

Industrial Structure, Democratic Transition and the Transformation of the Developmental State

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Abstract

We have learned a lot about on how the developmental state successfully engineered rapid economic growth in the post-war period and how the developmental state transformed as a result of the emergence of socioeconomic forces in the development process. However, scholars have generally overlooked a theoretical puzzle: Despite similar levels of economic development engineered by the state, why is it that there are both cross-case and within-case variations in the transformation of the developmental state? My thesis introduces a theory of ‘the dynamics of the developmental state’ to narrow this theoretical gap in studies of the developmental state. I argue that the variations in the transformation of the developmental state are primarily produced by two factors: industrial structure and democratic transition. Both factors are shaped by strategic calculations of ruling elites who built and run the developmental state. Using methods of comparative historical analysis, I test my arguments in three typical cases of the developmental state (i.e. South Korea, Singapore and Taiwan), which have exhibited significant divergence in the transformation process since the early 1980s.

The empirical evidence presented in this study offers strong support for my assertion. In the case of South Korea, where the strategic calculations of the ruling elites resulted in an industrial structure characterised by a high level of domestic private capital concentration (DPCC) and a rapid democratic transition carried out in 1987, the emergence of strong state policy constraints produced by a range of social actors (i.e., business elites, organised labour, and the middle class) led to a rapid transformation of the developmental state since the early 1990s. In contrast, in the case of Singapore, where the ruling elites’ strategic calculations resulted in an industrial structure characterised by a high level of FDI and SOE and an absence of a democratic transition, the transformation of the developmental

state has not occurred because the state policy process has been largely immune from state policy constraints of social actors. The case of Taiwan offers further confirmation of my theory. Prior to 2000, when the strategic calculations of the ruling elites led to the formation of an industrial structure characterised by a low level of DPCC and a significantly slower process of democratic transition, a gradual transformation of the developmental state occurred as a result of the emergence of minor state policy constraints among business elites and the middle class. In the post-2000 period, the increase in the level of DPCC and the completion of the democratic transition led to the emergence of enormous state policy constraints, which eventually resulted in a rapid transformation of the developmental state in Taiwan.

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Chapter One

Introduction

The Issues, the Puzzles and the Arguments

An Overlooked Theoretical Puzzle in Studies of the Developmental State

The concept of the developmental state has evolved out of the post-war development experience of East Asian New Industrialised Countries (NICs). Since the early 1980s, the theories of the developmental state have been the centre of scholarly attention in several academic fields including development economics, political economy and political sociology. Broadly speaking, studies of the developmental state proliferated between the late 1980s and mid-2000s have covered two specific areas:¹ One area concerns the capacity of the developmental state to generate rapid economic growth; the other area concerns the decline of the developmental state in directing the state-led development process. Over the past three decades, these studies have made a significant contribution to our understanding of the rise and decline of the developmental state. My study addresses one theoretical puzzle that has largely been overlooked in these studies of the developmental state: Despite similar past economic successes engineered by the state, why is that the transformation of the developmental state not identical across East Asian successfully industrialised economies?

My explanation for the variation in the transformation of the developmental state is a political one. Understanding why the developmental states have been locked onto

¹ Two waves of research on the developmental state will be further examined in the next sub-section.

divergent transformation paths requires an exercise in comparative politics. The study intends to introduce the theory of ‘the dynamics of the developmental state’ to account for the variations in the transformation of the developmental state in East Asia. The state policy process is a dynamic process that is constantly shaped by specific policy constraints facing the ruling elites in the development process. The very successes and processes that their policies brought about generate new sets of constraints on the state policy-making process, which, in turn, reshapes the developmental state in the process of economic development. In this study, I focus on two types of policy constraints – structural constraints and institutional constraints – that have reshaped the transformation outcomes of the developmental state in East Asia. Providing an answer to the East Asian puzzles depicted above, I argue that the divergent levels of the state policy constraints have been primarily responsible for the divergence in the transformation of the developmental state. To account for the divergent policy constraints, I turn to two variables, i.e., industrial structure and democratic transition, both of which are shaped by the strategic consideration of the ruling elites. The former shapes the levels of state policy constraints by determining the types of economic interest groups emerging from the development process. The latter generates state policy constraints by transforming the political foundation of the developmental state. The variations in the two variables thus play crucial roles in producing the variations in the transformation outcomes of the developmental state in East Asia.

The remainder of this introductory chapter is designed to accomplish several tasks. Firstly, I will revisit the historical context of the studies on the operation and transformation of the developmental state. Secondly, I will detail the theoretical puzzle concerning the variation in the transformation of the developmental state. Thirdly, I will further elaborate my theoretical arguments by highlighting the causal linkages behind the variations in the two

factors and the variations in the transformation of the developmental state. Fourth, I will discuss how my research design facilitates the testing of my theoretical arguments.

The Operation and Transformation of the Developmental State

East Asia's remarkable economic success in the post-war period has spurred voluminous literature in the field of development economics and comparative political economy concerning the concept of the developmental state. The creation of the concept of the developmental state through the documentation of the remarkable economic experiences of East Asian NICs was an event of major scholarly significance. Constructing a Weberian ideal type of interventionist state, the concept of developmental state coined by Chalmers Johnson presents an alternative model of economic development that is neither a socialist central-planning system nor capitalist free-market economy (Woo-Cumings 1999:1). Theoretical discussion surrounding the concept of the developmental state greatly challenged the prevailing neoclassical theory that successful industrialisation resulted from laissez-faire policies by offering an alternative explanation to the remarkable economic growth of East Asian late developers (Johnson 1982; Wade 1990; Onis 1991; Chan, Clark and Lam 1998, Clark and Jung 2002).

For many years, the idea of the developmental state has been central to our understanding of the East Asian economic miracle. To some scholars, the developmental state is 'shorthand for the seamless web of political, bureaucratic and moneyed influences that structure economic life in capitalist Northeast Asia' (Woo-Cumings 1999:1), and the leadership of the developmental state is 'a central characteristic of these late-late-late industrialisers' (Clark and Chan 2004:49). According to Stubbs (2009:2), analyses of the developmental state 'reached something of a climax in the late 1980s and early 1990s'. In

this period, a large amount of developmental state literature has pointed out the effectiveness of the state policy process in enhancing the economic performance of a country in the East Asian developmental state (see a full review of the developmental state model in the next chapter). Here I need to point out that the nature of the East Asian state has been the key explanatory variable to link state intervention and economic performance in East Asia. What is central to the developmental state model is the state's strategic actions in directing the overall economic growth of a country through effective state policy intervention. According to Clark and Jung (2002), the developmental state displays three distinctive characteristics: strength, autonomy, and development commitment.² These characteristics ensure the economic leadership of the state in the political economies of these rapidly industrialising countries.

The late 1990s was a turning point for the study of East Asian developmentalism. Up until then, the concept of the developmental state thrived because of its empirical robustness in explaining the East Asian countries. In 1993, even the international developmental agency – the World Bank – for the first time offered its endorsement regarding the concept of the developmental state by recognising that the state plays a role in sustaining high growth. Subsequently, its 1997 World Development Report was devoted to analysing the role of 'the state in the changing world' (World Bank 1993; 1997). Up to that point, East Asian economic development had been held up to the rest of the developing world as a model. However, the economic success of the post-war East Asian economies came to an abrupt halt after the 1997 Financial crisis. The crisis was not predicted by the Asian financial

² According to Clark and Jung (2002), the primary characteristics of the developmental state for generating growth-promoting policies include a development-orientated government, a competent economic bureaucracy for formulating and executing economic programmes and strong ability to insulate economic policy-making from societal pressure.

community and not theoretically predictable via the usual leading indicators (W-T Woo 2000).

Not only did the 1997 Asian financial crisis not only abruptly end the economic miracle of the region, but it also cast serious doubts on the state-led developmental model that most of the region had pursued and those theoretical explanations along with it. The disorientation of the state-led development process has given neoclassical analysts the opportunity to advance their ideas and discount the strategic role of the state in the industrialisation process. To some analysts, the 1997 Asian financial crisis experienced by the South Korean economy is was a result of past state intervention in the financial sector (Rowley and Bae 1998; Biggart 1998). Although the Korean economy recovered quickly at the end of the 1990s, it seemed that ‘the most severe and lasting casualty of the 1997 crisis was the East Asian developmental state model itself’ (Wong 2004:345). In the aftermath of the Asian financial crisis, the literature of the East Asian political economy took a sharp turn, as terms like ‘crony capitalism’ and ‘money politics’ came to replace titles such as the ‘East Asian Miracle’ (see Kang 2002a; 2002b). According to this line of argument, the state’s strategic role in the economy led to nothing but institutional corruption and economic inefficiency. But the question to be asked is: Why did the state’s policy intervention in the market work in the past? The answer to this question lies in the transformation of the developmental state. As Clark and Jung (2002:36) write on the roots of the 1997 Asian Financial crisis, ‘Even in terms of government failure, the demise or stillbirth of developmental states was probably more to blame than the creation of competent bureaucracies’.

Clearly, the developmental state is not static but transitional in the development process. Peter Evans (1995:203) once provided an accurate prediction on the future of the

developmental state in the state-led development process: ‘State strategies can also create social groups whose agendas conflict with the state’s original objects.’ Since the mid-1990s, Evans’ prediction has indeed been confirmed by many studies on the transformation of the developmental state. Explaining the declining capacity of the state in directing economic development, these studies point to the transformation of the developmental state (see a full review of the literature on the transformation of the developmental state in the next section). Here it is important to point out that the overall thesis of these studies is that the rise of socioeconomic forces has been a major factor contributing to the declining capacity of the developmental state model in the region in more recent years.³ Specifically, some studies have suggested that that, with the rise of various socioeconomic actors, the strong capacity of many East Asian states to formulate optimal state policies was significantly reduced, and these developmental states can no longer be insulated from the rent-seeking behaviour of various social and economic groups in both South Korea and Taiwan (e.g. Heo and Tan 2003; Tan 2008). In short, it looked like that the old principles behind the East Asian states operating in a developmental manner were disappearing very quickly during a short period of time after each East Asian country reached an advanced stage of socioeconomic development.

³ I am certainly aware that studies have pointed out that other economic forces such as globalisation and industrial upgrading can also weaken the interventionist state. For a general discussion on the impact of these economic forces on the developmental state, see Weiss (2000), Wong (2004), Beeson (2004) and Stubbs (2009). However, as the impact of globalisation and industrial upgrading equally affected the post-war East Asian economies, they thus cannot explain the divergent transformation outcomes of the developmental state across the region. These alternative sources for the transformation of the developmental state will affect the testing of my arguments as they will be excluded through the research design (see the second part of the chapter).

Divergent Outcomes in the Transformation of the Developmental State

The rise of the developmental state in the post-war period in East Asia was one of the most spectacular events of the 20th century. Under the leadership of strong states, several East Asian countries have successfully achieved fundamental structural transformation of their economies, and have fundamentally transformed these countries from backward agricultural societies into prosperous industrial ones within a relatively short period. Such rapid catch-up growth was first launched by Japan in the 1950s and carried out by the Four Asian tigers (i.e. South Korea, Taiwan, Singapore, and Hong Kong) in the 1960s. Without natural resources and the 'European advantage', all five countries managed to escape from the middle-income trap and had developed into advanced and high-income economies through promoting export-orientated industrialisation by the 21st century (Kanchoochat 2015). These economic achievements have also been matched by positive indicators of improved living standards and remarkable socioeconomic transformation. Even a political miracle followed in some parts of the region, as a rich middle class 'emerged with a lively democratic voice in economic affairs' (Gill and Kharas 2007: 1).

The remarkable stories of the East Asian economies have inspired scholars to attribute the industrial development of the region to the deliberate statist intervention in the economy. Studies have shown that the governments of three East Asian economies (i.e. South Korea, Taiwan and Singapore) have played a strategic role in directing respective economic development programmes since the early 1960s: Under the leadership of the developmental state, the three economies kicked off their rapid economic growth following their switch to the export-led growth model in the early 1960s and pushed for industrial upgrading in the late 1970s (Wade 1990; Haggard 1990; Amsden 1989; Huff 1995). In the process of such state-led development, scholars emphasised the strategic actions of the

states in initiating the developmental strategies for achieving growth - the Taiwanese state nurtured SMEs and SOEs, the Korean state promoted chaebol, and the Singaporean state sought partnership with MNCs and established SOEs (Wade 1990; Amsden 1989; Haggard 1990; Huff 1995). In recent years, relying on their respective development strategies, the developmental state in the three East Asian economies embarked on a new post-industrial stage for leading knowledge-intensive innovation-driven industrial development (Wong 2011).⁴

However, it is clear now that the coherent nature of the developmental state in promoting economic growth cannot last for long. The model of the developmental state is certainly not static but rather transitional in the developmental process. Socio-political changes accompanying the rapid catch-up growth promoted by the state's deliberate policies pushed the transformation of the developmental state. Given East Asia's extraordinary socioeconomic transformation brought about by rapid economic growth, the transformation of the developmental state at later stages of the development process seemed to be inevitable. Yet, a close examination of the narratives on the transformation outcomes of the developmental state reveals that such transformation processes were not entirely identical in these countries.

Since the early 1990s, while some analysts have attempted to describe the decline of the developmental state, other analysts have been depicting the resilience of the developmental state in the same region. These divergent narratives of the more recent performance of the developmental state contain a series of puzzling facts. Why had the South Korean

⁴ Revisiting the role of the state in more nurturing advanced emerging industries, Wong's study shows that the developmental state model has proved to be less effective in promoting innovation-driven growth than previous learning-based catch-up growth in all three case countries (i.e. South Korea, Singapore and Taiwan). It is worth noting that this study does not concern whether the developmental state model is effective in generating economic growth. What I am concerned about is whether the developmental state model is still functioning in leading the development process.

developmental state already showed a sign of decline even before the country's democratic transition in the late 1980s (E-M Kim 1998; Moon 1994)? What led to its rapid decline in the early 1990s, which subsequently resulted in the country's economic disaster during the 1997 financial crisis (Minns 2001; Y-T Kim 1999; Heo and Tan 2003; Clark and Jung 2002)? Why did the Korean developmental state manage to achieve some temporary revival in the post-crisis period despite the continuation of the transformation of the developmental state (Cherry 2005; Y-T Kim 2005; Hundt 2014)? Why did the Taiwanese developmental state managed to retain its leadership role in the economy in the 1990s and sheltered the country from the financial crisis (Tan and Heo 2003; Tan 2001; Chu 1994; Clark and Jung 2002)? What has caused the rapid decline of the developmental state in the 2000s (Wu 2007; Tan 2008, 2009; W-W Chu 2011; Lee and Chu 2008)? While these two states have 'mutated into something different' one after another (Y-P Chu 2006:147), the Singaporean developmental state remains in 'good health' (Clark and Chan 2004:51; Yeung 2005). Despite the belief that the transformation of the developmental state is inevitable, how did the Singaporean state manage to strengthen its position in society and embark on new economic projects (Pereira 2008)?

The experiences of the East Asian developmental state in the recent years clearly pose two empirical puzzles to East Asian specialists. The first puzzle concerns the variation in the transformation of the developmental state across the region. Why did some East Asian developmental states transform more rapidly than others despite similar levels of socioeconomic development? The second puzzle concerns the variation in the transformation of the developmental state in one single country. Within national borders, why did the transformation of the developmental state occur more noticeably during some historical periods than others despite the country's consistent performance in socioeconomic transformation? The two puzzling variations in the transformation of the

three typical East Asian developmental states needs an explanation. What lies behind the variations in the transformation of the developmental state? My study thus addresses the research question: Why are there variations in the transformation of the developmental state despite the similar levels of socioeconomic development?

Industrial Structure, Democratic Transition and the Transformation of the Developmental State

The Structure of the Main Argument

Providing an answer to account for the variations in the transformation of the developmental state is the primary objective of this study. Since the dependent variable of the study is the transformation outcome of the developmental state, it is necessary to provide an explicit definition of the concept of what the transformation of the developmental state is. In this study, I define the transformation of the developmental state as a process in which a reduction of the state's capability in formulating growth-promoting industrial policies occurs. Such transformation of the developmental state undermines the state's capacity to direct industrial development.

I consider that the transformation of the developmental state occurs when institutional changes occur to the state policy mechanism. Institutional changes can occur in three aspects of the state policy mechanism: that is, state strategic vision, state-led state-business cooperation and labour policy subordination. I will explain these three aspects of the transformation of the developmental state further. Institutional changes occurring to state strategic vision concerns the reduction in the state's capacity to formulate coherent

economic programmes for industrial upgrading.⁵ Institutional changes occurring to state-business cooperation indicates erosion of the capacity of the state to play a leadership role in its collaboration with the private sector. Institutional changes occurring to policy subordination of organised labour suggests an increase in the policy status of organised labour in the development process directed by the state-business alliance. Thus, transformation of the developmental state will occur when at least one or all of the three conditions are present in the development process: (1) the state's strategic vision is impaired; (2) the state loses the capacity to dominate the cooperation with the private sector; and (3) organised labour is able to obstruct the formulation and the implementation of state economic decisions.

