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BRINGING POLITICS BACK IN: RETHINKING THE ASIAN FINANCIAL CRISIS AND ITS AFTERMATH

ABSTRACT: We now have a fairly good understanding of the economic causes of the 1977 Asian financial crisis. There is as yet, however, little understanding of the politics behind the crisis. Not only did various political systems in Asia play a significant role in fomenting the crisis, they have also demonstrated remarkable capacities in dealing with its aftermath. Nowhere is this more evident than in the far-reaching economic reforms implemented by the Kim Dae-Jung administration in South Korea. The key to Korea's success in weathering the crisis lay in the decisive leadership of Kim Dae-Jung and in the "developmental state" structures and institutions he inherited—both of which exemplify the autonomy of a putatively democratic state from societal, especially elite, pressures.

Behind the complex economic causes responsible for the Asian financial of crisis 1997–98 and the subsequent measure of recovery lie broader political factors.

First, why did the so-called Asian model of development, which generated such high economic growth and equity for several decades, succumb to the crisis so quickly? It is generally agreed that the distinctive Asian model and the so-called developmental states it spawned were built around close business-government relation-

ships. For example, in Asia's Next Giant: South Korea and Late Industrialization (1989), Alice Amsden attributed Korea's phenomenal export-led economic modernization, which began in 1960 under the authoritarian Park Chung Hee regime, to the exigencies of collaboration, or "pragmatic synergy," between a highly centralized, interventionist developmental state and the large private conglomerates (or chaebol) it created. Endowing itself with exclusive authority over the coordination of fiscal, monetary, and trade policy, Korea's "administrative state" kept a watchful eye over the chaebol, while at the same time nurturing them with generous subsidies and protection from competition. In return, it got the performance necessary to meet the stringent requirements of export-oriented industrialization. The state-chaebol alliance came to be seen as indispensable to South Korean development. These allies had an apparently uncanny ability to follow market signals, preemptively respond to externalities, and broker relations with foreign investors and creditors.

In Korea and in the rest of the high-performing Asian economies, it was believed that such close government-business relationships helped improve the flow of information between the public and private sectors and that they contributed to rapid capital accumulation. In the banking sector, so-called relationship banking was seen as having several advantages, including the capacity to manage flows of short-term credit and investment efficiently. Indeed, the alleged need of high-performing Asian states to actively mobilize citizens and corporations behind a coherent market-based development strategy became the principal justification of authoritarian rule. Governing elites and advocates of "Asian democracy" argued that Western-style democracy often leads to undisciplined and disorderly behavior that is inimical to rapid economic development. An interventionist regime insulated, by the absence of democratic pressures, from conflicting societal demands and guided by prudent technocratic decision making was seen as

ideally suited to provide the requisite order and promote economic development.

The Weak Performance of Strong States

It is now clear that the efficacy of the Asian developmental model was greatly exaggerated. The custodians of Asia's development states (like state elites elsewhere) confirm Moisés Naím's (1997, 309) observation that "while economic fundamentals eventually force governments to adopt painful corrections, political calculations make their imprudent postponement all too frequent. Governments everywhere exhibit politically induced learning disabilities." The evidence unambiguously indicates that ineffective policy responses and indecisiveness on the part of a paternalistic authoritarian regime (Indonesia under Suharto), a "semi-authoritarian regime" (Malaysia under Mahathir Mohamed), and two newly established democratic governments (Thailand under Chavalit Yongchaiyudh and Korea under Kim Young Sam) played a large role in generating market uncertainty and in eventually producing a disastrous loss of investor confidence, both domestically and internationally.[1] Compounding this problem were deep structural/institutional weaknesses, including the much-touted business-government "relationship banking"—which, in the critical months prior to the crisis, served to weaken the independence of central banks and regulatory authorities, slowing their ability to respond to early warning signals of the impending crisis.

