to change their passwords compromised by a hacker (*Joong-ang Ilbo* Online, May 10 and 11, 1997). Nonetheless, the incident illustrates the truth that today's high-technology is relatively open to hackers and non-hackers alike.
- 2 An autocrat's time horizon is a function of his perception of regime security as well as the hostility or friendliness of possible successor regimes. The less an autocrat feels secure, the shorter will be his time horizon.
- 3 Ssangyong, South Korea's sixth largest conglomerate in terms of total assets, decided to reduce the number of its subsidiaries through mergers in order to overcome its current financial difficulties mainly caused by its key subsidiary, Ssangyong Motors, the same company which has caused a minor sensation in Manila with its introduction of the under PhP1.0 million Mercedes Benz MB-100 van (*Joong-ang Ilbo* Online, May 1, 1997).
- 4 Although creditor banks announced a package of rescue measures for the Jinro group last April 21, 1997, the Chongju Jinro Department store, an affiliate of the group went bankrupt when it failed to honor promissory notes worth 1.5 billion won (*Joong-ang Ilbo* Online, May 17, 1997). The main group meanwhile decided to retire 53 percent of its executive board and decided to sell 12 of its subsidiaries to cope with the crisis (*Joong-ang Ilbo* Online, May 16, 1997).
- 5 Sam Lip General Food Co., one of South Korea's leading confectioners, and its subsidiaries, Sam Lip Teco and Sam Lip Fat and Oil Co., went bankrupt May 15, 1997 after failing to honor debts worth 12.4 billion (*Joong-ang Ilbo* Online, May 16, 1997).
- 6 Dainong, the 34th largest group, was reported to be on the verge of being bankrupt and had to receive rescue loans from a syndicate of financial institutions led by Seoul Bank

- in accordance with a pact signed by the heads of the nation's banks to prevent bankruptcies of large conglomerates (*Joong-ang Ilbo* Online, May 20, 1997).
- 7 UNCTAD Handbook of International Trade and Development Statistics, various years.
 - 8 International Financial Statistics, 1994 edn.
 - 9 The original HDI was a composite of three key components: longevity, knowledge and income. Longevity was measured by life expectancy, while the knowledge variable was measured through adult literacy and mean years of schooling. Income is measured through PPP \$40,000 and \$200.
 - 10 For example, LG's 2-head VCR produced in China (model name: LV 180) is cheaper by 15,500 won over its domestically produced counterpart, while Samsung's 170-liter refrigerators assembled in China were slightly cheaper than their counterparts. Even China produced Japan-branded (i.e., Toshiba and Sony) electronic appliances were also flooding the South Korean domestic market (*Joong-Ang Ilbo* Online, May 4, 1997).
 - 11 The average monthly income earned by a city-dwelling family reached 2.29 million won during the first quarter of 1997; an increase of only 9.3 percent from the 1.95 million won registered during the same period last year. This growth represented the lowest rate of increase since the fourth quarter of 1993. During the same period, household consumption reached 1.48 million won or a 5.2 percent increase; the lowest rise since the first quarter of 1985 (*Joong-ang Ilbo* Online, May 21, 1997).
 - 12 However, in the first quarter of 1997, GNP growth was lower than the 7.2 percent recorded in the previous quarter. It was also the lowest quarterly growth rate since the second quarter of 1993. The slowdown is largely due to the drop in private consumption expenditures (*Joong-ang Ilbo* Online, May 23, 1997).
 - 13 According to the state-run bank of Korea, total foreign exchange holdings reached US\$29.83 billion as of April-end 1997, up by US\$680 million from the March 1997 level (*Joong-ang Ilbo* Online, May 8, 1997).
 - 14 Exports totalled US\$11.38 billion in April 1997, up by 7 percent from the same period last year. While imports grew at a slower rate at 1.6 percent, the surge of exports were not enough to clear the trade deficit which still stood at US\$1.5 billion as of April. The aggregate trade deficit for the first four months of 1997 stood at US\$8.97 billion, an increase of 44.7 percent from the same period last year (*Joong-ang Ilbo*, May 2, 1997).
 - 15 The recovery is marked by the successive introduction of new personal computers, which, in turn, led to an increased demand for memory chips. In particular, a high-performance microprocessor called the MMX being sold by Intel is helping increase the demand for chips as it needs more than twice the memory capacity of existing Pentium-class CPUs. The rise in demand has led to a recovery of DRAM prices, with 16-megabyte DRAMs currently exceeding \$11-\$12 per unit from a low of \$7 at the end of 1996. With this development, the sales turnover and net profit of South Korean chip makers are likely to exceed this year's targets. Samsung Electronics predicts its monthly sales is likely to increase by US\$15 million; and LG and Hyundai by US\$10 million respectively for every dollar increase in chip prices. If the price of chips rise by an average of \$3, the net profit of Samsung is likely to increase by over 500 billion won annually, and that of LG and Hyundai by 300 billion won each. Data Quest, an American company specializing in computer market research, predicted that the world's chip market will record an average of over 20 percent in annual growth this year. Accordingly, the chip market will rise to US\$155.2 billion this year before expanding anew to US\$188 billion in 1998 and US\$234 billion in 1999 (*Joong-ang Ilbo* Online, April 8, 1997).
 - 16 Hyundai Electronics has developed a 1-gigabyte synchronous dynamic random access memory (DRAM) chip using the new silicon-on-insulator (SOI) technology, a first in the world. The new DRAM is capable of storing information contained in 8,000 newspapers