How does the transformation of the developmental state occur? The transformation of the state policy mechanism involves the emergence of state policy constraints of three types of social actors including business elites, organised labour and the middle class. An illustration of the transformation of the state policy mechanism is shown in Figure 1 below. As it shows, the state policy process faces two types of state policy constraints: structural constraints (the two black straight lines) produced by business elites and organised labour and institutional constraints (the two green curved lines) generated by business elites and the middle class. However, such structural constraints can only occur after democratic transition (the blue dashed line) have taken place in a country. The emergence of these policy constraints results in the remaking of the state policy mechanism between the state and three groups of social actors: (1) institutional constraints produced by the middle class

⁵ The formulation of coherent overall economic development programmes has been examined by statisticians (e.g. Wade 1990; Amsden 1989; Haggard 1990). The formulation of state strategic vision in East Asian NICs from the early 1990s onwards has not been the centre of scholarly attention. This study will provide an examination of the formulation of the major national economic agendas of three East Asian states (South Korea, Singapore and Taiwan) since the early 1990s. My empirical chapters will demonstrate both coherent and eroded/impaired state strategic visions in three East Asian economies in recent decades.

affect the state's strategic vision; (2) policy influence of business elites is determined by both the institutional and structural constraints of business elites; and (3) policy influence of organised labour is exclusively the result of structural constraints of organised labour.

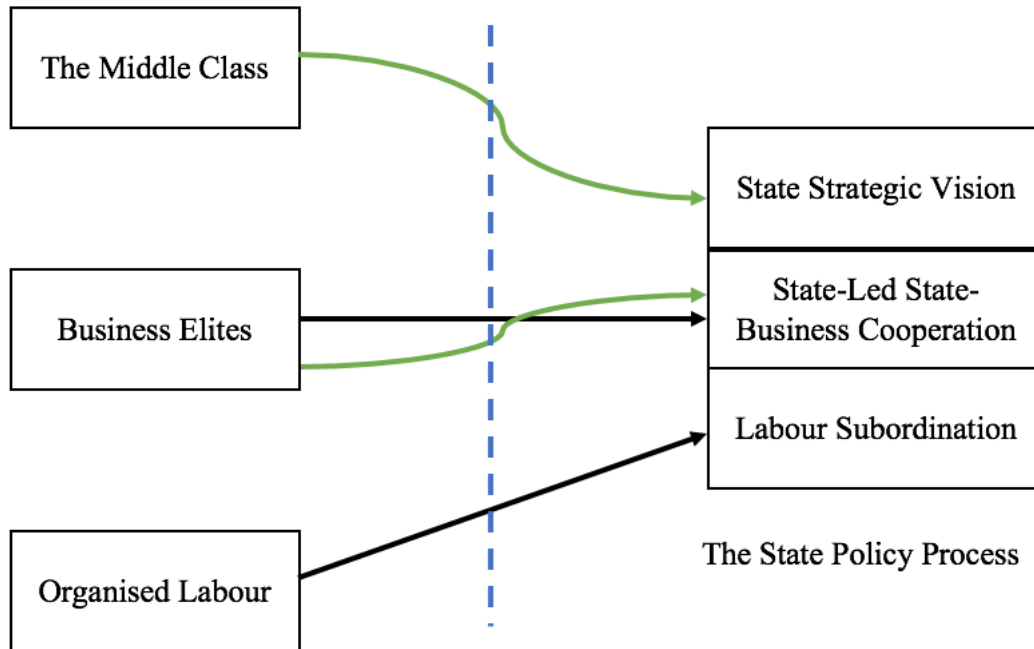


Figure 1: Transformation of the State Policy Mechanism (Source: Author)

My basic arguments for explaining the variations in the transformation of the developmental state are presented in the model illustrated in Figure 2. My logic for explaining the variations began with my efforts to develop a dynamic understanding of the developmental state.⁶ The developmental state was created by authoritarian ruling elites to generate performance-based legitimacy through deliberate policy intervention (Doner et al. 2005). The very successes and processes that their policies brought about led to two political processes: Firstly, the trade-driven development process gave rise to assertive business and labour interest groups (Rogowski 1989). Secondly, socioeconomic

⁶ I will provide detail theoretical justification for the dynamic understanding of the developmental state in Chapter 2

development led to a democratic movement pushed by pro-democratic political interest groups (Lipset 1959; Moore 1966; Rueschemeyer 1992).

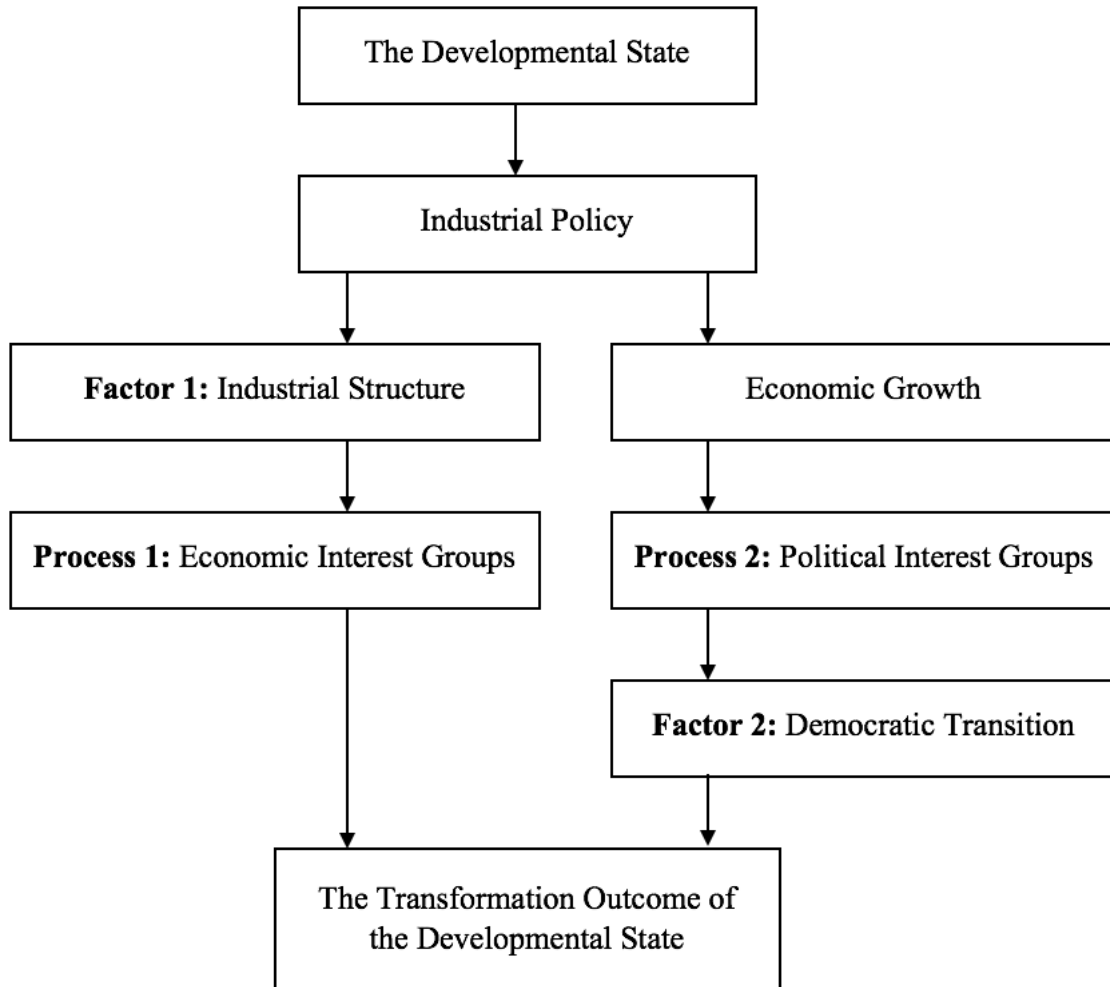


Figure 2: The Structure of the Main Argument in This Study (Source: Author)

The two socioeconomic and political processes resulted in the emergence of both economic and political interest groups in the development process (see Figure 2). I include business elites and organised labour into a group called economic interest groups. These social groups can produce policy constraints on the policy-making of the state (Gourevitch 1986).

I also regard the middle class and the working class as political interest groups.⁷ These groups can push the political system of a country to evolve, which, in turn, transforms the political foundation of the developmental state in the development process (Lipset 1959; Moore 1966; Rueschemeyer 1992). The functioning of both political processes – the rise of economic interest groups and the emergence of political interest groups – leads to the transformation of the developmental state.

The dynamic understanding of the development is the first step in unravelling the puzzle concerning the variations in the transformation of the developmental state. The second crucial step for solving the puzzle is my efforts in accounting for the variations of two factors – industrial structure and democratic transition outcome – which are closely linked with the two political processes (see Figure 2). While industrial structure can influence the emergence of economic interest groups during the development process, democratic transition is a direct consequence of the emergence of political interest groups. The functioning of these two factors produces the variations in the transformation outcomes of the developmental state in the development process. To solve the research puzzle, it is thus important for me to explain my logic to account for the variations in the industrial structure and the democratic transition outcomes of a country. In the rest of the section below, I will offer an explanation on how different types of economic interest groups are created by the industrial structure of a country (Factor 1) and how different outcomes of democratic transition (Factor 2) are generated by the emergence of political interest groups. I attribute

⁷ The two political interest groups (i.e. the middle class and the working class) form almost an entire society.

both the variations to the strategic calculations of ruling elites who built and run the developmental state.⁸

Independent Variables: Industrial Structure and Democratic Transition

The formulation of growth-promoting policies is a typical strategy of ruling elites in the developmental state to achieve political survival (Doner et al 2005). The growth-promoting policy choices of East Asian ruling elites generated within the state policy mechanism shapes the industrial structure of a country (Factor 1 in the argument flow). In this study, I am interested in the forms of industrial structure in regard to three types of capital ownership: namely, domestic private capital, foreign capital, and state-owned capital. In the development process, a policy choice of the state consists of ruling elites' preference for the proportion of three types of industrial indicators: i.e. domestic private capital concentration (DPCC), foreign direct investment (FDI) and state-owned enterprise (SOE). The proportion of DPCC indicates ruling elites' preference for the degree of domestic capital concentration in the market. Both the proportion of FDI and the proportion of SOE indicate the preference of ruling elites for the substitution of private domestic capital through the utilisation of either foreign capital or direct participation in the economy.⁹

The industrial structure of the country consequently determines the nature of economic interest groups in the development process. The classification of the varieties of economic interest groups in developmental East Asia offers me the first key to unravel the puzzle

⁸ I will provide a narrative below to show how ruling elites' strategic calculations lead to variations in the two variables. I will provide further theoretical justification to explain what drove my expectations in the next chapter.

⁹ There is certainly a negative correlation between the domestic private capital and the two other types of capital ownership (i.e. FDI and SOE). This is because that a country's dependence on FDI and SOE inevitably restricts the size and growth of its domestic private sector.

concerning the variations in the transformation of the developmental state. Based on their influence on the state policy process, economic interest groups can be distinguished into two types of broad groups: constraining group and non-constraining groups. While a country's promotion of domestic private capital can lead to the growth of constraining interest groups, the use of foreign direct investment and the state's direct participation in the economy can contribute to the creation of non-constraining interest groups.

As the name suggests, I define non-constraining economic interest groups as economic interest groups that do not apply any meaningful political pressure on the state in the state policy process. The presence of FDI in the economy cultivates two types of non-constraining economic interest groups – non-indigenous (foreign) business interest groups and state-sponsored labour interest groups. The degree of SOE in the economy can lead to the emergence of state-affiliated business interest groups and state-sector labour interest groups. I define constraining interest group as that which can apply policy pressure on the state policy process. In terms of the proportion of DPCC of the country, we can further differentiate constraining groups into two groups. A high DPCC leads to the development of concentrated economic interest groups. Both concentrated business and labour interest groups have greater strength in influencing the state policy process (Tan 2001, 2008; Heo and Tan 2003). By comparison, a low DPCC results in the creation of dispersed business interest groups and labour interest groups. Neither dispersed business nor dispersed labour interest groups are capable of exerting political influence in the state policy process (Tan 2001, 2008; Heo and Tan 2003).

While the varieties of economic interest groups offer one key to account for the variation of the developmental state, the second key to unravel the puzzle concerning the variations in the transformation of the developmental state lies in democratic transition (Factor 2 in

the figure) pushed by political interest groups in the development process. In this study, there are two types of political interest groups – the middle class and the working class. The outcomes of democratic transition are determined by the patterns of democratic coalitions between them in the state-led development process. I argue that different democratic coalition patterns between the middle class and the working class shape different democratic transition outcomes in the state-led development process through influencing the strategic calculations of East Asian ruling elites. These democratic transition outcomes of political regimes contribute to the transformation outcomes of the developmental state by affecting the political foundation of the developmental state.¹⁰ The outcome of democratic transition alters the political foundation of the developmental state, while the outcome of non-democratic transition preserves the foundation of the developmental state.

Scholars have noted that the middle class and the working class can form different patterns of democratic coalition in the development process (Lipset 1959; Moore 1966; Luebbert 1991; Rueschemeyer et al. 1992). These different patterns of democratic mobilisation of the political interest groups affect the strategic calculations of ruling elites for introducing democratic elections differently, which subsequently result in different democratic transition outcomes. The first one is the pattern of middle-class-led democratic mobilisation. In this case, the middle class are mobilised as a social force to push for greater democracy without the working class as an alliance. Secondly, a democratic coalition can emerge in the form of a cross-class alliance. In this case, the middle class and the working class collectively push for greater democratic reform and political freedom. Thirdly, there is also a pattern of democratic mobilisation led by the working class. In this case, the

¹⁰ In this study, democratic transition outcomes include: transition to a democratic political system and non-transition to a democratic political system (the continuation of the old authoritarian system).

working class is highly mobilised to achieve a democratic breakthrough without the support of the middle class. Lastly, there is the fourth possibility – the absence of democratic mobilisation. In this case, both the middle class and the working class decide not to challenge the pre-existing political system in the country. Consequently, no democratic movement emerges from the state-led development process.

Authoritarian ruling elites are highly incentivised to democratise the political system when they can no longer retain their existing political dominance (Boix 1999; Friedman and Wong 2008). Democratic transition outcomes are thus essentially the strategic choices of ruling elites in response to the four patterns of democratic mobilisation emerging from the state-led development process. First, both a middle-class-led democratic mobilisation and a cross-class alliance between the middle class and the working class can force ruling elites to initiate a transition to liberal democracy. Due to the calculation of ruling elites, the process of democratic transition can take place either at a rapid pace or a slow pace. Without the mobilisation of the middle class, there is no possibility for ruling elites to initiate democratic transition in the developmental state. We can further differentiate the two cases of no democratic transition by the outcomes of authoritarian evolution. In one case, a working-class-led democratic mobilisation can compel the ruling elites to continue a repressive authoritarian system. In the other case, the absence of democratic mobilisation can motivate ruling elites to push the political system towards a more responsive type of authoritarianism.

Research Design and Thesis Organisation

Most Similar System Design and Case Selection

This section provides a detailed methodological justification for my study. The research methodology of the study falls within the tradition of comparative historical analysis, which focuses on analysing causal sequences and patterns to explain a finite set of cases that exhibit a range of variations on a particular dependent variable. The method of comparative historical analysis will be useful for my theory-building process (see Mahoney and Rueschemeyer 2003; Lange 2013). Before laying out my research design, we need to be clear about what are the candidate cases for conducting a comparative historical analysis.

The three NICs (South Korea, Taiwan and Singapore) that I mentioned in the previous section are clearly the candidate cases to test the arguments. In addition to the three NICs, China in the post-Mao period is another potential candidate case for my analysis. Apart from these countries, the states of two other East Asian economies are often classified as the developmental states – Japan and Hong Kong. Post-war Japan is certainly a classical East Asian developmental state. However, two historical factors of the country make it unsuitable for my analysis: Firstly, the developmental state model in Japan can be further traced back to the period of the Meiji Restoration. Post-war Japan's developmental state model cannot be entirely separated from its prior developmental experiences. Secondly, the fact that the country was already a liberal democracy at the beginning of the post-war industrialisation process makes it unsuitable for testing my theory concerning the strategic calculations of the East Asian ruling elites in initiating regime transition in response to the democratisation movement. Similarly, two factors differentiate Hong Kong from the three NICs: Firstly, Hong Kong has an undemocratic but liberal political system. Secondly, the

government of Hong Kong has always been subject to the rule by external powers. Thus, despite being a member of the so-called Asian tigers, the case of Hong Kong is excluded from my case selection.

To test the validity of my arguments, I have selected three cases – the transformation of the developmental state in South Korea, Taiwan and Singapore. My case-selection process was designed to employ John Stuart Mill's 'method of agreement' or George and Bennett's approach of 'most similar' case comparison (George and Bennett 2005:81-82; Lange 2013:108-110). Following Mill's 'method of difference', I selected cases that are as similar as possible in regard to a wide range of economic and political conditions. As George and Bennett (2005:83) suggest, the selected cases should 'provide the kind of control and variation required by the research problem'. Similarly, Lijphart (1971:687) also advises the comparative theorist to 'focus the comparative analysis on cases that are similar in a large number of important characteristics which one wants to treat as constants, but dissimilar as far as those variables are concerned which one wants to relate to each other'. South Korea, Taiwan and Singapore are the three Asian tigers in the region. Their developmental experiences in the post-war period have been core to the development of the concept of the developmental state. In comparison to them, China's uniqueness in terms of its geographical size and role in the international community clearly cannot provide the kind of control and variation required by the study. Therefore, I excluded China from my case selection.