In fact, in almost all the high-performing Asian economies (with the exception of Singapore), the implicit government guarantees that encouraged private risk taking contributed much to the onset and the depth of the crisis. Specifically, the long-standing patterns of business-government relationships created a domestic version of moral hazard. In Thailand, Korea, Indonesia, and Malaysia, the pervasive involvement of government in the financial and corporate sectors created expectations that

banks and firms would be protected against failure. Over time, such relationships generated widespread corruption and cronyism, even while the expectations of continued government protection prompted overinvestment in these unworthy firms. This only served to further undermine the capacity of governments to respond to emerging economic problems, including the ability of the central banks and regulatory authorities to enforce whatever rules of prudential regulation and supervision were on the books. The lack of transparency in business-government relationships had been less of a problem when the Asian economies were relatively closed, but it became a serious matter following economic liberalization and deregulation in the late 1980s and early 1990s, which encouraged international investment in the hazardous businesses.

For example, in Indonesia, the line between the public and the private had long become blurred; Suharto governed as the quintessential patriarchal ruler, granting patronage and protection to loyalists and meting out harsh punishment to dissenters. However, while Suharto's personalistic style of rule enabled Indonesia to notch impressive economic growth rates, the capriciousness inherent in personalism, coupled with the absence of representative institutions and institutionalized forms of political mediation and accountability, exacerbated the problems of corruption, cronyism and nepotism.[2]

What about Indonesia's famed economic technocrats (the so-called "Berkeley Mafia"), who were known to have Suharto's ear and enjoyed other forms of privileged access and influence, especially during times of economic trouble? As in the past, why did they not guide the economy in a sustainable direction? Like everyone else in Suharto's Indonesia, the technocrats not only lacked an independent power base; their influence "depended entirely on their relationship with Suharto" (Pincus and Ramli 1998, 729). It seems that before and during the crisis, the respected economists were politically isolated and powerless, their influence eclipsed by Suharto's children and his business buddies. In fact, at the height of

the crisis, Suharto reneged on implementing the much-needed economic and legal reforms recommended by the technocrats because such policies would have hurt the vast economic interests held by his offspring and his cronies. In the end, Suharto's erratic policy announcements only served to unnerve investors. Given the fact that power was so heavily concentrated in Suharto's hands, any perceived weakness in his willingness or ability to respond expeditiously (whether real or perceived) resulted in a disastrous loss of investor confidence, both domestically and internationally.

In the case of Malaysia, under the ostensible rationale of the ethnic redistribution of resources, Mahathir and the Malay political elite built up an increasingly centralized political system based on patronage and cronyism. In their insightful study, *Malaysia's Political Economy: Politics, Patronage and Profits*, Edmund Gomez and K. S. Jomo (1999) note that the bumiputera (Malay) capitalists who emerged under Mahathir were neither authentic entrepreneurs nor industrial managers. Instead they functioned as financial manipulators, engaged in deal-making, asset stripping, and rent collecting of various kinds, including the receipt of direct financial subsidies, lucrative non-competitive contracts from the state, and protection from foreign competition. As a group they failed to contribute to the efficiency, productivity, diversification, or international competitiveness of the Malaysian economy.

Compounding this problem was Mahathir's "big growth push" policy, designed to propel Malaysia to developed-country status by the year 2020. The ever-expanding list of extravagant megaprojects designed to facilitate Mahathir's "Vision 2020" included the Bakun Dam (Asia's largest hydroelectric dam, costing an estimated $10 billion); Kuala Lumpur's showpiece, the Petronas "twin towers" (the world's tallest skyscrapers), built at a cost of some $1 billion; a supermodern airport (estimated at $6 billion); a new administrative capital for the state of Sarawak in Borneo; and most audacious of all, a $14 billion national administrative capital near Kuala Lumpur,

aptly called Putrajaya (city of kings), to be built as a tribute to Mahathir Mohamed himself. Such ambitious projects resulted in massive public investment expenditure and rapid credit expansion.[3] Besides the big projects, much of the credit directed to the property sector eventually weakened the financial position of the banks, as this lending led to a property glut. Moreover, bank lending increasingly took "the form of 'connected (state-directed) lending' rooted in the long-standing intimate link between the government and business" (Athukorala 1998, 92–93).