in a chip in the size of a thumbnail. The SOI wafer only requires low-power consumption and can operate on a power voltage of 1.8 to 2.2 volts. It also boasts of a data processing speed of only 5 nanoseconds (1 nanosecond is one-billionth of a second). In a related field, South Korean manufacturers reached the capability of producing domestically two key parts used in code division multiple access (CDMA) cellular phones which were previously imported. This is likely to replace about 300 billion won in imports (*Joong-ang Ilbo* Online, May 13, 1997).

- 17 The political parties of Presidents Chun and Roh were based on the Taegu-North Kyongsang area while the Kim's party is based on home province of Pusan. Kim Dae-jung's opposition party is principally based on the Cholla province. The impetus to the growth of regional politics in the post-1987 democratic period is that it can support pork-barrel politics, which combines personal and money-based politics on a national scale. Since the 1980s, the province of Cholla has been neglected as a consequence. Within ruling coalitions, factions are organized along regional lines.
- 18 Should former Seoul mayor Cho Soon make good his plans to run for president as an independent in the December 1997 presidential polls, it will be a first in Korea's political history (*Joong-ang Ilbo* Online, May 9, 1997).
- 19 In his testimony before Parliament, Chung said he had never given any money to President Kim personally. He however admitted to have given several billions of won in special fees during the 1992 presidential campaign period. In the same hearing, Chung indirectly admitted to having bribed three senior politicians: two of the three, Rep. Kim Deog-ryong of the ruling New Korea Party (NKP) and Kim Sang-hyun of the main opposition party, the National Congress for New Politics (NCNP), are presidential hopefuls. The third politician is Rep. Kim Young-hwan of the minor opposition party United Liberal Democrats (ULD) headed by Kim Jong-pil. These revelations confirmed the existence of the so-called "Chung Tai-soo List" which allegedly contained the names of the politicians he bribed. As a result of the parliamentary inquiry, prosecutors drew a list of 33 politicians believed to have received money from the disgraced Hanbo founder. Of this list, eight were indicted without detention while evidence was still being gathered against the rest (*Joong-ang Ilbo* Online, April 8, 1997; May 23, 1997).
- 20 Kim Young-sam's party was co-opted into the ruling DLP of his predecessors Roh and Chun. The party's name was changed to New Korea Party (NKP) after Roh and Chun were sentenced to jail for corruption and for the latter's role in the declaration of martial law in 1979 and in the 1980 Kwangu massacre. Not to be outdone, Kim Dae-jung's party was relaunched as the National Congress for New Politics (NCNP) after he came out of a self-imposed hibernation after his defeat in 1992.

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