As I have already mentioned at the beginning of the chapter, the three cases exhibit significant variations on the dependent variable – in the transformation outcome of the developmental state. I showed that the variations were exhibited both across the three cases and within the cases of South Korea and Taiwan. An illustration of these variations on the

transformation of the developmental state among the three cases is shown in Table 1 below. The three cases (South Korea, Taiwan and Singapore) show three distinctive outcomes of the transformation of the developmental state: i.e., the rapid transformation of the developmental state in South Korea, the non-transformation of the developmental state in Singapore, the two-phase transformation of the development in Taiwan.

Country Cases	Transformation Outcomes
South Korea	<ul style="list-style-type: none"> • Noticeable changes in the 1980s (E-M Kim 1998; Moon 1994) • Rapid decline after 1987 leading up to the 1997 Asian Financial Crisis (Heo and Tan 2003; Minns 2001; Y-T Kim 1999) • Signs of revival in the post-crisis period but continuation of the transformation process (Cherry 2005; Y-T Kim 2005; Hundt 2014)
Taiwan	<ul style="list-style-type: none"> • No Scholarly discussion on changes to the developmental state prior to the 1987 political opening • Continuation of state developmentalism with minor change between 1987 and 2000; autonomous state and no financial crisis in 1997 (Tan 2001; Heo and Tan 2003; Clark and Jung 2002) • Rapid decline after 2000 (Wu 2007; W-W Chu 2011; Lee and Chu 2008)
Singapore	<ul style="list-style-type: none"> • No sign of declining • Strengthened state institutional capacity • Continuation of state developmentalism (Pereira 2006; Yeung 2005)

Table 1: Variations in the Transformation Outcomes across the Three Developmental States (Source: Author)

The Taiwan case represents a case of two-phase transformation of the developmental state. In the 1990s, the state still retained most of its developmental capacity to maintain its strategic role in a few strategic sectors such as the financial sector (Tan 2001; Heo and Tan

2003; Clark and Jung 2002). In the post-2000 period, however, increasing evidence seems to suggest that the Taiwanese developmental state could no longer direct the development process (Wu 2005; Lee and Chu 2008; W-W Chu 2011). The Singapore case represents a case of non-transformation of the developmental state. Unlike the other East Asian developmental states, the Singaporean developmental state has shown no sign of transformation and appears to be strengthening its position in society by embarking upon several recent economic programmes (Pereira 2006; Yeung 2005). The Korean case, in contrast, demonstrates a case of rapid transformation of the developmental state. The decline of the developmental state was also clear in the early 1980s (E-M Kim 1998; Moon 1994). The 1990s witnessed a complete transformation of the developmental state, which was vividly demonstrated by the collapse of the country's financial system in 1997 (Heo and Tan 2003; Minns 2001; Y-T Kim 1999). Despite some signs of revival after the financial crisis, the developmental state never fully recovered its lost transformative capacity (Cherry 2005; Y-T Kim 2005; Hundt 2014).

My cases are quite similar over a range of conditions that can generate internal and external pressure to push the state policy-making process to transform, such as the level of socioeconomic development, the stage of industrial transformation, the extent of global economic integration, relationship with the international community, etc. Then, the question is why similar external and internal conditions of the countries led to different transformation outcomes for these developmental states. I argue that the variation in the transformation of the developmental state in East Asia has been produced by the divergent levels of policy constraints (both institutional and structural constraints) emerging from the development process. This study examines domestic processes that result in divergence in the value of two factors – industrial structure and regime transition – that can generate divergent levels of policy constraints on the state policy-making process.

External Comparison and Internal Process-Tracing

The study combines both external and internal comparisons to test my theoretical arguments. Table 2 below shows the external comparison across the cases. There is a clear comparison of the industrial structure of these case countries. In the case of South Korea, the state-led development process resulted in an industrial structure featuring by a high level of DPCC as a result of the domination of the chaebols in the country's domestic industries. In the case of Taiwan, industrial structure contains a much lower level of DPCC and high level of SOE due to the development of numerous SMEs and giant SOEs in the economy. In contrast to both South Korea and Taiwan, with economic development, the case of Singapore saw a high accumulation of non-domestic non-private capital in the form of FDI and SOE as a result of the domination of MNCs and GLCs in the economy. The external comparison is also noticeable concerning the process of democratic transition. The three cases display divergent paths of democratic transition. In South Korea, the first regime transition took place in 1980 in response to growing demands for democracy. However, the outcome of the political transition was not democratic transition but a reproduction of another military dictatorship. An immediate transition finally occurred in 1987 when the first direct democratic presidential election was held in the country. In comparison, Taiwan's democratic transition took place over a much longer period. Direct presidential elections did not occur until 1996. In Singapore, the political system of the country remains authoritarian and no significant move has been made by the government towards democratic transition. Such external comparison allows me to test the effect of the variable on transformation outcome of the developmental state by controlling alternative explanations.

	Industrial Structure	Regime Transition	Transformation Outcome
South Korea	DPCC: High FDI: Low SOE: Low	The reproduction of a military regime in 1980 Full democratic election immediately 1987	Rapid transformation after 1987
Taiwan	DPCC: Low FDI: Low SOE: High	Step-by-step democratic transition from 1986-1996	Minor transformation in the 1990s; major transformation after 2000
Singapore	DPCC: Low FDI: High SOE: High	No democratic transition	No change

Table 2: Comparative Cases for External Comparison (Source: Author)

As Mill as well as George and Bennett point out, the weakness of this ‘most-similar’ case comparison design is the possible left-out variable, which could also contribute to the divergent transformation outcomes of the developmental state. Therefore, this study follows George and Bennett’s suggestion of using the within-case process tracing method to strengthen the inference from the cross-case comparison. Through examining a wide range of both primary and secondary sources including academic books, journal articles, news reports, government documents and other sources related to the political economy and more general political histories of these three East Asian countries, this study tests the causal mechanisms and traces the processes linking the two variables – industrial structure and regime transition – and the transformation of the developmental state.

I operationalise my three key variables as follows. The industrial structure of a country concerns the weight of three types of capital ownership (i.e. domestic private capital, state-owned capital and foreign capital) in the economy as well as the degree of the domestic private capital concentration. The industrial structure of a country can be measured by the proportion of three separate indicators (i.e. DPCC, FDI, SOE) to the overall economy. We can thus measure industrial structure by looking at these three indicators as a percentage of the overall industrial sector. Democratic transition includes any institutional changes to the political system of a country. Particularly, in determining non-transition to democracy or the pace (either rapid or slow) of transition to democracy, I pay attention to the removal of authoritarian institutions and the installation of democratic institutions within the political system of a country. The transformation of the state policy mechanism is considered to be taking place when societal interests shape the state policy choices. In determining whether the state policy process is influenced by societal interests, I look for evidence in the state policy outcomes that can suggest whether that these policies were reformulated to appeal to any certain groups of social actors in the development process.

A common criticism of case study methods is the selection bias problem. Unlike quantitative scholars, researchers of case study methods do not randomly select cases. Instead, cases are selected purposefully for investigation. 'Selection bias', therefore, normally occurs when the researcher selects cases that represent a truncated sample of the relevant universe of cases along the values for the dependent variable (Collier and Mahoney 1996). In other words, case study scholars are criticised for only selecting cases that can support their arguments in their research. My comparative case study design based on the method of difference is a clear target of such 'selection bias'. To deal with this problem, I needed to find a case with variation on the dependent variable. This should explain why this study also uses internal comparison to strengthen my key arguments

concerning the relationship between industrial structure, democratic transition and the changing state. Fortunately, the case of Taiwan offers us internal variations on the transformation of the developmental state (see Table 3). The Taiwan case in my study has such variation on the dependent variable because the Taiwanese developmental state remained largely unaffected by the rise of economic and political interest groups in the country until the 2000s. Therefore, I need to examine why the Taiwanese developmental state was largely free from the pressure generated by societal interests between the late 1980s and late 1990s, and why the changes occurred after the regime turnover in 2000 led to the rapid decline of the developmental state in the 2000s.

	Industrial Structure	Regime Transition	Transformation Outcome
Taiwan	<p>After the early 1990s:</p> <p>DPCC: Low->High</p> <p>FDI: Low</p> <p>SOE: High->Low</p>	<p>Political liberalisation in 1987</p> <p>First direct parliamentary election in 1992</p> <p>First direct presidential election until 1993</p>	<p>Minor change in 1990s</p> <p>More rapid change after 2000</p>

Table 3: Taiwan Case's Internal Variations (Source: Author)

The key to understand the internal variation in the case of Taiwan clearly lies in the change of value in my two explanatory variables – industrial structure and democratic transition (see Table 3). Prior to the early 1990s, Taiwan had an industrial structure characterised by a low level of DPCC and a high level of SOE. After the neoliberal economic reform was initiated in the early 1990s, a significant amount of capital ownership was transferred from the state sector to the private sector. This resulted in an increase in the value of the DPCC of the country and a decrease in the value of the SOE of the country. In the same period,

the democratic transition of the country took a more gradual approach – the first direct parliamentary election took place in 1992, and direct elections of the president did not occur until 1996, with regime turnover only taking place in 2000. The result was a minor transformation of the developmental state in the 1990s and a more significant transformation outcome was observed in the post-2000 period. In short, explaining the internal variations in the case of Taiwan, to a certain extent, can help me mitigate the selection bias criticism and strengthen the arguments I put forward in this chapter.

In summary, the study combines both comparative and within-case methods to facilitate my theory-building process. To test the validity of my arguments, three cases – the transformation of the developmental state in South Korea, Taiwan and Singapore – were selected for the purpose of controlling alternative explanations. My cases thus are similar over a range of conditions that can generate internal and external pressure for reshaping the developmental state. The three selected case countries also exhibit significant divergence in both two variables (industrial structure and democratic transition) and transformation outcomes of the developmental state. Such most similar system design was employed to test my theory that industrial structure and democratic transition have played important roles in producing the variations in the transformation of the developmental state. I will also employ process-tracing to strengthen the internal validity of my theory. Furthermore, the Taiwan case also contains internal variations on my two variables (industrial structure and democratic transition), which will also help me alleviate the problems associated with selection bias.

Organisation of the Study

The arguments of the study are presented in six chapters. This chapter raises the research questions and introduces the main arguments and research design. I put forward the question: Why are there variations in the transformation of the developmental state both within a single-country case and across different cases despite the similar economic achievements? Then, I presented my theoretical arguments to unravel the research puzzles. I argue that the variations in the transformation of the developmental state have mainly been produced by the variations in the industrial structure and democratic transition of the countries. In the first chapter, I also discuss the rationales behind the methods employed in this study – both comparative and within-case process-tracing methods – to test my theoretical arguments in the three selected cases.

In Chapter 2 of the study, I justify the theoretical importance of the theory of the dynamics of the developmental state. In this chapter I firstly conduct a thorough review of the current literature on the developmental state model and the transformation of the developmental state. I show that there was no existing theory that can help one to understand such variations in the transformation of the developmental state that we observe in East Asia today. The remainder of the chapter aims to achieve two goals: Firstly, I conceptualise the developmental state as a dynamic state policy process that is influenced by the inevitable state policy constraints emerging from the development process. The rise of economic interest groups in the development process and the transformation of the political foundation of the developmental state are two sources for the institutional changes to the state policy process. Secondly, I formulate hypotheses to account for the divergence in the level of the two types of state policy constraints. The two factors – industrial structure and

democratic transition – are clearly the key to explaining these divergent levels of state policy constraints in the developmental state.

Chapter 3, Chapter 4 and Chapter 5 are three empirical case investigations. The case of Korea is discussed in Chapter 3. The chapter shows how a high rate of DPCC can give rise to the formation of strong economic interest groups that have the capacity and strength to shape the state policy process. The chapter also shows how the middle class's participation is decisive in determining regime outcomes. Two regime outcomes are examined through the empirical lens of South Korea: (1) without the opposition elites' ability to mobilise the middle class under a united political banner, the democratisation movement pushed by the working class led to the repressive military regime in 1980; (2) the formation of the a cross-class alliance between the middle class and the working class under a unified opposition party led to the rapid democratic transition of the country in the late 1980s. The chapter reveals that the state policy process became subject to major societal interests in the post-authoritarian period. Consequently, despite a brief period of rejuvenation in the post-crisis period, the Korean developmental state has been significantly transformed as a result of the policy influence of business elites and organised labour.

Chapter 4 focuses on the Singapore case. Explaining the non-transformation of the Singaporean developmental state despite rapid economic growth, the chapter examines how the country's developmental programme that had relied heavily on the use of FDI and SOE has led to the development of non-constraining interest groups consisting of foreign investors, state-linked business elites, and controlled labour unions, in the successfully industrialising country. It also examines how the absence of a democratisation movement in the country has motivated the ruling elites to pursue a strategy of authoritarian co-optation in order to consolidate their political power in the new socioeconomic

environment. Throughout the chapter, I seek to demonstrate that both the creation of a non-constraining interest groups and the lack of a democratic transition in the country have contributed to the non-transformation of the developmental state in Singapore.

Chapter 5 empirically tests the theory of the dynamics of the developmental state in the case of Taiwan. The transformation of the developmental state can be divided into two historical phases. In the first phase, I look at how a relatively low rate of DPCC and a high level of SOE in the economy limited the policy constraints of business and labour interest groups in the pre-2000 development period. I also examine how the democratisation movement driven largely by the middle class, gradually pushed the ruling elites to introduce democratic electoral institutions between the late 1980s and mid-1990s. I argue that both the slow democratic transition and the weakness of the dispersed economic interest groups contributed to the gradual transformation of the developmental state between the late 1980s and late 1990s. The 2000 regime turnover kicked off the second phase of the transformation of the developmental state in Taiwan. In the post-2000 period, we saw more rapid decline of the developmental state, as business interest groups began to dominate the state policy agendas and the strategic visions of the state became increasingly politicised. Finally, Chapter 6 summarises the arguments of this study and the results of my empirical testing. I will also discuss the theoretical contributions of the study and my future research.

Chapter Two

Literature Review and Theoretical Framework

Introduction

This chapter provides the theoretical justification for my arguments. It consists of two main sections. In the first section, I review literature on the East Asian developmental state model and existing studies of the transformation of the developmental state. I argue that, focusing on one single case, the current studies have not offered an explanation to account for the variation in the transformation of the developmental state. In this second section, I develop my theoretical framework – the dynamics of the developmental state. The first part of the framework deals with the rise of the developmental state. Especially, I attempt to explain how divergent policy choices are adopted by the state in the beginning of the industrialisation process and how these policy choices can shape the industrial structure of the countries. The second and third part of the framework looks at the transformation of the developmental state in the process of the state-led economic development. Particularly, I will explain how the two types of policy constraints (i.e. institutional and structural constraints) are developed during the state policy process and why there have been significant variations in these two types of policy constraints across East Asia.

Revisiting the Developmental State Model and its Transformation

What is the Developmental State Model?

The literature on the developmental state is rich. Overall, the main task of the studies of the developmental state is to attribute the impressive economic performance of the region to the role of the state in directing overall economic development. Therefore, the main thesis of the literature is that the economic development of East Asian countries has been a state-led development process – with consistent commitment to national economic development programmes, and highly coherent and autonomous states have been the determining influence in economic decision-making and, therefore, the major forces shaping capitalist development in those countries. Over the years, development economists, political scientists and sociologists all have contributed to our understanding of the developmental state (Johnson 1987; Amsden 1989; Haggard 1990; Wade 1990; Evans 1995; Weiss 1995; Chibber 2003). Broadly speaking, the literature on the institutional and political profile of the developmental state has undergone two stages of development.

In the early stage of the study of the developmental state, scholars emphasised the strength of the state in the development process. Ever since Johnson (1982) first coined the concept of capitalist developmental state to describe the Japanese state, this notion has been extended by other scholars to the states in Taiwan, Korea, and Singapore, and, to some extent, Hong Kong (Wade 1990; Amsden 1989; Haggard 1990). Although individual studies vary in their degree of complexity, the core thesis stresses the state as a unified actor with a cohesive bureaucracy and relative autonomy from social classes (Johnson 1987; Amsden 1989; Wade 1990). In order to link the role of the state in the economy to the economic growth of a country, a key question that developmental state scholars address

is that: How does the state engineer the kind of rapid industrialisation that we have seen in East Asia? The answer is: the powerful statist arrangements that ensure the strength of the state in directing economic development (Johnson 1982, 1987; Wade 1990, Amsden 1989). The literature's heavy emphasis on the institutional strength of the state in the directing economic development is nicely consistent with the notion of Gerschenkron (1962) that the aggressive intervention of the state in the market provides a necessary thrust to promote economic growth in order to overcome economic backwardness in late-developing countries.

Establishing the theoretical linkage between political institutions and economic performance of a country, the developmental scholars have argued that the statist institutional arrangements are essential for the effective formulation and implementation of growth-promoting industrial policies of the state. In the words of Ziya Onis (1991:112), state influence in the form of industrial policy of the state is supported by 'specific political, institutional, and organisational arrangements pertaining to both the state apparatus and private business as well as their mutual interaction'. Clearly, the early work on the developmental state has focused on depicting the strength and comprehensiveness of state influence in the economy to explain the effectiveness of the state policy process. The key idea of the early studies on the developmental state is that the statist institutional arrangements that we see in East Asia produce a kind of state autonomy that can insulate the state policy process from societal pressure in the development process.