Thus, instead of responding appropriately when the financial crisis struck (for starters, limiting the self-aggrandizing projects and connected lending), Mahathir's first reaction was to find scapegoats. In a fiery speech on September 20, 1997 (before a joint World Bank-IMF annual meeting in Hong Kong), he argued that "currency trading is unnecessary, unproductive and immoral" and that it "should be stopped and made illegal" (Jomo 2001, 14). A few days later Mahathir suggested that an international Jewish financial conspiracy might be trying to cripple his predominantly Muslim country. He lashed out against foreign currency traders of Jewish heritage—in particular, financier George Soros—branding him a "moron" and a criminal (Tan 2000, 17–18). As Gomez and Jomo (1999, 189) note, "the ringgit probably fell much further than might otherwise have been the case, as a result of international market reaction to Mahathir's rhetorical and policy responses to the unfolding crises."

Was More Democracy the Answer?

What about the two fledgling democracies in the region, Thailand and Korea? Scholars have long distinguished between two forms of democratic governance. Under procedural forms of democracy, a minimum set of democratic rules and rights is observed, including free and fair electoral competition based on universal suffrage; guaranteed freedoms of expression and association; independent media

and judiciary; and accountability through the rule of law. However, in a substantive democracy not only are the basic procedural requirement met, but citizens are broadly included in the political arena and democratic norms and values are highly institutionalized and routinized (Karl and Schmitter 1991).

Clearly, democracy in Thailand and Korea (as in most new democracies) is procedural, not substantive. However, the problems they experienced in dealing with the crisis are difficult to attribute to a lack of "substantive" popular participation. If anything, these countries were strongly democratic, in that they were highly sensitive to pressures from civil society during the severe economic downturn, and therefore were less able than more "advanced" democracies to override public opinion and interest-group desires so as to implement economically literate, technocratic policy initiatives that were autonomous from democratic currents. Instead, these governments were pulled in all directions by interest groups, even while legislative and electoral "veto gates" (Haggard 2000, 49) delayed dealing with the mounting problems in the financial sector.[4] According to Robert Wade (2001, 69–70), "in Thailand and South Korea, new civilian democratic regimes corrupted the central policymaking technocracy and lost focus on national economic policies. Government-bank-firm collaboration came to be steered more by the narrow and short-term interests of shifting coalitions. Their experience is bad news for the proposition that more competitive politics yield better policies."

In the case of Korea, scholars such as Jongryn Mo (2001, 468) have argued that "political gridlock" and the "immature and unconsolidated nature of Korean democracy" made for poor economic policy making and implementation. Specifically,

> policy gridlock was frequent because of a traditional political culture and weak democratic institutions, which were most pronounced in the legislative process. First, the system of legislative bargaining was not

> firmly established. Despite its constitutional mandate, the National Assembly continued to be subordinate to the executive branch in the policy-making process. Nor did the bureaucracy provide a stable mechanism of interest intermediation. As a result, disputing parties did not have a place in which to negotiate.

But implicit in Mo's analysis is an image of "strong" democracy according to which societal interests would have been "mediated"—that is, in which some of them would have been overridden—by legislators and bureaucrats. This is an image more often associated with strong states, but weak civil societies—that is, with states whose policies are relatively autonomous from civil society, and are therefore less democratic. If anything, popular participation was the problem, not the solution, especially keeping in mind that the growing divisions within the ruling party, and the impending general elections (in December 1997), made the government highly sensitive to pressures from corporations and the well-organized working class. Under this pressure, the ruling-party legislators backed away from introducing the necessary policy reforms, or indeed any policy measures they thought might damage their chances at the polls.

In the case of Thailand, a deeply fragmented party system produced an undisciplined coalition government subject to factionalism, blackmail, and policy incoherence. As Stephan Haggard (2000, 52) notes, "all of the democratically elected governments [in Thailand] before the crisis . . . were constructed from a pool of approximately a dozen parties, and cabinet instability was a chronic problem. As leader of the governing coalition, the Prime Minister was vulnerable to policy blackmail by coalition partners threatening to defect in pursuit of better deals in another alliance configuration." Indeed, weak party discipline made political parties and governments highly sensitive to demands from powerful business constituents. For example, Finance Minister Amnuay Virawan and Central Bank Governor Rerngchai Marakanond found that their efforts to close down ten ailing finance companies came to noth-

ing, because politically based opposition from within the government vetoed their measure. Not surprisingly, under such inauspicious conditions, the Thai government proved slow in reacting to warning signals before the crisis struck, and had great difficulty in formulating a coherent response once it did.

In light of these problems, it is paradoxical that while both democratic and authoritarian regimes in Asia proved equally susceptible to the economic crisis, democracies more effectively dealt with the crisis. In particular, the democratic governments in Thailand (under Chuan Leekpai, November 1997–January 2001) and in Korea (under Kim Dae-Jung, January 1998–2003) were relatively successful in exploiting their new popular mandates, not to mention the honeymoon period that electorates usually accord newly elected governments, to implement some important reforms, including taking action against the previously favored vested interests.

Clearly, in a democracy, an unfolding economic crisis can open wide a window for reform. A change in administration may often trigger bold actions at first, and given the popular expectation that the new government quickly repair the economic damage, a crisis can further empower a new government to continue to carry out whatever macroeconomic reforms it (autonomously) decides would be effective, even after the normal honeymoon period. This suggests that the trappings of democracy provide legitimacy, moral authority, and credibility to states that can formulate and implement economic reforms that would be unlikely candidates for popular approval under regimes that were *more* democratic, and therefore granted state personnel less policy autonomy—at least once the semi-democratic state's unreformed policies have precipitated an economic crisis.

Korean Democracy or Technocracy?

Korea under Kim Dae-Jung provides a good example. Under a three-year standby agreement with the IMF, ap-

proved on December 4, 1997, Korea was lent $21 billion, or 950 percent of Korea's IMF quota. Korea made ten drawings, totaling $19.5 billion, under the arrangement. On August 23, 2000, the IMF's executive board announced that given the economic recovery, Korea did not intend to draw the remaining funds (IMF 2000).

A sharp turnaround in current account balances had contributed to a rapid accumulation of foreign exchange reserves, making the Korean economy more resistant to external shocks. With the central bank resisting the temptation to inflate the currency, by August 1999, the won had appreciated nearly 30 percent against the U.S. dollar (in nominal terms) since bottoming out in January 1998. Just as impressive, the ratio of short-term debt dropped to 20 percent of the total debt, from more than 40 percent in 1997. By mid-1999, unemployment had been reduced and inflation contained. Finally, a wide range of structural reforms made Korea's economy more competitive and open. Significant progress was made in stabilizing the financial system, addressing corporate distress, strengthening the institutional framework for corporate governance and financial-sector supervision, liberalizing foreign investment, and improving transparency. Korea's V-shaped recovery and reform measures surpass those in other crisis-affected economies.

Korea's impressive achievements were the result of a combination of factors, including the early resolution of creditor panic, the export-oriented industrial structure, a favorable external economic environment, the expeditious implementation of IMF-mandated structural reforms (in particular, a wide range of changes that addressed weaknesses that had contributed to the crisis), the Korean government's cautiously expansionary macroeconomic policies (especially after mid-1998), an efficacious administrative and bureaucratic structure, and Kim Dae-Jung's personal commitment to democracy and economic reform.