A broad picture of the developmental state has been painted through the above discussion on the early studies of the developmental state. Emphasising the strength and coherence of the state, the early studies of the developmental state attempted to explain the effectiveness of the state policy process by depicting a kind of state autonomy in the development

process. Such efforts have led some scholars to argue that state institutions in the form of 'state policy and influence should now be accepted as the single most important determinant of East Asian economic miracle' (Applebaum and Henderson 1992:23). However, it should be noted that the early literature emphasising the 'dominance/insulation hypothesis' has resulted in a rigid dichotomy of the state and society and an incomplete conceptualisation of state-society relations (Haggard 1994; Moon 1998). Pointing out that there are limits to the early statist's depiction of the state as an autonomous entity in developing countries, scholars have shifted their attention from state strength to state-society relations to explain the success of state policy intervention in newly industrialising countries (Doner 1992; Moon and Prasad 1998).

While early studies of the developmental state focused on the strength of the state as a key explanatory variable for economic growth, more recent studies of the developmental state have argued that the existence of an autonomous state alone is not a sufficient condition for the operation of the state policy process. In the words of Linda Weiss (1998:48), 'what makes the policies so effective is a particular kind of state structure and a particular kind of relationship between the state and industry'. Adopting a state-business relations approach, three scholars of the developmental state provided further theoretical support to obtain a complete picture of the developmental state (Evans 1995; Weiss 1995; Chibber 2003).

Peter Evans' theory of 'embedded autonomy', which places the state-society relations at the centre to explain the effectiveness of the state policy process, represents the first major effort in enriching our understanding of the developmental state. While agreeing with early developmental state scholars that state autonomy is important to the ability of the East Asian state to formulate and implement growth-promoting policies without interference by

societal interests, Peter Evans (1995) argues that a particular form of state-business relationship in which the state can maintain a dominant role is also important to the effective state policy process in the development process. According to Evans, corporate coherence gives the state apparatus a certain kind of autonomy. Having this kind of autonomy, state officials can act independently of the pressure from social groups, especially dominant social classes who are likely to act on their own interests. However, Evans (1995:59) stresses that, in order for the state to be developmental, the autonomous state is necessarily 'embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation and renegotiation of goals and policies'. In the words of Evans (1995:12), 'only when embeddedness and autonomy are joined together can a state be called developmental'.

Evans' theory of 'embedded autonomy' was further developed by Linda Weiss' concept of 'governed interdependence'. Similar to Evans, Weiss also stresses the importance of state-dominated state-business-society relations to the effectiveness of the state policy process. Weiss (1995:612) explains that 'East Asian bureaucracies have on the whole been effective coordinators because they have used their insulation from special-interest constituencies to develop more encompassing networks'. As a result, the developmental state 'converts its autonomy into increasing coordinating capacity by entering into cooperative relationships with the private sector in order to enhance the effectiveness of its economic and industrial policies'. Weiss' (1995) idea of 'governed interdependence' emphasises both the importance of the state's leadership in the development process and the cooperation between the state and the private sector. As Weiss points out, such 'governed interdependence' requires statist institutional arrangements. Specifically, Weiss (2003:247) argues that three institutional ingredients are essential: that is, transformative goals, a pilot agency, and institutionalised government-business cooperation. Such

institutional setup creates ‘governed interdependence’ that is crucial for the effectiveness of the state policy process. As Weiss (2003:247) writes, ‘in the absence of the first two criteria, the state lacks an insulated coordinating intelligence and is vulnerable to capture by special interests. In the absence of the third, the state also lacks the embedded (quasi-corporatist) quality of effective policy design and implementation, and is vulnerable to information blockage and policy failure’.

Another major work highlighting the importance of forming a state-dominant state-business relationship in ensuring the effective state policy process was carried out by sociologist Vivek Chibber. Comparing India with South Korea, Chibber (2003) points out the essence of the developmental state model in ensuring the effectiveness of government intervention in the economy lies in a country’s success in ‘installation of the developmental state’. Chibber (2003) clearly acknowledges the importance of statist institutions in ensuring the effectiveness of the state policy process. As Chibber (2003:10) writes, ‘Naturally, having the autonomy to put the institutions in place was not sufficient for success; for this (state-business relations), the facts internal to the state, on which much of the literature has focused, were of great importance...The antecedent autonomy garnered by the alliance with business was necessary for the state-level processes to be effective’. Like Evans and Weiss, Chibber (2003) also notes that state strength alone is not a sufficient condition for the success of an effective state policy process. To him, ‘critical conflicts for building state capacity occur not within the state but between the state actors, particularly the capitalist class’ (Chibber 2003:9). His notion of ‘putting a developmental state in place’ further separates the private sector from the state in the development process. Thus, what made South Korea different from India, according to Chibber (2003), was the ability of the Korean state to harness a leading segment of the business class in the developmental agenda.

In sum, the essence of the developmental state is a type of state-business alliance in which the state can play a leadership role in formulating national economic strategies and incorporating business class into the overall development plans. Why, then, does the effectiveness of such state-business alliance for state economic policy-making decrease inevitably over time? The following section sets out to review what we already know about the transformation of the developmental state and how this study can advance the existing theoretical discussions on the subject.

Existing Studies on the Transformation of the Developmental State

Before I advance my own arguments, it is necessary to conduct a thorough review of the existing literature on how the emergence of various socioeconomic actors can shape the developmental state and look for current explanations for the variation in the transformation of the developmental state. The current studies on the transformation of the developmental state can be categorised into three main perspectives: state-business relations perspective, class perspective, interest group perspective.

Adopting a state-business relations perspective, several scholars have attributed the transformation of the developmental state to the evolution of the relationship between the state and businesses in the development process (Moon 1994; E-M Kim 1997; Y-T Kim 1999, 2005; Cherry 2005). Two studies, based on a detailed description of the shifting balance of power between the state and chaebols in South Korea have already suggested the decline of the developmental state in the 1980s (Moon 1994; E-M Kim 1997). Both the studies argue that, with the advent of a more open economy and political system, businesses in Korea have become more assertive politically in advancing their interests. More explicitly than these two studies, in explaining the evolution of the state-business

relations, Yun Tae Kim (1999) argues that the processes of democratic transition and financial liberalisation significantly eroded the power of the state and enhanced the political influence of businesses, which, in turn, led to the decline of the developmental state in Korea. Using the structural reform as a case study, two recent studies focusing on the evolution of the state-business relations in the post-crisis period further confirmed the transformation of the developmental state in South Korea by highlighting the continuing antagonism between the new government and the chaebol owners in the state policy process (Cherry 2005; Y-T Kim 2005).

It is not difficult to notice that the state-business relations perspective for understanding the transformation of the developmental state was mainly developed in the context of the Korean developmental state. Indicating the decline of the developmental state, the above studies provide detailed descriptions on the evolution of the relationship between the state and the chaebols in South Korea in the 1980s and 1990s. Clearly, the rise of the policy influence of the chaebol owners provided scholars with strong empirical evidence for suggesting that the decline of the developmental state was a result of the ending of the state-dominated state-business relations.

The evolution of the relationship between the state and business during the process of economic development and democratic transition reflects only one part of the transformation of the East Asian developmental state. In the literature, a number of studies have gone beyond the transformation of the state-business relations to explain the transformation process of the East Asian developmental state. This body of literature has examined the institutional changes occurring to the developmental state as a result of social pressure from major societal actors, particularly capitalists and labourers (E-M Kim, 1993; Minns 2001; Pereira 2008; Tan 2008, 2009; Lim 2009, 2010). The strength of these studies

is that they provide both theoretical and empirical analysis to show how the rise of various social forces in the period of democratic transition and economic liberalisation can reshape the developmental state in the development process. However, focusing on one single-case, none of them have offered theoretical guidance to explain the variation in the transformation of the developmental state across the region. To demonstrate the significance of my study, I now present a review of these existing studies on the transformation of the developmental state.

A number of scholars have adopted a class perspective to understand the transformation of the developmental state in the development process. The study of Eun Mee Kim (1993) examined the decline of the developmental state in the case of South Korea. Kim (1993) focused on the transition of the developmental state, from comprehensive to limited, due to internal contradictions in the developmental state as well as external pressures. Especially, Kim (1993) argues that the goals of the developmental state were finite – with successful economic development, i.e., successful attainment of its primary goal – the developmental state is likely to be faced with pressure to curtail its functions and decrease its size. Using South Korea as a case study, Kim (1993) argues that state policies in the form of industrial policy and labour repressive policy promoted strong chaebols and intensive labour activism in the country. With the rise of the two groups of social actors, the Korean state became constrained in the process of directing overall economic development. As Kim (1993:239) writes, ‘The task of the comprehensive developmental state in the transition process is to choose between the divergent economic orientations put forward by capitalists and labourers, or to find a way to accommodate the demands of both groups’.

In her study, both the neoliberal reform of the economy and the political democratisation of the country contributed to the decline of the developmental state in South Korea. On the one hand, Kim argues that the demand of labourers and capitalists for market-orientated reform (i.e. reprioritising industrial policies, economic liberalisation and internationalisation) directly led to the weakening of the state's control of the economy. Kim (1993:238) reasons that 'although the demand of capitalists and labour differed significantly, they both wanted the state to alter its old method of managing and controlling the economy'. On the other hand, according to her, democratisation further complicated the process. As Kim (1993:242) puts it, 'the breakdown of an authoritarian regime and the ensuing democratic consolidation led the state to seriously consider the demands of all of the various groups in society. The developmental state is thus put in a quandary, mediating between capitalists' demand for a protectionist government and labour's demand for a welfare state'.

John Minns offers another empirical examination of the decline of the developmental state in South Korea. Minns (2001) argues that the decline of the Korean developmental state was the result of the rise of various class forces, whose demands and intrusion into politics undermined the autonomy of the state. Similar to Eun Mee Kim, Minns also points out that the increasingly assertive working class and capitalists had challenged the Korean developmental state since the 1980s. Going further than Kim, Minns highlights a second kind of social force emerging from development – the democratisation movement. In the words of Minns (2001:1035), 'Throughout the late 1970s and until the democracy declaration of 1987, an uneasy alliance had been developing between the middle-class opposition and the growing working –class movement'. Together, as Minns describes in the study, these two types of social forces resulted in the decline of state autonomy and the crisis of 1997. Pointing out that international factors concerning the pressure from the US

is not an adequate explanation for the rapid decline of the developmental state model in South Korea, Minns (2001:1038) writes on the significance of three socioeconomic actors (labourers, capitalists and the middle class) in shaping the developmental state since the 1980s:

‘First, there is the problem of timing. The retreat of the state began under Chun in the early 1980s – during Reagan’s “New Cold War” – a time when the US State Department still placed great importance on defending the military frontier between the two Koreas. Second, this formation fails to give sufficient importance to the domestic interests which have their own reasons for challenging the power of a relatively autonomous developmental state. In different ways, workers, sections of the middle classes and the bourgeoisie did so. Each had their own, quite distinct, reasons for wanting an end to the type of state that had operated in the 1960s and 1970s. US and other international pressure may well have played a part in tearing down whatever was left of the kind of state power over which Park presided. But the job had already been largely carried out by South Korean themselves’.

While Kim and Minns have attempted to explain the decline of the developmental state, Alexius A. Pereira (2008) has proposed us a class model to explain the resilience of the developmental state in the region. Utilising a class-relation perspective, Pereira argues that the rise of the capitalist class and working class can challenge the state’s dominance in society, thereby forcing the developmental state to retreat from the developmental process. Similarly, focusing on one single case, Pereira’s class model takes democratic change of the country as a given. In the case of Singapore, he argues that the resilience of the developmental state in Singapore was a result of the continued weakness of the domestic capitalist class and the state’s successful incorporation of labour in the development process. Thus, to him, the developmental state ‘need not necessarily devolve, if they can continue to provide economic growth as well as to carefully “manage” class relations in society’ (Pereira 2008:1198). Similar to the two studies on the decline of the developmental state, the study of Pereira clearly points my attention to the state-business and state-labour relations to understand the resilience of the developmental state in the

country. Although Pereira's analysis on the continuation of the state's dominance in society clearly indicates how the developmental state is strong in the country, the study did not provide an explanation on why the state managed to retain its strong position in the country. What makes the Singaporean developmental state different from the states in South Korea and Taiwan?¹¹ As I argue in my study, much of the state-dominated state-business-labour relations that we see in Singapore today are results of the continuation of the authoritarian nature of the political system and the types of business and labour groups emerging from the state development process.

Parallel to the above studies are theoretical contributions made by scholars who adopted an interest-group perspective to explain the transformation of the developmental state during the process of socioeconomic and political transformation. Studies have been conducted by Alexander C. Tan and Haeran Lim to explore the impact of democratisation on the state's capability to govern the economic reform processes in South Korea and Taiwan. Tan (2008:161) argues that: 'The political democratisation process has also forced the democratisation of the economic decision-making process. The opening of the economic decision-making sector empowered interest groups and other relevant social actors. Consequently, the increase in the number of actors has led to the reduction in the policy choice set of the government'. While Lim echoes Tan in arguing that democratisation weakens the autonomy and efficiency of technocratic bureaucrats, he also suggests that democratisation led to two other institutional consequences: Firstly,

¹¹ Pereira did attempt to address the 'exceptionalism' of the Singaporean developmental state in the conclusion section of his work. In a short paragraph, he notes that the Singapore case is different from other cases of East Asian developmental states in two ways. The first is the state's continued collaboration with transnational capital, and the second is the lack of an affluent and autonomous middle class. These two points were also emphasised by him during a private conversation in July 2015. However, he clearly has not offered a developed theoretical framework to explain this 'exceptionalism' of Singapore. My Singapore chapter will shed some light on the empirical puzzle concerning Singapore's 'exceptionalism' in East Asian political economies.

democratisation strengthened the political power of big businesses as regular elections increased election costs, which re-made the connections between the government – and political parties – and corporations; secondly, democratisation increased the oversight power of legislative branch of the government over the bureaucracy, which could result in political constraints (Lim 2009; 2010).

Both the class perspective and the interest group perspective provide more theoretical guidance on understanding the transformation of the developmental state. In the first perspective, scholars note that: While neoliberal liberalisation facilitates the transformation of the developmental state by strengthening the power of capitalist class, the political democratisation pushed by social classes can also weaken the political foundation of the developmental state (Kim 1993; Minns 2001). Adopting the same perspective, Pereira (2008) explains the resilience of the developmental state in Singapore. Why did the same processes not occur in the case of Singapore? In the other perspective, using economic financial reforms in these two countries as examples, scholars have provided detailed analysis on how the democratisation processes have resulted in political constraints over the state policy process in South Korea and Taiwan (Tan 2008; Lim 2009, 2010). But why did the same effect not occur in Taiwan in the 1990s despite the 1986 democratic transition? What explains the internal variation within the case of Taiwan? Why are the kind of institutional constraints produced by the business elites that were featured in Lim's work relatively unnoticeable in Taiwan after the country's democratic transition?

Explaining the Divergence in the Transformation of the Developmental State

The current literature on the transformation of the developmental state has clearly offered more questions than answers for unravelling the theoretical puzzle of the study. Focusing on one single case study, explaining the variation in the transformation of the developmental state has been largely set aside in the literature. Notably, in the 1990s, all these arguments on the transformation of the developmental state were developed in the case of South Korea where the rise of chaebols clearly gave rise to both strong business elites and a working class, which undermined the effectiveness of the traditional state-business alliance in the development process.¹² However, little attention has been paid to other states, for example, Taiwan, which also had undergone democratic transition and economic liberalisation since the late 1980s. What difference is there between the developmental state in Taiwan and that of South Korea? Several scholars did notice such differences between the two cases (Clark and Jung 2002; Heo and Tan 2003).

There is a comparative study by Clark and Jung (2002) which indicates the dynamics of the state-business relations in the East Asian developmental state in general. In explaining the divergent performance of the states during the 1997 Asian financial crisis, Clark and Jung searched for the source of the divergent transformation processes between the two East Asian developmental states. According to them, the two states adopted divergent development strategies: in South Korea, the development policies of the Korean state gave rise to strong business actors (i.e. the chaebols); the Taiwanese state consciously nurtured small businesses. This difference set Taiwan apart from South Korea during the Asian

¹² A newly published article entitled 'State-Led Development Reconsidered: The Political Economy of State Transformation in East Asia since 1990s' by Henry Yeung (2017) does offer a comparative overview of the transformation of the developmental state resulting from the rise of socioeconomic forces. Although Yeung's study notes the internal divergence within the three cases (South Korea, Taiwan and Singapore), he provides no explanation for the sources of these empirical divergence in developmental East Asia.

financial crisis of 1997. Whereas the emergence of the chaebols significantly altered the state-business relations in South Korea, Taiwan's lack of strong giant firms in the economy allowed the state to retain its dominance over the private sector (Clark and Jung 2002). Such variations in the transformation of the developmental state helped them to solve the puzzle concerning the divergent performance of the developmental state in 1997. As they write, 'Taiwan's political economy made it less vulnerable to the Asian financial crisis and allowed the state act decisively in the response to the challenge' (Clark and Jung 2002:36).

The most theoretically developed scholarly efforts to account for the variation in the transformation of the developmental state come from Uk Heo and Alexander C. Tan. Adopting an interest-group perspective, Heo and Tan (2003) offered a theoretical framework to account for the variation in the transformation of the developmental state in East Asia. Comparing South Korea and Taiwan, they traced the divergent transformation outcome of the developmental state to policy choices made by the state. They argue that these divergent policy choices have resulted in a concentrated or dispersed industrial structure of the countries, which, in turn, produced either concentrated or dispersed economic interest groups. To them, the divergence in the strength of interest groups to shape state policy-making has been responsible for the divergence in the transformation of the developmental state in East Asia. Applying the insights to the case of South Korea and Taiwan, they point out that, in South Korea, the government's decision to promote the chaebols had led to the development of concentrated economic interest groups which greatly weakened the institutional capacity of the state. In contrast, the Taiwanese state's policy choices aimed at nurturing SMEs which led to the development of dispersed economic interest groups which, in turn, produced a relatively low level of policy constraints on the state policy process.

Their study directs me to link the transformation outcome of the developmental state, the divergence in the interest-group pressure, and state policy choices, in order to account for the variation in the transformation of the developmental state. However, the studies also have limitations in answering many questions: Firstly, can the degree of capital concentration alone be sufficient to explain the variation? If so, how can we explain the low policy constraints on the state policy process in Singapore where the economy is dominated by large-sized MNCs and GLCs? I aim to deepen our understanding of the divergence in the interest group pressure in the developmental state by focusing on the effects of three types of capital ownership (i.e. DPCC, FDI and SOE) on the formation of economic interest groups in the development process. Secondly, as with all the other studies mentioned here, Heo and Tan's framework takes regime transition in the developmental state as a given. Thus, it was not designed to explain why the domestic transition processes in Taiwan and South Korea have been taking place at different paces. As my study will show, these regime transition outcomes were primarily the result of the strategic calculation of the ruling elites in the developmental state. Furthermore, I show that the divergence in the paces of the democratic process in the post-authoritarian period have also contributed to the variation in the transformation of the developmental state in these two countries. In the next section, I develop Heo and Tan's model further, presenting a theory of the dynamics of the developmental state.

The existing literature on the transformation of the developmental state offers insufficient theoretical guidelines to understand the variation in the transformation of the developmental state in East Asia. To narrow this gap, we need to re-examine the rise and transformation of the developmental state across East Asia. Especially, I will address the following questions: How did the state-dominated state-business relations for effective state policy-making come into being? Why was such effectiveness of the state-business

alliance undermined in the state policy process? Acquiring an understanding of the dynamics of the developmental state offers the key to unravel the empirical puzzle concerning the variation in the transformation of the East Asian developmental state. I will seek to advance the current discussion on the transformation of the developmental state by developing a theory to account for the divergence in the levels of policy constraints generated by two types of economic interest groups and the variation in the outcomes of regime transition across the region.

My theory of the dynamics of the developmental state will highlight the following theoretical arguments: Firstly, I will show how different state policy choices are made at the beginning of the state-led development process, which then shape the industrial structure of a country. Secondly, I will demonstrate how the industrial structure of a country leads to the emergence of different types of economic interest groups in the development process. Thirdly, I will highlight a causal pattern that might illuminate our understanding of political elites and regime transition in developmental East Asia. The remainder of this chapter elaborates the broad theoretical justification of my causal arguments – as introduced in Chapter 1 – by locating them in wider bodies of theory.

Towards a Theory of the Dynamics of the Developmental State

The Rise of the Developmental State

Elite Survival and State Institutional Building

In this section I begin developing a theoretical framework to account for the variations in the transformation of the developmental state in East Asia. Most studies on the developmental state anchor their analytical cues in the state as a unitary actor and the

assumption of political reality wrapped in harmony and stability. However, as Moon and Prasad (1998:20) write, 'East Asian states are not necessarily unitary actors, and networks between the state and society are, more often than not, governed by the politics of conflicts, disharmony, and friction'. What is of importance in order to understand the dynamics of the developmental state is how the unified state came into existence in East Asia.

Manuel Castells (1992) argues that the East Asian developmental state, outside Japan, was born out of the need for survival in a period of political uncertainty in these countries. The desire for political survival, as Castells (1992:59) argues, motivated the East Asian states to 'shape their states around the developmental principle of legitimacy on the basis of specific political projects that had, in each case, specific political subjects, all of which were created in rupture with the societies they were about to control'. This usefully directs our attention to the political survival of the regimes to explain the motivation of the state developmental policies. In this sense, the state's promotion of rapid economic development through aggressive policy intervention for achieving performance-based legitimacy is a typical strategy of the ruling elites in East Asia to achieve political survival. But why are these single-minded ruling elites found only in East Asia?

Richard F. Doner, Bryan K. Ritchie and Dan Slater (2005) have argued that economic institutions for the state policy process emerged from the challenges of East Asian ruling elites to deliver side payments to restive popular sectors under conditions of extreme geopolitical insecurity and severe resource constraints. Doner et al. (2005:331) note that East Asian ruling elites face so-called 'systematic vulnerability' when 'the provision of such payments is rendered difficult by security threats, which siphon revenues into the defence sector, and by resource limitations, which impose hard budget constraints'. They further argue that the only way that the ruling elites can achieve political survival is by

‘continuously expanding the national pie through sustained growth, yet without pursuing a cheap-labour, “race to the bottom” strategy that could alienate coalition members’ (Doner et al. 2005:331). Based on the work of Doner et al. (2005), we can now attribute the long-term commitment of the ruling elites to their desire to achieve political survival under ‘systematic vulnerability’. According to them, with consistent geopolitical and fiscal constraints resulting from severe security threats and scarce resource endowments, only the success of economic development can allow the ruling elites to ensure continuous revenue creation in order to generate social support through offering material benefits.

The task of economic development necessitates the building of statist institutions to ensure effective policy-making. According to the developmental state scholars, the autonomy of the state during the state policy process is produced by the presence of two sets of political institutions within the state structure of a country (Johnson 1982, 1987, Amsden 1989; Wade 1990; Onis 1991). In the first place, it is the existence of a highly competent and disciplined economic bureaucracy staffed by the best managerial talents available in the system (Wade 1990). This kind of elite bureaucracy is led by a pilot agency that is in charge of directing the national economic development programme of a country, such as Council for Economic Planning and Development (CEPD) in Taiwan and Economic Planning Board (EPB) in South Korea (Wade 1990; Johnson 1982; 1987). To make effective economic intervention possible, close formal and informal institutionalised linkages are established between the policy-making agencies of the state and the private sector (Onis 1991). These organisational and institutional links between the bureaucratic elites and major industrial actors are crucial for generating a consensus on economic goals and exchanging information, both of which ensure the effectiveness of the state policy process (Amsden 1989). In the second place, it is an authoritarian kind of political system. The authoritarian corporatist types of political institutions result in a kind of state autonomy

that allows the bureaucracy to have sufficient protection and authority to take the initiative and operate effectively (Johnson 1987; Wade 1990). This plays an important role in creating the situation that Johnson (1982) describes as – the politician ‘reign’ while the bureaucrat ‘rule’. As a result of such a situation, these highly-capable economic bureaucrats are able to resist pressure for rent-seeking from the private sector and take long-term perspectives on the development process (Onis 1991).

In short, the statist institutional arrangements for carrying out the state policy process consist of two types of political institutions – a policy-making agency that can lead overall national development programmes and an authoritarian political system that can insulate the state policy-making agency from societal pressure. Both institutional components are crucial for the political survival of the ruling elites. Obviously, the creation of a series of coercive institutions for building an authoritarian system allows the ruling elites to control a country where they face a situation of limited popular support from society. Such political coercion alone is insufficient for the power consolidation of the ruling elites; it can only last for a short period of time. The long-term political consolidation of the ruling elites depends on their ability to generate economic growth in order to meet the material expectation of a society that has been politically repressed (Doner et al. 2005). In this regard, the core policy-making agency plays an important role in spearheading the development process and making sure that the country is moving to achieve its economic goals. In the words of Doner et al. (2005:331), ‘the key to the NICs’ robust economic institutions lie in how popular sectors have been compensated for their political marginalisation’.

Clearly, such a combination of authoritarian institutions and a core state policy-making agency is the essential institutional context for a state-led development process. Based on

the above discussion, I can conclude that ruling elites under the condition of systematic vulnerability would pursue a process of state institutional building in order to ensure the existence and functioning of the two types of political institutions, that is, an authoritarian political system and economic policy-making organs of the state led by a pilot agency. The former is in place to impose authoritarian rule and ensure a power monopoly. The latter plays the important part of ensuring the strategic role of the state in the market to provide the necessary thrust to accelerate the industrialisation process. Together, they help to generate a form of performance-based legitimacy that is crucial for the political consolidation of the authoritarian rulers. The state institutional building subsequently leads to a form of state-dominated state-business relations. As the developmental state theory suggests, the state's coherence and strength during its interaction with the private sector is crucial for the effective policy process of the state. But can a strong authoritarian state convince local industrialists to form a state-directed state-business alliance for economic development?

The subordination of business elites to the state is embedded in the economic backwardness of late-developing countries. Gerschenkron's notion of late development provides the starting point to understand how a state-dominated state-business alliance can be formed once the state-led development process is launched. Gerschenkron (1962) argued that governments of late developing countries tend to play an active role in supplying capital and entrepreneurship due to the backwardness of these countries at the outset of the development process. According to him, centralisation of economic resources carried out by the state is thus a prerequisite for overcoming economic backwardness through initiating state-driven catch-up growth. The building of an authoritarian system would enable the ruling elites to centralise limited economic resources. Among all limited resources for economic development, the mobilisation of financial capital is the most

important task of the governments of late developing countries (Gerschenkron 1962). One most common form of financial centralisation is the nationalisation of all major banks in a country. Building on Gerschenkron's notion of late-industrialisation, Meredith Jung-En Woo (1991) demonstrated how the control of finance was the single most important tool of industrial policy in the state-led growth in South Korea.

What converts the state's control of financial resources into bargain leverage vis-à-vis the private sector in the state policy process is the authoritarian system of the country. The centralisation of political decision-making through the establishment of an authoritarian system allows the ruling elites' control of the state decision-making process over the allocation of financial resource. As financial resources are the lifeblood of the private sector, the business elites subsequently become dependent on the state for financial support. The ability of the ruling elites to exercise selectivity in allocating financial resources enables the state to gain an upper hand during the interaction with business elites in the development process. From this perspective, it is not difficult to understand how state-dominated state-business relationships for economic development come into being. It should also be noted that such relationships are mutually beneficial. In the words of Johnson (1999:60), 'The concept "developmental state" means that each side uses the other in a mutually beneficial relationship to achieve developmental goals and enterprise viability'.

State Policy Choice and Industrial Structure

So far, I have explained the formation of the political requisites of the state policy process. What still needs to be explained is the policy choices of the state. The question to be asked is: why were divergent policy choices adopted by the state within the same type of statist

institutional arrangements in East Asia? Acquiring an answer to this requires an understanding of the political motivation behind these divergent state policy choices. One of the weaknesses of the current discussion on the developmental state model is that it has focused on explaining the institutional capacity of the state but not its motivations in the state policy process (Wade 1992; Moon and Prasad 1998; Haggard 2004). As Haggard (1990:46) puts it, 'state autonomy may explain the capacity to formulate and execute an economic programme, but it does not answer the nagging question where state interests come from'. The developmental state scholars claim that economic bureaucrats act on the interests of the nation in the policy-making process of the state, but the question is where do national interests come from? Once the dominant state is assumed, there is obviously no room for studying the politics of the state policy-making (Leftwich 1994). As a result, statisticians have failed to explain 'how rulers attempt to secure support, by what mix of policies, designed to appeal to which groups, and with what political success, and at what economic costs' (cited in Moon 1994:144).

What motivated the state to make the policy choices that they did in the development process? In East Asia, we witnessed that the state in Taiwan had pursued a SME strategy that led to low DPCC in the country, while the state in South Korea pushed for DPCC through promoting chaebols, and the state in Singapore preferred the use of SOE and FDI as a strategy. Heo and Tan (2003) argue that, in a developmental state, state policy choices of the ruling elites are made in an institutional context that is closely affected by a polity's specific historical experience. To them, these statist institutional arrangements shape the policy preferences and political motivations of the ruling elites. The roots of specific political goals of the ruling elites are located in the domestic situations concerning the generation of political legitimacy (Tan 2002; Chu 1999). To achieve regime survival, industrial policy is a typical strategy of the ruling elites to promote economic growth in

order to build and sustain broad-based coalitions (Doner et al. 2005). While the need for state survival offers ruling elites the key impulse to launch their autonomous economic projects, the specific historical circumstances of a country are also likely to shape their particular political goals and objectives in the development process – both the ruling elites' single-minded commitments to economic growth and their specific political goals and objectives in the process of state policy-making form the logics of the state-led development. This has led to my first hypothesis:

Hypothesis 1: *The policy preferences of the state concerning the proportion of DPCC, FDI and SOE for promoting industrialisation are closely linked to the specific political objectives of the ruling elites for consolidating their political power in a country.*

How can the ruling elites accomplish their political objectives during the state policy process? The answer is clearly that the coherent nature of the state policy process occurs within the state institutional context. The creation of statist institutional arrangements improves the institutional capacity of the ruling elites to shape the state policy process. Within the state institutional context, state institutions in charge of the state policy process provide the ruling elites with useful tools to accomplish their various objectives, including non-developmental and purely political ones (Kohli 1999:133). For this reason, state policies generated within the state institutional context are consistently tied to the political objectives of the ruling elites to consolidate political power, expand social support and assure political survival. Thus, the political objectives of the ruling elites can lead to the adoption of a particular development strategy and lock the country into a particular development path.

Now I turn to discuss how the state policy choices can shape the industrial structure of a country. According to Karl J. Fields (1995), in the developmental state, state policy affects

the growth of individual economic actors in the development process. Fields (1995) argues that, in the development process, economic actors' ability to pursue rational economic goals is constrained by institutional environments constructed by state policies, cultural norms and ongoing social and political relations. Fields argues the development of private enterprises can be shaped by state policy under certain institutional and political conditions. As Fields (1995:26) writes, 'When state economic policies challenge sociocultural norms and entail economic risks, the successful implementation hinges on the state's willingness and ability to influence the preferences, behaviour, and norms of the economic actors. This in turn will depend on the state's internal coherence and autonomy, its ideological constraints and developmental strategies, the institutional "compliance mechanisms" at its disposal, and its institutional relationship with the key private economic actors'.

Clearly, state policy choices of the ruling elites can shape the development of private business actors in the country. With a clear policy preference of the ruling elites for the proportion of DPCC, FDI and SOE to initiate industrialisation, the state has the willingness to influence the actions and preference of the private sector. As the economic actors are likely to pursue their own economic interests, it is important for the ruling elites to make sure that the economic projects of the private sector are consistent with the political goals of the ruling elites in consolidating their political power. The state's intentions to influence the development of the private sector, in turn, are supported by the state policy process created by the ruling elites to achieve political survival. State institutional arrangements ensure the internal coherence and autonomy of the state (Wade 1990; Johnson 1987). Particularly, a powerful economic policy-making agency can effectively carry out aggressive state intervention in the market (Wade 1990). The state dominated state-business relations makes the state policy decisions acceptable to the economic actors by bringing the private sector into a subordinate position to the state (Evans 1995; Weiss

1995). Furthermore, Fields (1995) has pointed out that the key policy instrument of the state in shaping the growth of private enterprises is the allocation of financial resources to the private sector. The authoritarian state's control over the financial system thus facilitates the state's efforts to shape the development of the private sector with ease.

The policy-making of the state can influence the degree of DPCC by either restricting or promoting the private enterprises in the country through the allocation of financial resources. While financial resources can help capital concentration among a few private enterprises, the lack of financial support from the state can lead the capital dispersion across the economy. Thus, if a country's economy is dominated by domestic capital, there are usually two types of industrial structure regarding the degree of private capital concentration: namely, concentrated or dispersed industrial structure (Tan 2001; Heo and Tan 2003). While a concentrated industrial structure indicates a high percentage of DPCC, a dispersed industrial structure signifies a low percentage of DPCC. The state's preference for two other types of non-private and non-indigenous capital can restrict the growth of domestic capital accumulation in the development process. The state's policy preference for FDI can lead to the state's effort to induce foreign capital into the country. The availability of FDI substitutes the country's need for developing domestic private capital. The state's policy preference for SOE can also restrict the growth of domestic private capital, as a large amount of financial resources are likely to be allocated to promote the development of the state sector. In short, the state's preference for FDI and SOE would inevitably crowd out the presence of domestic private capital in an economy. In the case of the two situations above, the industrial structure of a country would likely to be dominated by FDI and SOE.

In the developmental state, civil society is not a residual and passive agent subservient to the state. As Moon and Prasad (1998:21) argue, ‘Depending on the calculation of interests and on resource availability, business and labour can pursue diverse strategies involving compliance, lobbying, protest, and even blackmail in order to alter policy choice’. Assuming the dominant and strategic role of the state makes it extremely difficult for the developmental state to explain institutional changes occurred in recent years, in most studies, civil society has been assumed to be a passive actor in the development process. Clearly, with the predominant scholarly attention to strategic actions of the state, these pre-existing economic interests in the society become irrelevant to the analysis of the state policy process. It indeed looks like that once a dominant state is in place all major societal interests become residual in the development process. These shortcomings of the developmental state literature make it difficult for it to provide an extended understanding of the political dynamism behind the transformation of the developmental state in East Asia. Clearly, with a dominant state in place, the economic interests of important economic actors, especially businesses and labourers, are curtailed by developmental agendas of the state. However, rapid economic successes brought about by the growth-promoting policies of the state can empower society. The rise of social forces can challenge the dominant position of the state in directing economic development. Such processes eventually give rise to two types of state policy constraints – structural constraints and institutional constraints. It is to the question of the transformation of the developmental state that I now turn.