Korea's achievements have been seen by many as merely a vindication of IMF-imposed policies (e.g.,

Chopra et al., 2001). But the Kim Dae-Jung government did more than accept the very tight monetary and fiscal policy measures requested by the IMF to defend the exchange rate. The administration also collaborated with the IMF and the World Bank to devise a wide-ranging and politically difficult structural adjustment program to address the outstanding problems in the financial and corporate sectors and in the labor markets.

What is not as well known as these outcomes is how they were produced. Kim Dae-Jung was actively involved in all eight of the formal meetings Korean officials held with the IMF during 1998 to review the progress of the programs. He and his senior advisors were actively involved in questioning and shaping the content of the programs (Bridges 2001, 70–71). Furthermore, once the policies were agreed to, Kim Dae-Jung took a major role in ensuring their effective implementation.

Clearly, if policy reforms are to be effective, not only must there be commitment from the political leadership, but the state must also have some capacity to implement the new policies. The commitment was certainly there. Kim Dae-Jung's unequivocal anti-chaebol worldview and strong belief that "the economic crisis in South Korea was due to the collusive relationship between the government and business, the state-controlled financial sector, and the octopus-like overexpansion of the big business conglomerates" explains the zeal and determination with which his administration attempted to reform the Korean economy.[5] Moreover, Kim brought to his administration a number of key advisors with strong anti-establishment views. Yet such commitments would have come to naught had Kim's underlings not enjoyed the capacity to implement the new policies. Even in order to implement free-market reforms such as Kim's, states need to be able to act as corporate entities with broadly collective goals. Indeed, Peter Evans (1995) has persuasively argued that state cohesiveness—undergirded by a robust, Weberian bureaucratic corps—is essential to developmental success. Korea, long known as the paradigmatic developmental

state, had the institutional and administrative capacity to effect the leadership's reformist goals.

The Kim administration's achievements are all the more impressive in light of the fact that the conditions surrounding its electoral victory did not appear particularly auspicious for major reforms. Kim, a political maverick, ran as an unsuccessful presidential candidate three times, in 1971, 1987, and 1992, before he finally won on December 18, 1997. The margin of his victory was paper thin. With 80.7 percent of all qualified voters participating, he received 40.3 percent, Lee Hoi Chang 38.7 percent, Rhee In-Je 19.2 percent, and labor leader Kwon Young-Gil 1.2 percent. Kim's party, the National Conference for New Politics (NCNP), obtained only 78 of the National Assembly's 299 seats. On the other hand, Lee Hoi Chang's Grand National Party (GNP) controlled a comfortable majority in the parliament, with 161 seats. Kim's victory was possible only because of a split within the ruling party, and an unlikely alliance between Kim Dae-Jung's NCNP and conservative Kim Jong Pil's United Liberal Democrats (ULD).[6] It was only in September 1998 that the ruling coalition secured a majority in the National Assembly "by enticing a large number of opposition lawmakers to defect" (Kim 2000, 895).

Given these formidable challenges, what explains the administration's relative success in implementing measures to reform the Korean economy and the chaebol, where his predecessors had failed? While economic crises coupled with externally driven pressures (such as the IMF mandates) doubtless provided opportunities to implement major reforms, Kim skillfully used every opportunity to pursue reforms. For starters, as the perennial political outsider, he had little problem portraying himself as a man of the common people who was above the fray of partisan politics, and who represented the aspirations and interests of working people as opposed to the sectarianism and self-interested machinations of traditional politicians. Indeed, of the key party leaders, only Kim Dae-Jung could completely distance himself from the discredited governments of Kim

Young-Sam and earlier presidents. This he did with great deftness.

Second, Kim Dae-Jung's international reputation as a champion of human rights and democracy served him well. As Brian Bridges (2001, 41) notes, Kim's warm relations with world leaders, including President Clinton, Japanese prime minister Hashimoto Ryutaro, and financier George Soros, "worked wonders in transforming international perceptions of Kim Dae-Jung in a favorable direction."