The Transformation of the Developmental State (Part I)

Economic Development and Democratic Mobilisation

A major part of the transformation of the developmental state is the transformation of the political foundation of the state policy process. Such state institutional changes are primarily the result of the democratic transformation of the authoritarian system of a country. Rapid economic growth accompanied by structural socioeconomic transformation in society is a driving force of this political process. Particularly, economic development gives rise to two powerful social groups – namely, the middle class and the working class – in rapidly industrialising East Asian societies. As they become empowered by the development process, these social actors' demand for greater political decision-making power pushes the political system of a country in a democratic direction.

Seymour Martin Lipset (1959:75) first laid the groundwork to understand the complex linkage between economic development and regime transformation, as he powerfully argues that 'the more well-to-do a nation, the greater the chances that it will sustain democracy'. According to Lipset (1959), such positive linkage between development and democracy is a result of two structural processes: Firstly, economic development associated with the increases in wealth, industrialisation, urbanisation and education facilitate the diffusion of democratic values among the sizable urban middle class. Secondly, wealth creation among the majority of society brought by the development process gives rise to a sizable middle class who would 'develop longer time perspectives and more complex and gradualist views of politics' (Lipset 1959:78). A major outcome of these two structural processes is the increasing size of the urban middle class which 'emerges as the main pro-democratic force in Lipset's analysis' (Rueschemeyer et al. 1992:14).

While Lipset focused on the importance of the middle class in his analysis, Rueschemeyer, Stephens and Stephens (1992) examine how the development process also animates the class consciousness of the working class to collectively challenge the existing political structure of a country. Emphasising the role of the working class in democratisation, Rueschemeyer, et al. (1992:59) argue that ‘the relative size and the density of organisation of the working class – of employed manual labour outside of agriculture are of critical importance for the advance of democracy’. As they explain, capitalist development ‘enlarges the urban working class at the expense of agricultural labourers and small farmers; it thus shifts members of the subordinate classes from an environment extremely unfavourable for collective action to one much more favourable, from geographical isolation and immobility to high concentration of people with similar class interests and far-flung communications’ (Rueschemeyer et al. 1992:58). Rueschemeyer et al. (1992) attribute the consistent interest of the working class in demanding democratic change to their historical class subordination in society and the fact that this class was more insulated from the hegemony of dominant classes than the rural lower classes.

Rueschemeyer et al. also suggest that the working-class mobilisation alone is unlikely to result in democratic transition; the working class needs coalition partners to achieve their political inclusion in the development process. As Rueschemeyer et al. (1992: 59) put it, ‘The working class was – contrary to socialist expectations – far too weak to achieve by itself democratic rights for the subordinate classes’. According to them, since the landed upper-classes and the bourgeoisie are naturally opposed to extending political inclusion to the lower classes due to their threat perception at the time of democratisation, the middle class is often found to be a potential coalition partner of the working class.

The literature above points out two possible pathways to democracy as a result of the rise of social classes in a rapidly industrialising country. Firstly, the rise of the middle class clearly creates the tendency for democratic transition. Economic development accompanied by its socioeconomic by-products, as suggested by Lipset's (1959) modernisation hypothesis, increased the size of a group of affluent middle classes who are generally more supportive of the idea of a democratic system. The rise of the middle class changed the balance of power between the state and society, which, in turn, resulted in democratic transition. Secondly, economic development also creates the tendency for democratic transition by empowering the working class. However, to achieve successful democratic transition, as Rueschemeyer et al (1992) points out, the working class need to form an alliance with the middle class. Such alliance between the middle class and the working class can push the political system of a country in a democratic direction.

However, neither democratic mobilisation of the middle class nor cross-class alliance of the middle class and the working class is always possible in the development process. Studies have suggested that the middle class are not consistent democrats in the development process. Moore (1965) pointed out that the middle class emerging from the development process only push for democratic transition to advance their own perceived class interests. This point was highlighted in his two possible regime transition routes in the development process: the capitalist-democratic route and the capitalist-reactionary route. In the first route, capitalist development gives rise to a pro-democratic urban bourgeoisie class whose economic interests are in conflict with the existing political order. In the second route, the urban bourgeois class created by capitalist development is reluctant to enact structural changes in the face of political or economic crisis.

Similarly, the contingent nature of the middle class in the process of economic development and democratic transition was noted by Rueschemeyer et al (1992). They argue that the middle class are not always a potential democratic coalition partner of the working class in the process of economic and political development. According to Rueschemeyer et al (1992), the middle class's push for the inclusion of the lower classes is contingent on the need and possibilities for an alliance with the working class. The work of Rueschemeyer et al. (1992) shows that the middle classes are most in favour of full democracy where they are confronted with intransigent dominant classes and have the option of allying with a sizeable working class. However, if they start feeling threatened by popular pressure under a democratic regime, they will turn to support the imposition of an authoritarian alternative. Rueschemeyer et al. (1992) note that the middle class can take the lead in the struggle for democracy, with an often still small working class in a secondary role. As they write, 'Even professionals and entrepreneurs may play a significant role, provided that they see their interests sufficiently protected and anticipate gains from a more inclusive democratisation' (Rueschemeyer et al. 1992:60).

Given the above review, we can also conclude that the middle class and the working class are different kinds of social actors in the process of economic development and democratic transition. On the one hand, the working class are consistent democrats due to their subordinated roles in capitalist political economies (Rueschemeyer et al. 1992). On the other hand, the middle class are contingent democrats who push for democratic transition in order to achieve their own political inclusion (Moore 1965; Rueschemeyer et al. 1992). If their perceived class interests can possibly be undermined in a democratic system by popular pressure, they are likely to oppose democratic transition and offer their support to the existing authoritarian state (Rueschemeyer et al. 1992).

While economic development gives rise to powerful social classes, what really motivates a democratisation movement for the establishment of a liberal democracy in the development process is the idea of liberalism. As I noted previously, the middle class and the working class are entirely different social forces with their own class interests. Studies have shown the important role of liberal ideas in mobilising social classes during the process of democratisation in liberal democracies. Ruth B. Collier (1999:34) argues that an early pattern of democratisation consists of liberal projects that ‘were typically pursued by middle-sector groups’. As Collier (1999:34) reasons, ‘Excluded from political participation, these groups adopted a liberal agenda in their fight to gain their own political inclusion and to oppose the hegemony and dominance of the political privileged traditional elite and/or corporate groups’. The work of Gregory M. Luebbert (1987; 1991) have shown us how the middle class and the working class can be mobilised by liberal elites around the ideas of liberal democracy. As Luebbert (1987: 453) explains, ‘In these societies, the bourgeoisie gained a dominant position, through the vehicle of liberal parties, before workers mobilised autonomously. In societies that were becoming pluralist, working class unions and parties gained access to the state through collaboration with the liberal community’. Clearly, the idea of liberal democracy advocated by liberal elites makes democratic transition highly attractive to both the bourgeoisie interest and labour interests. Consequently, with the leadership of liberal elites, democratic coalitions supported by either, mainly, the middle class or a cross-class alliance between the working class and the middle class become possible.

However, the liberal community is not always united in rapidly industrialising societies. In societies where the liberal movement is divided, a Lib-Lab strategy becomes highly unlikely. Luebbert (1991) noted that the division within the liberal community is a result of preindustrial cleavages (e.g. conflicts of national territory, religion, the centre versus

periphery, the city various the country, and national communities remain divisive) at the time of mass mobilisation. In his words, 'These divisions within the liberal community generally reflected the incompleteness of nation-state formation before industrialisation' (Luebbert 1987:458). As liberal interests are unable to lead the democratisation movement, labour interests have to fight for their own class inclusion in a political economy. Thus, Luebbert argued that, in the face of limited opportunities to gain influence through alliance with bourgeois interests, arguments for class-based worker organisations are made more compelling. Consequently, 'Liberalism was empirically refuted by the political and labour-market experiences of workers (Luebbert 1987:459)'. According to him, the outcome is a high level of class-consciousness, radicalisation, and polarisation in these societies. That is to say, disgruntled workers are likely to resort to political mobilisation through more radicalised channels.

In this section, we have learned three important lessons from the literature: Firstly, economic development animates both the middle class and the working class for democratic transition. Secondly, while the middle class are contingent democrats, the working class are consistent democrats. Thirdly, a strong liberal community can mobilise both the bourgeoisie interests and labour interests in democratic transition based on the idea of liberal democracy; however, the liberal community is not always united. When we turn our attention to the state-led development in East Asia, we find significant variations in the formation of democratic mobilisation patterns between the middle class and the working class. How can we explain the emergence of different patterns of democratic mobilisation during the state-led development? This led me to formulate my second hypothesis:

Hypothesis 2: *The state-led development process can give rise to four patterns of democratic mobilisation: (1) middle-class-led democratic mobilisation; (2) mobilisation of cross-class alliance; (3) working-class-led democratic mobilisation; and (4) the absence of democratic mobilisation.*

The hypothesis contains four patterns of democratisation mobilisation of social classes. In the first two scenarios, as economic development empowers the social classes, liberal elites receive an enormous amount of bottom-up support and energy from a rapidly industrialising society. Firstly, when liberal elites can mobilise both the middle class and the working class around the idea of achieving a liberal democracy, the middle class and the working class form democratic coalition against an authoritarian state. Secondly, when the mobilisation of the working class is hindered by structural factors which cause the dispersion of domestic labour forces, only the middle class are mobilised by liberal elites to push for greater democratic rights. In the third scenario, the liberal community remains divided due to certain preindustrial cleavages. In this case, while the working class become highly radicalised in the pursuit of their own class inclusion, the middle class as contingent democrats are likely to take a pro-authoritarian position and side with the existing regime in order to protect their own material interests from labour pressure. Finally, the last scenario is one in which the liberal elites cannot mobilise either of the social classes. Clearly, the consequences of economic development do not always automatically shift the balance of power between the state and society towards society.¹³ In this case, the authoritarian state remains the dominant power in the society despite rapid socioeconomic

¹³ This possibility does not indicate that economic development fails to empower society. The point is that economic development does not automatically lead to democratic changes. Certainly, authoritarian rulers are not passive actors in the process of economic development and democratisation. It is possible that authoritarian rulers can weaken and even break the linkage between socioeconomic development and democratisation by controlling a set of activities in a society. This point was seen in the work of Bruce Bueno de Mesquita and George W. Downs (2005).

transformation of the country. Consequently, both the middle class and the working class remain inactive in demanding greater democratic rights due to the high risk of participating in democratisation movements.

Elite Adaptation, Regime Transition Outcomes and Institutional Constraint

The emergence of social classes provides opposition elites with opportunities to gain political power through organising democratisation movements to challenge the authoritarian rulers. The key objective of opposition elites to gain political power is to push for the adoption of a set of democratic rules of the game in which all political parties have a fair chance of winning elections. In a liberal democracy, a major part of ensuring the principle of democracy is achieved through regular competitive elections. The question to be asked is: Why do ruling elites allow electoral changes to introduce competitive elections in some cases but resist change in others? The work of Carles Boix (1999) provides useful insights to understand the strategic calculation of the ruling elites in introducing democratic elections. Carles Boix (1999) argues that the ruling elites change electoral rules to maximise their political representation in parliament in the face of electoral threat. Such a political strategy is pursued in accordance with the following rule: 'As long as the electoral arena in which they compete is stable and the electoral system serves them well, the ruling parties have no incentives to modify any electoral norms. A sudden transformation of the electoral market and a corresponding increase in the degree of uncertainty are likely to trigger a change in the electoral regime' (Boix 1999:621).

The rise of social classes can certainly lead to an increase in the level of electoral threat faced by authoritarian rulers. Boix (1999) identified four different phenomena that may lead to transformation of the political arena in his study, namely, the extension of universal

suffrage; the introduction of competitive elections; a massive political realignment among voters; and a high turnover in party organisations. Among them, the phenomena of a massive political realignment among voters is of particular importance to understand the strategic consideration of the ruling elites in terms of retaining the maximum amount of political power. The mobilisation of the middle class by the opposition parties as I described above clearly can result in a massive political realignment among voters. Consequently, electoral threat as a result of change in the voters' preferences provides the ruling elites with incentives to modify the existing electoral rules towards a democratic direction in order to ensure their maximum political representation in an event of electoral defeat. Clearly, when authoritarian rulers can no longer retain a dominant position in a country, democratic transition becomes a political strategy of the ruling elites to prolong their political power through power sharing (Olson 1993).

How do ruling elites modify the rules of the game to maximise their political power? The possibility of losing pushes dominant parties to make adaptive choices to adjust to new political situations (Friedman and Wong 2008). How much democratic reform is allowed by the ruling elites is closely related to how much electoral threat that the ruling party expects itself to face in a democratic environment. Boix (1999) argues that the degree to which the ruling parties decide to modify the current electoral rules depends on the extent to which the latter undermine the formers' political viability in the new electoral arena. This, according to Boix (1999), is a function of two main conditions: the strength of the new parties and the capacity of the old ruling parties to coordinate among themselves to block the growth of new parties.

Boix's insights suggest three possible scenarios for the adaptation of authoritarian rulers. Firstly, if the new party command high levels of electoral support, the old ruling party are

highly incentivised to initiate a thorough democratic reform when the electoral dominance of the ruling party has come to an end. In this case, a series of institutional changes to introduce competitive elections are needed to ensure the maximum political representation of the old authoritarian party in the state decision-making process. Secondly, when the new party pose a limited level of electoral threat, the old authoritarian rulers have less incentive to introduce competitive elections when they can achieve electoral dominance in the current political environment. To the ruling elites, democratic transition becomes an unattractive option since the introduction of competitive elections inevitably invites the possibility and inconvenience of losing political power. Finally, when the new party do not pose any electoral threat to the ruling elites, the authoritarian structure of the country will remain unchanged. As the authoritarian ruling elites can clearly still benefit from the existing political arrangements, it would be irrational for them to pursue a strategy of democratic transition to prolong their political power.

How do the four different patterns of democratisation pressure highlighted above prompt the ruling elites to make adaptive choices to achieve maximum political power? These divergent strategic choices of the ruling elites provide theoretical tools to understand the process of regime transition in successfully industrialising East Asia. Table 4 below illustrates a summary of the strategic decisions made by the ruling elites in response to divergent patterns of democratisation movements in successfully industrialised societies.

		The Middle Class	
		Yes	No
The Working Class	Yes	Decision: Rapid/Slow Democratic Transition Outcome: Transition to Liberal Democracy	Decision: Authoritarian Repression Outcome: Continuation of Repressive Government
	No	Decision: Rapid/Slow Democratic Transition Outcome: Transition to Liberal Democracy	Decision: Authoritarian Co-Optation Outcome: Transformation to Responsive Authoritarianism

Table 4: *The Ruling Elites' Strategic Decisions and Democratic Transition Outcomes*

(Source: Author)

The four-by-four table in Table 4 highlights three strategic decisions of the ruling elites: democratic concession, authoritarian repression, and authoritarian co-optation. The figure contains my third hypothesis:

Hypothesis 3: *Four patterns of democratic mobilisation prompt the ruling elites to make three strategic decisions: (1) (rapid/slow) democratic concession; (2) authoritarian repression; and (3) authoritarian cooperation. These strategic decisions lead to three regime transition outcomes: (1) transition to democracy; (2) reproduction of a repressive authoritarian government; and (3) transformation towards a responsive authoritarian government.*

The left-hand side of the table shows transition to liberal democracy as a regime outcome as a result of two partners of democratic mobilisation. When a significant number of the middle class are mobilised by the opposition elites, the strategic decision of the ruling elites is democratic concession regardless of the attitude and participation of the working class. As the old legitimacy formula that no longer enables them to control the country, the ruling

elites are highly incentivised to adapt the new political environment by initiating democratic concession. At the time of democratic transition, the degree of democratic opening initiated by the ruling elites corresponds to the level of electoral threat faced by them. This can be simplified into two possibilities: Firstly, the ruling elites are likely to delay the introduction of democratic electoral rules if they expect to retain electoral dominance.¹⁴ In this situation, as they still benefit from the existing political system, they have no incentive to allow new democratic electoral rules. Secondly, the ruling elites will opt for a rapid democratic transition if they can no longer command a high level of electoral support. In this case, an immediate introduction of democratic electoral institutions allows them to ensure maximum representation in the state decision-making process.

The right-hand side of the table describes the situation in which the ruling elites are motivated by the desire to hold onto the old legitimacy formula without the middle-class mobilisation. In the upper cell, when the working class are highly mobilised and the middle classes turn to support the imposition of authoritarian rule, the decision of the ruling elites is likely to be authoritarian repression. The repressive measures carried out by the ruling elites clearly aim at restoring public order and maintaining social stability through suppressing labour mobilisation, which are also the expectation of the self-interested middle class. In such a situation, the political legitimacy of the ruling elites can still easily be achieved through political repression of the radicalised labour and the continuation of development promotion to generate performance legitimacy among the middle class. As the old legitimacy formula basically remains the same, the regime outcome of this decision of the ruling elites is the continuation of repressive government. In the lower cell, when neither of the social classes is willing to challenge the political status quo, the strategic

¹⁴ With economic legacies created during the rapid period of industrialisation, it is possible that the old authoritarian rulers will retain their electoral dominance despite the rise of a democratisation movement if they manage to undermine the electoral strength of their opposition opponents.

decision of them is authoritarian co-optation. The primary target of the co-optation strategy is the affluent and educated middle class who are likely to become increasingly assertive over what they expect to gain during the development process. Consequently, as the ruling elites turn to co-opt the increasingly assertive middle class through offering more material benefits, the political system of the country transforms towards a more responsive type of authoritarian system.