Using the Crisis to Craft a Democratic "Mandate"

Perhaps more importantly, Kim's robust in-charge approach and decisive actions during the interim between his election (December 18, 1997) and inauguration (February 25, 1998) inspired confidence and precluded the feeling that there was a power vacuum at the center during the transition period. For example, just two days after the election, Kim Young Sam and Kim Dae-Jung met and formed a joint 12-member Emergency Economic Committee (ECC). Haggard (2000, 101) notes that

> for the two months before the inauguration, this body, made up of six members from the outgoing and incoming governments but effectively under the president-elect's control, served as the de facto economic cabinet. Kim's coalition (NCNP and ULD) and the majority GNP also agreed to convene a special session of the National Assembly to deal with a series of reform bills required under both the original IMF program and its 24 December revision.

Kim Dae-Jung also used this transition period to push through important financial reform legislation that had been stalled under the previous government, and to acquire new means of autonomous decision making. In particular, the delegation of substantial powers to the newly

created Financial Supervisory Commission (FSC) greatly enhanced the government's powers. The FSC, in exercising de facto control over the entire banking system, including the allocation of credit, provided the government with substantial leverage over the chaebol.

Finally, unlike his immediate predecessor, Kim Dae-Jung seemed decisive and to have a clear grasp of the causes of the crisis. His observation that "past government failures" and "collusive links between companies and politicians" lay at the heart of Korea's crisis resonated with the Korean public (Dae-Jung 1998, 280). Kim shrewdly exploited the intense unpopularity of the chaebol management and chaebol financial weakness to formulate an ambitious agenda of corporate restructuring (Bridges 2001, 43–45). In fact, well before his inauguration, Kim reached an agreement with chaebol leaders regarding plans to restructure and reform their companies. And as Mathews (2001, 166) notes, Kim "showed that he meant business by calling a meeting of the country's top five business leaders—the heads of the leading chaebol—in January 1998, only three weeks after his election and six weeks before his inauguration, to secure their agreement to a binding five-point undertaking."

Despite the various attempts by the chaebol to undermine, if not sabotage, the reform efforts, the administration's commitment to reform did not falter. For example, since the restructuring of the top five chaebol was viewed as too complex for either the courts or the banks to undertake by themselves, the government required them to restructure through "voluntary capital structure improvement plans" (CSIPs) that were agreed to by the banks, the government, and the chaebol. However, by September 1998—after several rounds of delays by the top five chaebol in submitting their revised CSIPs—the government issued an ultimatum. Failure to move on their restructuring plans would result in credit sanctions. Moreover, the government pressured the top five chaebol to reduce their level of horizontal diversification and concentrate on their "core" businesses (World Bank

1999, 103). Under the program, the five largest chaebol agreed to swap major lines of business among themselves to consolidate excessive and duplicative investments, achieving greater economies of scale and "industrial rationalization."[7] As Meredith Woo-Cumings (2001, 367–68) observes,

> the democratic government of Kim Dae-Jung did not shy away from using strong-arm tactics to bring about the desired results. When LG Group decided to pull out in the midst of merger negotiations, objecting to Hyundai taking the controlling share, the Financial Supervisory Commission immediately called in LG Group's creditors to discuss punitive measures, including immediate suspension of credit and recall of existing loans. On top of that, the government threatened to conduct a tax probe.

In the end, LG Group agreed to the merger, relinquishing management control and selling its semiconductor business to Hyundai. Similarly, Samsung was encouraged to sell its automotive operations to Daewoo. Other "big deals" included the sale of Hyundai's and Samsung's power generation businesses and Samsung's ship-engine operations to Korea Heavy Industries; the acquisition of Hanwha's oil refining operations by Hyundai; the merger of Samsung's, Daewoo's, and Hyundai's aerospace operations; and the merger of Samsung General Chemicals and Hyundai petrochemicals.

These deals will require huge quantities of public funds to enable creditor banks to swap debt for equity, so they have the potential of "giving the chaebol back door access to public funds to reduce their large debts" (Tan 2000, 195). Despite these challenges, the government has been modestly successful in getting the chaebol to separate ownership from management. Furthermore, there has been reform in chaebol corporate governance through consolidated financial statements, independent external audits, and the reduction of intragroup mutual payment guarantees. Chaebol have also streamlined their operations by reducing their excessive leverage and consolidating their many operations into a few core competencies.

Some have also reduced their debt burden and increased their profitability.

The initial reforms proved inadequate to spare one chaebol, Daewoo, from collapse. No doubt with the Daewoo mess on his mind, President Kim made a forceful address to the nation on the 54th anniversary of National Liberation, August 15, 1999. He stated that "without restructuring the corporate giants, the chaebol, the most problematic element in our economy, the economic reforms cannot be completed. . . . I am determined to go down in Korea's history as a President who first accomplished corporate reforms" (Kim Dae-Jung 1999, 533). Soon after, a second agreement was reached between the top five chaebol, the government, and the creditor banks. The chaebol agreed to a second series of potentially far-reaching reforms, including increased transparency, greater accountability, and independent subsidiaries with professional managers in control. The agreement also poses a real threat to their founding families' control of the chaebol by requiring enforcement of the inheritance tax, among other things.

Populist Credentials, Corporatist Programs

Enhancing labor-market flexibility has been a key goal of Korea's structural reform, and one that was fraught with obvious electoral dangers. Nonetheless, Kim Dae-Jung was instrumental in forging agreements with business, labor, and the government in order to get them to work together to resolve the country's financial woes. Arguably, it was Kim Dae-Jung's long history in the opposition, his well-known pro-labor views, and his overall populist credentials that enabled him to get Korea's mobilized and militant working-class constituency to accept the austerity requirements of fiscal stabilization. Kim proved adept at manipulating these political assets in order to achieve a corporatist rather than populist agenda (that is, he resisted the "populist temptation"—that politically expedient, but fiscally irresponsible increase of

government spending to ameliorate the social costs of reform).

Once in place, the agreements Kim secured placed public pressure on both business and labor to make concessions and also provided the basis for subsequent legislation. Under the new law, layoffs are permitted if a company has duly considered the interests of its workers. Labor agreed to the implementation of flexible worker layoffs for the purposes of restructuring, and pledged to make every effort to enhance productivity and cooperate with businesses on wages and working hours. In return, the government has committed itself to strengthening its support programs by providing vocational training, unemployment insurance, a huge public-works program, and information on re-employment. Furthermore, new employment options such as temporary work, part-time employment, and work at home are being contemplated.

State Autonomy under Democratic Cover

The bold actions by the Kim administration belie the conventional wisdom that politicians in fragile democracies will eschew tough decisions. The Korean case suggests that new democracies can provide previously subservient states the capacity to deal with major socioeconomic and political challenges, even when civil society is comparatively strong and the measures taken would normally be unpopular. What is needed in such cases is that "society" be neutralized, in effect, by "its" electoral conferral of authority on the state. Of course, it helps a great deal if the state possesses the factors that have traditionally been identified with a state's "capacities"—e.g., a disciplined bureaucracy, as Kim had at his disposal. But it was his own authority, conferred by "society," that allowed him to take advantage of the bureaucracy, and to deploy his political skills, in such a way as to do what, in theory, only can be done by a "substantive" democracy: mediate and contain particularistic demands, and fill the void when such elements of "society" as political parties, labor

unions, and autonomous social organizations are relatively divided.[8]

As Mo and Moon (1999a, 158) note,

> democracy provided unexpected opportunities for economic reform. Because of his longstanding commitment to democracy, Kim Dae-Jung has enjoyed a great deal of goodwill and support from foreign investors and allies (especially the U.S. government), who wanted him to succeed. Domestically, too, democracy gave legitimacy and credibility to the government's reform efforts.