The nature of the political regime provides the foundation for the state policy process. To understand the transformation of the developmental state, a question that we must ask is: What are the impacts of these strategic decisions of the ruling elites on the state policy process? While the ruling elites' decisions to pursue either authoritarian co-optation or authoritarian repression reinforce the authoritarian structure of the state, their decisions to concede to democracy results in the transformation of the political system of the country in a democratic direction. The strengthening of the authoritarian structure of the country allows the ruling elites to single-mindedly pursue their old political strategy of performance-based legitimacy. In contrast, the advent of democratic elections provides ruling elites with the motivation to pursue a form of political legitimacy that is built on the principle of democratic competition, representation and accountability. Consequently, their political survival becomes entirely dependent on their ability to achieve electoral success in a free and fair political environment.

These institutional changes occurring within the state structure of a country instantly transform the political context in which the state policy process occurs. The outcome of democratic transition can create the political condition for the emergence of a new set of institutional constraints (the two green curved lines) on the state policy process. This is because democratic transition alters the logic of the state-led development. In the new

political environment, the political consolidation of the ruling elites has to be achieved through a new form of legitimacy that is built on the democratic principles of competition, representation and accountability. This is not to say that performance-based legitimacy becomes irrelevant for the political consolidation of the ruling elites. Certainly, the ruling elites are held accountable for the economic performance of the country. However, single-minded promotion of the economy is no longer sufficient for ensuring their hold onto political power. The result of the modification of the political context in which the state policy process occurs is the emergence of a new set of policy constraints on the state.

The source of these institutional constraints comes from the increase in the political influence of two groups of social actors as a result of democratic transition. The first group of social actors are business elites who supply political financing to the ruling elites. During the electoral competition, securing a source of adequate political financing is indispensable for any political party to achieve electoral victory, as more money spent on television advertising or mailings is likely to be reflected in the level of electoral support that a politician can receive on Election Day. As the ruling elites turn to business elites to secure their financial support in order to win the next election, the bargaining power of business elites over the state policy directions also increases in the development process. The result is even more business-friendly policies generated within the state institutional arrangements in the development process.

The second group of social actors are the middle class. Ultimately, it is the members of the middle class who cast their votes on Election Day, which directly determines the political fate of the ruling elites. Consequently, the desire to please voters is likely to push the ruling elites to abandon their long-term perspective in the state policy-making in order to serve their short-term vision of winning the next election. Furthermore, ruling elites now have

to face institutional constraints resulting from the rising role of parliament in the state decision-making process. As a result of the introduction of competitive elections, the parliament of a country is no longer the rubber stamp of authoritarian rulers. With the policy preferences of the middle class now being represented by the members of parliament in the legislative branch of the government, the capability of the state to lead national economic development programmes entirely in line with economic rationales is likely to be constrained in the development process when the interests of the middle class and state economic goals stand in conflict with each other.

The Transformation of the Developmental State (Part II)

International Trade, Economic Interest Groups and Structural Constraints

The development process also produces a set of structural constraints on the state policy process resulting from the emergence of powerful interest groups formed around the economic policy-making of the state. The driving force of such domestic political process is the functioning of international trade activities in the process of economic development in the fast industrialising countries. Ronald Rogowski (1989) suggests that international trade unevenly affects the material interests of three types of societal actors – business actors, labourer actors and land-owning actors – in any given economy. These disparate effects of international trade on different sets of individuals within each economy inevitably produce numerous winners and losers in the economic development of a country. Consequently, Rogowski suggests that the desire of the societal actors to defend and advance their material interests in the development process motivates them to form societal coalitions to push the direction of trade policies in their favours. Clearly, since economic development is closely linked to international trade, societal actors including

businesses, labourers, and land owners have consistent interests in forming and maintaining societal coalitions that were created to shape the country's policy direction in regard to trade in their favour. As these societal actors share common interests and policy preferences, they will 'devise mechanisms that can surmount the obstacles to collective action' (Rogowski 1989:5). In short, it is the economic situations of factor owners unevenly affected by trade which incentivise the societal actors to form economic interest groups along the class lines to shape the state's trade policies in their favour.

Do these economic interest groups have the intention to shape the economic decision-making process of the state in the development process? According to Rogowski (1989:5), the trade-driven economic development process politically empowers societal actors who 'enjoy a sudden increase in wealth and income'. Rogowski (1989) argues that, when international trade expands, owners of locally abundant factors in each country assert themselves more, while owners of scarce factors become defensive. To understand who is empowered by the development process, it is important to identify abundant factor owners in an economy. According to Rogowski (1989), while the level of the economy determines a country's endowment of capital, a country's endowment of two other factors – land and labour – is determined by the land-labour ratio. In the East Asian developmental state, labour as a factor endowment is clearly abundant while the land is scarce, as these countries rely on the adequate supply of labour to sustain labour-intensive manufacturing. With this in mind, economic development pursued by the developmental state inevitably results in the political empowerment of two kinds of societal actors – capitalists and workers – which is to say, almost the entire urban industrial sector. At the early stage of development characterised by a lower level of economic development, trade expansion would politically empower labourers who subsequently become assertive in the country. At a later stage of development, both capitalists and workers become politically assertive. Thus, at an

advanced level of economic development, we expect to see both capitalists and labourers who benefit from the increase in wealth and income brought by trade expansion seek to expand their political influence in the domestic political process of the country.

Given the above review, I consider international trade as a major factor to understand the emergence of economic interest groups in the fast industrialising countries. With the economy closely connected to global trade activities, the development process of a country inevitably creates winners and losers in relation to economic development who have great incentives to overcome obstacles to the formation of various class-based domestic coalition created for the purpose of defending their material interests unevenly affected by international trade. At the same time, export-driven growth pursued by the developmental state can eventually result in the political empowerment of both labourers and capitalists in fast-industrialising East Asia. As capitalists and labourers seek to expand their political influences, they have greater incentive and capacity to politically challenge the state policy-making in order to advance their material interests. On the contrary, becoming defensive in the process of international trade, the landowning classes who are mainly found in the agricultural sector are the only victims of such development process. Given the fact that they are largely dispersed in the economy and largely co-opted by the state, it is unlikely that they will mobilise limited financial resources to challenge the economic decision-making of the state. In short, empowered by the development process, capitalists and organised labour as the two groups of socioeconomic actors have the incentives to shape the state policy process. This should explain the source of the emergence of structural constraints from business elites and organised labour in developmental East Asia.

What remains to be answered is: How can economic interests of business elites and organised labour gain access to the state policy process? According to Peter Gourevitch (1986), the effective implementation of all policy decisions of ruling elites requires compliance or even enthusiasm from countless individuals who work or invest or buy. Therefore, when politicians make choices, their choices are constrained by the need to mobilise or retain support. In short, Gourevitch (1986:238) argues that 'politicians sitting at the centre of state decision making must find support for policies from a number of actors who have varying modes of resistance or assistance at their disposal'. In the process of economic policy-making, ruling elites need support from both capitalists and labourers. For major capitalists, the mode of resistance or assistance is their decisions to advance or withhold private investment. Ultimately, the economic policies of ruling elites have to be assisted by the investment decisions of the private sector. While capitalists' investment decisions directly affect the performance of the country, the power of organised labour lies in its ability to disrupt any economic programmes of the state through industrial actions. Labourers' decision to undertake industrial actions can effectively challenge the economic policy programmes formulated by the alliance of the state and business in the development process. As the state has an absolute monopoly over the use of violence, it does have the power to limit the ability of organised labour to resist state policy decisions. But there is a clear limit on how far the state can go about deploying its security apparatus against organised labour.

In short, both business elites and organised labour are capable of resisting government policy decisions. As ruling elites need to obtain support from both business elites and organised labour during the policy-making of the state, the interaction of societal actors and the state results in policy constraints on the state policy process. In a developmental state context, how the structural constraints of business elites and organised labour come

into being now needs a bit more explanation. According to the developmental state scholars, the state-dominated state-society relations constructed by authoritarian rulers can insulate the state policy process from societal pressure generated by capitalists and labourers. Clearly, without such policy environment, politicians who makes the policy decisions is likely to be subject to societal pressure of capitalists and labourers. Two processes are particularly important to explain the increase in the structural constraints of economic interest groups in the state policy process – democratic transition and economic liberalisation. The result of these two political processes is the development of a new set of structural constraints among business elites and organised labour on the state policy process.

I first discuss the increase in the structural constraints of business elites on the state policy process. To ensure the effectiveness of the state policy process, business elites as major developmental partners of the state have always been a part of the state policy-making mechanism in a developmental state (Amsden 1989; Onis 1991). As I noted before, the centralisation of financial resources allows the state to gain an upper hand in its interaction with business elites. So how do the capitalists achieve their transformation from a junior partner of the state to an equal partner of the state in the development process? Existing studies on the transformation of state-business relations have indicated that the outcome of financial liberalisation triggered by the general move toward giving markets a greater role in development is important to understand the increase in the policy constraints of capitalists on the state policy process (Moon 1994; E-M Kim 1997; Y-T Kim 1999). As the state retreats from the market, capitalists achieve economic interdependence from the state in the development process. With the newly acquired financial resource that allows business elites to make investment decisions at ease, their bargaining power vis-à-vis the

state increases during the formulation of economic policies. Consequently, they increased their policy status to an equal partner of the state in the development process.

Business elites' access to the state policy is further deepened by the process of democratic transition initiated by the ruling elites in response to democratisation mobilisation of social classes. In this particular respect, my understanding of business elites' growing influence over the state policy process is built on existing studies of the transformation of the developmental state that argue that democratisation reduces the autonomy of the state and empowers business actors in the economic decision-making process (Tan 2008,2009). That is to say, democratic transition provides business elites with both the capacity and incentive to participate in the state decision-making process. In a pluralist decision-making environment, the selectivity of the industrial policy of the state is a thing of the past – no one is guaranteed favourable policies from the state unless they have the ability to capture the state. Thus, business elites are incentivised to use their newly-acquired political influence to put greater efforts into seeking a special relationship with the state. As a result of the above processes, the state has to face greater societal pressure from businesses in the development process.

The emergence of structural constraints of organised labour on the state policy process is a direct consequence of democratic transition. Unlike business elites, labourers are excluded from the state policy-making mechanism by the authoritarian structure of the state during the process of the state-led development (Deyo 1987, 1993). A major part of the democratisation of a country is political liberalisation of the political system. The removal of authoritarian institutions of the state inevitably leads to the political autonomy of the labour unions. With pro-management and pro-government labour leaders being replaced by rank-and-file labour representatives, the state is unlikely to interfere with the

management of labour disputes in industrial places. As a result, labour unions can function as true interest groups advocating the acquisition of greater material interests for their members against management. As we discussed above, the strengths of organised labour in shaping the state policy process lies in its ability to obstruct the process of economic development programmes by engaging in a series of disruptive activities including strikes, slowdowns, street demonstrations, etc. The possibility of labour unions launching industrial actions against the economic decisions of the state-business alliance become a major concern for ruling elites whose main goals are to ensure industrial peace to create a favourable environment for economic development.¹⁵

I have discussed how the state-led economic development process driven by rapid export expansion gives rise to both business and labour interest groups and how they subsequently produce structural constraints on the state policy process. This should sufficiently explain the rise of business elites and organised labour as economic interest groups in developmental East Asia. But why are the levels of structural constraints of business elites and organised labour so divergent across the region?

Different Types of Economic Interest Groups, Different Levels of Structural Constraint

This section turns to discuss how the state-led development process gives rise to divergent levels of structural pressure on the state policy process. The trick is to specify different types of economic interest groups that possess different levels of structural capacity and incentives in shaping the state policy process. To understand the variation in the structural

¹⁵ Given that the developmental state is essentially pro-business, the interest of labourers certainly cannot supersede that of business owners. The presence of structural constraints of organised labour is reflected in its ability to challenge the state-labour alliance. The absence of structural constraints of organised labour has to be achieved through the continuation of the incorporation of organised labour into the state developmental alliance as a subordinated partner.

capacity of economic interest groups, we need to pay attention to the other consequence of the state developmental policies – the industrial structure of the country. My hypothesis is:

Hypothesis 4: *The composition of the industrial structure of a country shapes the level of the structural constraints of business and labour interest groups by determining the types of economic interest groups in a country.*

Table 5 below presents a summary of these various types of economic interest group resulting from the variations in the composition of the industrial structure of a country. In the table, I stress the difference between two different kinds of economic interest groups, namely, constraining interest groups and non-constraining interest groups.

	DPCC	FDI	SOE
Business elites	Concentrated/dispersed business interest groups	Non-indigenous (foreign) business interest groups	State-affiliated business interest groups
Organised labour	Concentrated/dispersed labour interest groups	State controlled labour interest groups	State-sector labour interest groups

Constraining interest groups
Non-constraining interest groups

Table 5: Variations in the Types of Economic Interest Groups (Source: Author)

I classify business elites and organised labour which are located in both the domestic and private sectors of a country as constraining economic interest groups. Non-constraining interest groups are economic interest groups that are located in either the foreign sector or state-owned sector of the economy. The factor that produces constraining economic interest groups is clearly the private investment in the domestic private sector. The two factors that can create non-constraining interest groups are foreign direct investment and

state-owned investment. As a result of the three different modes of investment (i.e. DPI, FDI, SOE) pursued by the state, there are basically six types of economic interest groups that emerge from the development process: concentrated/dispersed business interest groups, concentrated/dispersed labour interest groups, non-indigenous business interest groups, state-controlled labour interest groups, state-affiliated business interest groups and state-sector labour interest groups. As business elites and organised labour emerge as economic interest groups, the specific types of these economic interest groups directly affect their structural strength in shaping the state policy process.

The DPCC rate is a crucial factor in determining the ability of constraining interest groups to influence the state policy process in the development process by producing either concentrated or dispersed traditional economic interest groups. A high degree of DPCC in the economy clearly results in the emergence of a few powerful business elites. With a large amount of assets at stake, they have both the incentive and capacity to push for state policy change. Consequently, they are likely to be assertive over the policy directions of the state. On the contrary, a low degree of DPCC results in a large number of small business entities whose owners have neither capacity nor desire to mobilise their limited financial resource to shape the state policy-making. Each firm's tiny contribution to success and equally tiny returns further reduce the incentives of business actors for group-based actions. A similar effect of DPCC can be found on the organisation of labourers. A high degree of DPCC results in a concentration of industrial labourers, which makes it easy for the organisation of labour unions at both enterprise and national levels. With their mobilisation strength to challenge the state-business alliance with industrial actions, organised labour is likely to achieve perceived material interests by challenging the state-business alliance. In contrast, the dispersion of industrial labourers resulting from a low degree of DPCC deters the development of a labour union movement, which leads to lower

labour pressure on the state policy process. Based on the above discussion, I hypothesise that: *The degree of DPCC corresponds to the structural constraints of business elites and organised labour on the state policy process. The higher the level of DPCC, the greater the structural constraints of business elites and organised labour on the state policy process.*

The amount of FDI and SOE in the economy leads to the presence of non-constraining economic interest groups that are unlikely to produce structural constraints on the state policy process. I will first discuss non-constraining business interest groups. The amount of FDI signifies the presence of foreign investors in the economy. Given that it is relatively easy for foreign investors to move their assets across borders, the state has a greater desire to look after the interests of these non-indigenous actors by structuring mutually beneficial relationships with them. Since the economic desires of foreign investors are well looked after by the state, they have less intention to jeopardise the mutually-beneficially relations with the state by engaging in activities to shape state development agendas. For this reason, unlike the collaboration between the state and non-indigenous private investors which are likely to run into conflict over respective interests, the cooperation between the state and foreign investors is more likely to last in the development process. Similarly, the amount of SOE also has a negative effect on the emergence of business interests in the economy. A direct consequence of the presence of SOE is state-appointed business leaders. In most cases, these business leaders are highly trusted confidants of the ruling elites. Thus, they are likely to play the role of watchdog of the state in the state policy process. Furthermore, the presence of both non-indigenous/foreign and state-affiliated economic actors replaces the need for the ruling elites to rely on indigenous capitalists in the private sector. Consequently, indigenous capitalists lack any basic bargaining power to demand state policy change.

What about non-constraining labour interest groups? The amount of FDI produces state-controlled labourers. Clearly, the state's task of attracting FDI requires a favourable environment for investment. The only way for the state to achieve this is by bringing labourers into a sort of corporatist arrangement with the state and capitalists in the development process. Only when the state achieves the incorporation of organised labour could labour interests be carefully managed by the state in accordance with the national development goals of the state. The amount of SOE leads to the presence of workers in the state sector of the country. Generally speaking, SOE workers are usually considered labour aristocrats. Compared to industrial workers in the private sector, they have a different set of economic concerns in the development process. When SOE workers become organised, they will pursue their own material interests which are fundamentally different from that of private-sector workers. Thus, the presence of a large number of SOE workers in the economy inevitably are likely to result in a disunity within a national labour union movement.

The above discussion leads me to my conclusion concerning the relationship between the proportion of FDI, SOE and the levels of structural constraints of business elites and organised labour. I hypothesise that: *The proportion of FDI and SOE in an economy negatively affects the structural constraints of business elites and organised labour on the state policy process.*

Summary of the Chapter

This chapter began with a thorough review of the current literature on the developmental state model and the transformation of the developmental state. In the first part of the chapter, I showed that there is no existing theory that can help one to understand the

variation in the transformation of the developmental state observed in East Asia today. By developing the theoretical framework of the dynamics of the developmental state in the second part of the chapter, I aim to make my own contribution to the existing literature with a new understanding of the political dynamism behind the state-led development in the region.