Kim Dae-Jung's apparent success in reforming the Korean economy shows that economic reform can be imposed with only the vaguest of popular "mandates." Procedural democracy alone—without the advent of "substantive" democracy—can provide legitimacy to policies conceived by technocrats and implemented in the teeth of populist and interest-group policy preferences. The mere "procedure" of even minimal democracy—the act by which civil society, through the electorate, legitimates new state personnel—can be sufficient, especially in a crisis when this procedure is interpretable as a "mandate," to strengthen a state considerably, conferring previously undreamt-of autonomy on state personnel to enact society-defying policies.

Maintaining such policies may be a different story, however. If stable pro-reform political coalitions are needed, Korea may be in trouble. The parliamentary elections held on April 13, 2000 once again resulted in a deeply divided parliament with no party in the majority. The opposition GNP won 133 seats—which gave it a plurality in the 273-member National Assembly—but left it four seats short of an absolute legislative majority. Kim Dae-Jung's NCNP—whose name was now changed to Millennium Democratic Party—came in second, with 115 seats and 35.9 percent of the popular vote. Kim Jong-pil's United Liberal Party (ULD) placed third, winning 17 seats. In such an environment, getting working coali-

tions committed to reform will be difficult. Moreover, various corruption scandals (although neither Kim Dae-Jung nor his family members have been implicated) have diminished the popularity of the administration, and the public disillusionment with politics will make it difficult to maintain political support for reform. On the other hand, should the reforms implemented thus far prove to be successful in a way that the media manage to convey to the electorate, further "mandates" for essentially autonomous reform policies may emerge.

The Korean case shows that at least under crisis conditions, a strong state may emerge to take surprisingly bold actions that heretofore autonomous social interests find themselves unable to resist. Such conditions, however, cannot be taken for granted. Over the long term, for example, the Korean state's institutional capacities would have to be augmented to deal with the myriad challenges that neoliberal reforms can be expected to call forth from civil society.

NOTES

1. The Malaysian political system is sometimes referred to as "semi-authoritarian" or "semi-democratic" because it contains features of both authoritarianism and democracy. That is, although the constitutional framework of the Malaysian political system is essentially democratic (elections have been held regularly, the government is responsible to an elected parliament, and the judiciary is constitutionally independent), the democratic framework is accompanied by a wide range of authoritarian controls that greatly limit the scope for effective political opposition. These controls also make the defeat of the ruling party at the polls almost impossible.
2. As Max Weber noted long ago, inherent in personalism is "patrimonial bureaucracy," with a penchant for official malfeasance and outright corruption.
3. Prema-Chandra Athukorala (1998, 89) notes that "public investment expenditure surged, pushing the total investment to GDP ratio to 46 percent in 1997, the highest in the region."
4. Stephan Haggard (2000, 49) defines a veto gate as an institu-

tion that has the power to stop a policy proposal, thus forcing a reversion to the status quo. Veto gates can include the president, the legislature, a second chamber of the legislature, a committee within a legislature, or the courts. In authoritarian governments, they may include the military. The preferences of these veto gates may be more or less closely aligned, such that while the president and the legislature may represent distinct veto gates, they might also be either of the same party (unified government) or of different parties (divided government).

5. The quotation is from Sanhyuk Kim (2000, 167). Similarly, Peter Beck (1998, 1030) notes that "shortly after taking office, President Kim told one reporter, 'if the chaebol reform, they will be given incentives; if they don't, they will be at a disadvantage.'"
6. John Kie-Chiang Oh (1999, 231) notes that "if Rhee had not split the ruling camp, Lee would probably have been the winner."
7. More specifically, under the "big deals," it was hoped that each of the major chaebol would concentrate on only three or four core businesses, swapping other businesses with each other in order to achieve industrial rationalization.
8. The danger in relying on such leadership is that they may also deliberately weak or eliminate institutional checks on their authority. Guillermo O'Donnell (1994) refers to such systems as "delegative democracy"—where economic crises and institutional weaknesses allow personalist leaders to usurp power.

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