My effort in creating the explanatory framework to achieve this goal involved the identification of a number of actors in the state-led development process. In this study, I identified two types of political elites (i.e. ruling elites and opposition elites) and three types of social actors (i.e. business elites, organised labour and the middle class) as the centre of my model during the state-led development process. The objectives of each type of actors are clear: Firstly, political elites have a desire for greater political power. Secondly, social actors seek to acquire greater material benefits. The strategic actions of these actors in the development process are the primary drivers of the transformation of the developmental state in East Asia. The developmental state is ultimately reigned by politicians (both the ruling elites and opposition elites) who are located at the centre of the state policy-making process.

I first located the political motivation of state developmental policies in the political survival of East Asian ruling elites. The need for political survival provides the incentives for the ruling elites to create statist institutional arrangements to promote rapid growth in order to generate performance-based legitimacy. To achieve this political goal, the ruling elites have great determination to build two types of political institutions – authoritarian-corporatist types of institutions and state economic policy-making agencies. The former is in place to impose authoritarian rule and ensure a power monopoly. The latter plays the important role of ensuring the strategic role of the state in the market to provide the

necessary thrust to kicking off the industrialisation process. Such a process of state institutional building consequently gives rise to the developmental state in East Asia. I argue that the policy choices of the state are closely linked to the ruling elites' desire to generate social support and political legitimacy in a country. These policy choices subsequently shape the industrial structure of the country in terms of the proportion of DPCC, FDI and SOE.

I then explained how the development process leads to the emergence of both institutional and structural constraints of societal actors on the state policy process. In the second section, I discussed how the economic successes empower both the middle class and the working class who become mobilised against the authoritarian government. I show that a possible coalition between the middle class and the working class can occur in four patterns, i.e. (1) a cross-class alliance between the middle class and the working class; (2) a democratic mobilisation led by the middle class; (3) a democratic mobilisation led by the working class, and (4) the absence of democratic mobilisation of both social classes. I argue that these four patterns of democratic mobilisation can lead to four strategic decisions of the ruling elites to change the existing political structure of a country, i.e. either rapid or slow democratic transition, authoritarian repression and authoritarian co-optation. I then discussed how these political changes could affect the state policy process. While authoritarian repression and co-optation allows the continuation of the single-minded ruling elites in pursuing performance-based legitimacy, democratic transition results in the emergence of institutional constraints of the middle class and business elites by altering the political context in which the state policy process takes place.

The emergence of structural constraints was discussed in the third section. I showed how international trade leads to the emergence of structural constraints of business elites and

organised labour by creating both business and labour interest groups in the state policy process. I then discussed how the industrial structure of a country shapes the level of the structural constraints on the state policy process. Specifically, I argue that the percentage of DPCC positively affects the structural constraints of business elites and organised labour on the state policy process by producing concentrated or dispersed economic interest groups. In contrast, the percentages of FDI and SOE negatively affect the structural constraints of business elites and organised labour by producing non-constraining economic interest groups, i.e. non-indigenous business interest groups, state-sector business interest groups and controlled labour interest groups, and state-sector labour interest groups.

Chapter Three

The Rapid Transformation of the Developmental State in South Korea

Introduction

The chapter demonstrates how industrial structure and democratic transition can result in a rapid transformation of the developmental state in the case of South Korea. I argue that this transformation outcome was a result of the functioning of the industrial structure and democratic transition of the country which led to strong structural and institutional constraints on the state policy process. This argument involves two parallel processes: Firstly, the high level of DPCC of the country produced the great structural constraints of both business elites and organised labour by producing concentrated economic interest groups. Secondly, the rapid democratic transition process of the country gave rise to the institutional constraints of business elites and the middle class. As a result of these two processes, the state process mechanism was increased constrained by societal interests in South Korea.

This chapter consists of five sections. The first section will explain the formation of the industrial structure of the country. I locate the source of the high level of DPCC of the country in the historical episode of the military's intrusion into politics in the early 1960s. Then I will explain how the military nature of the regime shaped the policy choices of the state, which in turn led to the formation of the industrial structure of the country. In the second section, I will look at the transformation of the political foundation of the developmental state in South Korea. I will address three aspects of the country's regime

transformation: Firstly, I will show how a working-class-led democratisation movement compelled the ruling elites to resort to a strategy of authoritarian repression in 1980. Secondly, I will discuss how a cross-class alliance pushed the authoritarian rulers to pursue a strategy of democratic concession in 1987. Lastly, the rapid democratic transition, as I will show, was a strategic choice of the ruling elites in the face of strong electoral threat.

The third, fourth and fifth sections will explain how the industrial structure and democratic transition of the country affected the transformation of the Korean developmental state. The third section will first examine whether the state's capacity to formulate state strategic visions was undermined after the late 1980s. In this section, I will provide a detailed analysis of the formulation of national development agendas under seven administrations between 1980 and 2016. In the fourth section, I will explain the emergence of high level of policy influence of business elites in the development process. I argue that, while the high level of DPCC of the country led to a high level of structural constraints of business elites by producing concentrated business interest groups, the rapid democratic transition also resulted in a high level of institutional constraints of business elites. The similarly high level of policy constraints of organised labour on the state policy process will be examined in the fifth section. I will show that the industrial structure of the country is mainly responsible for producing such an outcome. The high level of DPCC of the country led to the emergence of concentrated labour interest groups which resulted in strong structural constraints on the operation of the state-business alliance for development after the democratic transition.

Political Origins of the State Policy Choices in South Korea

The Rise to Power of a Military Regime

The logics of the state-led development are rooted in the historical episode of the military's intrusion into politics in 1961. The period between April 1960 and May 1961 was marked by the Korean popular demand for total reform to break away from the corrupt, inefficient Rhee regime and the desire for national reconstruction to modernise the nation (Kim 2004:64). The popular demand for a strong leadership provided a strategic basis for Major General Park and his junior officers to seize power through a military coup on 16 May 1961. The military officers who seized power seem to have been closer to nationalist military regimes than to the mainstream Latin American tradition of pro-oligarchic military coups (Castells 1992:61). Although the coup was generally seen as inevitable and necessary to bring about major change in Korean society, the coup leaders had faced a serious internal difficulty – they barely had any political legitimacy in the country. As Cole and Lyman (1971:35) observe, although the military had reasonably good relations with the populace, they were nevertheless 'not accepted in Korean culture as an honoured group nor as an accepted source for the ruling class'.

What emerged after 1961 was the formation of the Korean ruling elites' political strategy for achieving regime survival. The power consolidation of the Park regime involved extensive political actions to impose political control in the country. To this end, a huge state re-building project was launched by the Park regime. The Supreme Council for National Reconstruction (SCNR) was created to direct the reform measures that was referred to by Park as a 'surgical operation'. The military government soon made the SCNR the most powerful agency that controlled the three branches of the government and dissolved the National Assembly. In order to concentrate political power, Park banned all

political parties and other non-governmental interest groups. All political activities were banned and over 4,000 politicians were prohibited from political activities for six years. To purge the bad elements of the government, Park and his associates dismissed over 40,000 members of the bureaucracy and even established a Revolutionary Tribunal that tried thousands of government officials for corruption. A large number of criminal gangs were arrested and were paraded down the street. The government also put the press, which was largely unrestricted in the 1960-1961 periods, under direct state control (Kim 2004; Cole and Lyman 1971)

Another important authoritarian institution for ensuring the domination of the state in the country at the time was the Korean Central Intelligence Agency (KCIA) established in June 1961. The objective of the military leaders was to develop it into a sophisticated organisation that was designed not only to collect intelligence on external threats to national security but also to eliminate all obstacles in the execution of the revolutionary tasks of the Park regime (Han 2011; Kim 2011). Established in June 1961 with 3,000 personnel, it was expanded by Park to some 370,000 employees in just three years (Johnson 1987:157). As Seth (2010:380) describes, 'Its tentacles reached into almost every school, business, and political or social organisation. It even extended overseas, where the KCIA kidnapped dissident Koreans to bring them back home for punishment and bribed foreign officials to shape policies favourable to the ROK'. According to Kim (2011: 86), the KCIA was instrumental in establishing the powers of the Park government's key economic institutions; thus it is 'the architect of the South Korean developmental state'.

Despite the transition to the civilian government, little change took place to the authoritarian nature of the Park government. The KCIA as the main instruments of political control devised under the military remained in place, which facilitated the continuation of

the state domination in the country after 1963 (Kim 2011; Johnson 1987; Oh 1999). In 1963, to tighten his control over the civilian government, Park masterminded a constitutional change that strengthened the power of the executive branch of the government. The Park regime also created disunity in the opposition through the use of the Political Purification Act to free or withhold politicians from participation in the elections and other coercive measures (Cole and Lyman 1971:71). Throughout his rule, the legislature under Park remained a weak body dominated in any case by the Democratic Republican Party (DRP). Park's political control in the country was further strengthened by the strong presence of the military in the civilian government after 1963. Cole and Lyman (1971:69) point out that seven of the original 17 ministers and nine of the total 31 members were former military officers. In short, with the continuation of authoritarian control instruments of Park and the strong presence of the military in the government, the political arrangement of the civilian government remained largely authoritarian-corporatist.

Political control alone was not enough to enable the Korean ruling elites to achieve political survival. From the beginning, economic development constituted the other crucial part of the coup leaders' strategy for generating political legitimacy. As Vogel (1991:51) puts it, Park 'needed economic progress to defend his political base against those who regarded his seizure of power as illegitimate'. In July 1961, shortly after the establishment of the KCIA, the Economic Planning Board (EPB) was established by the coup leaders to direct the overall economic development.¹⁶ However, the creation of a state policy-making agency did not mark the beginning of the ruling elites' emphasis on growth-first principles.

¹⁶ The economic planning function of the EPB was inherited by the Ministry of Finance and Economy in 1994 when it was absorbed into the Ministry of Finance to form a super-ministry for directing overall economic development. The Ministry of Finance and Economy and the Ministry of Planning and Budget once again merged into the Ministry of Strategy and Finance in 2008.

The first Five-Year Economic Development Plan (FYEDP) released in January 1962 was criticised domestically for being too optimistic (Wolf 1962; Oh 1999:52). The quick adoption of an economic plan reflected the desire of the military for performance legitimacy. However, projecting an image of nationalist national reformers, the coup leader could not be single-minded in formulating growth-promoting policies. As Cole and Lyman (1971:84) write,

‘The leaders of the 1961 coup had viewed economics largely as a poorly directed part of the national structure which could, as much else in Korean life, be set quickly and dramatically on the right path. Moreover, economics was seen as one means toward the end of an overall political-economic entity sketched vaguely, in terms of “purer politics”, greater national independence and vigour, and improved international stature. The economic policies of the Military Government reflected these attitudes. They were often bold and designed to produce sweeping results’.

With the return to a civilian government in 1963, the revolutionary elements of the military government diminished after the military officers became politicians. After the formation of the DRP in early 1963, the ruling elites became single-minded in generating economic growth. As Cole and Lyman (1971:85-86) write, ‘Instead of being a piece of a larger nationalistic programme of somewhat vague dimensions, as had been the case with the military government, concrete economic performance became the touchstone of political performance and economic progress’. The earlier approach to economic policy-making required an urgent re-examination as economic growth became the sole source of political legitimacy for the Park regime. The growth-first orientation of the ruling elites created the essential condition for effective state policy intervention in South Korea. Cole and Lyman (1971:86) note that the development commitment of the state led to two important changes that laid down the basis for better economic planning in the years to come: (1) a stabilisation programme was adopted in 1963 involving budget reductions and credit outlays, which forced a cutback in the military government’s earlier economic goals; (2) a

Joint US-Korean Economic Cooperation Committee was established to seek cooperation with closer cooperation with the US for economic policy formulation.

The early 1970s saw a reinforcement of the logics of the state-led development in South Korea. The background of this was the reappearance of internal political threats to the survival of the Park regime. By then, the original institutional arrangement designed by Park to achieve regime survival became increasingly insufficient for the ruling elites to maintain their power monopoly. This manifested itself in the two elections of 1971 (presidential and national assembly) when the opposition New Democratic Party (NDP) rallied around its presidential candidate, Kim Dae-jung, greatly challenging the ruling party (Im 1987; 2011; Clifford 1994). After the election, the defeat of the ruling DRP in a presidential election looked like a very real possibility. Encouraged by the strong showing in these two elections, the anti-authoritarian forces including college students, the press, the judiciary, and university professors increased their demand for political autonomy (Im 1987). The growing societal resistance re-intensified the desire of the Park regime to hold onto political power. The ruling elites' strategy to prolong their power monopoly once again involved both imposing political control and generating performance-based legitimacy.

As the authoritarian institutions designed in the 1960s could no longer assure the dominance of the ruling party, the ruling elites sought to strengthen the authoritarian structure of the country through a second round of state institutional building. In October 1972, Park declared martial law and dissolved the National Assembly while banning political parties and closing all colleges and universities. The following month, Park institutionalised his shift to utter authoritarian with a national referendum that ratified the new Yushin Constitution. The Yushin constitution was a notoriously repressive document,

one that allowed dissolution of the National Assembly and appointment of one-third of its members. The election of the President was made indirect. With the ability to stage state-controlled presidential elections, Park no longer had to worry about losing elections. The new constitution essentially made Park president for life (Oh 1999:58; Clifford 1994:76-77; Heo and Roehrig 2010:23). The strengthening of the authoritarian structure of the country was accompanied by the ruling elites' attempt to ensure the continuation of performance-based legitimacy. Both the short-term and long-term economic goals were formulated by the state: to tackle short-term economic situation, the Park Regime issued the Emergency Economic Decree to stabilise the economy. This was followed by a major industrial upgrading project – heavy and chemical industrialisation, or HCI (Jones and Sakong 1980:106-8; B-K Kim 2011). To bolster his ability to push for HCI, Park strategically enhanced the power of the executive branch in implementing the HCI plan after a series of bureaucratic re-organisations (B-K Kim 2011:221-230; Woo 1991:129).

Promoting Domestic Private Capital Concentration in the Economy

The above discussion explained how the desire of the coup leaders to achieve the survival of the military regime after the 1961 coup gave rise to the developmental state in South Korea. Clearly, the political objective of the ruling elites for power consolidation was to generate political legitimacy for the military regime. My first hypothesis is: *The policy preferences of the state in terms of the proportion of DPCC, FDI and SOE are linked to the specific political objectives of the ruling elites to consolidate their political power in a country.* In the case of South Korea, I expect to see that the nature of the military regime shaped the policy choices of the state regarding the percentage of DPCC in the economy,

which then led to the formation of the industrial structure of the country by the end of the 1970s.

The objective of the state became clear in the post-coup period as the ruling elites were gearing up for accelerating export-led growth. To generate social support in the country, the initial promise of the military coup of 1961 was to eliminate 'illicit accumulation of wealth' by the rent-seeking monopolists of the Rhee period. One of the first measures of the new regime was the issuance of a guideline on dealing with illicit wealth which resulted in the arrests of most of the nation's leading businessmen (Jones and Sakong 1980:280-281). The intention of the Park regime certainly was not to punish these businessmen. Two reasons made the targeted group of private entrepreneurs especially significant to the ruling elites' regime survival: Firstly, given their military background, the coup leaders, including Park, did not have any idea about what to do about the economy. Without expertise in managing the economy, the regime's justification of the coup by economic growth was just a remote dream. Secondly, originating in the Japanese colonial period, chaebols had succeeded in penetrating the economy by the end of the Rhee period. They were in possession of most of the managerial experiences, economic expertise, personnel, and facilities, which were essential for initiating the industrialisation process (Kim and Park 2011; E. M. Kim 1988; K-D Kim 1976; Fields 1995:51-52).

Consequently, the new military rulers found themselves left with only one option for jump-starting the economy – turning to the targeted group of leading entrepreneurial talents for assistance. Certainly, neither the state sector nor the SMEs were better equipped than the chaebols to assist Park in his national development programme.¹⁷ For this reason, the ultimate objective of the Park government during the Illicit Wealth Accumulation Charges

¹⁷ The state sector was largely corrupted and inefficient due to its close ties with the ousted Rhee regime.

(1961-62) was to seek the chaebols' compliance and assistance in generating growth. The issue of 'illicit wealth accumulation' (particularly the amount of fine) was in fact used by the ruling elites as a leverage to force the chaebols' full-hearted participation in FYEDP (Kim and Park 2011). In August 1961, Park summoned the ten major business leaders and struck a deal with them. As Woo (1991:84) reports, 'In exchange for exempting businessmen from criminal prosecution and respecting their properties whether ill or well gotten, businessmen "paid" fines levied on them by establishing industrial firms and then donating shares to the government'. Such a compromise laid the foundation for the cooperation between the government and the chaebols in the development process. With the formation of the Federation of Korean Industries (FKI) in August 1961, the chaebols became an engine of the government to lead the country's export promotion project. As Woo (1991:84) writes, 'in retrospect, this deal had the quality of an historical compromise; in any case, it occasioned the launching of "Korea Inc." Henceforth, state and big business would share the same destiny: prosper or perish'. The chaebol-led development strategy became even more critical for the Park regime in mid-1962 when the possibility of developing SOEs to speed up the development process through state-controlled Korea Industrial Development Company (KIDC) was ruled out because of the objection of the US (Kim and Park 2011:271).

As the chaebols became the main engine of the state-led development process, the promotion of export growth was a de facto promotion of the chaebols. The initial period of export promotion was highlighted by the favourable international situation. The long post-war boom in the advanced Western economies and Japan provided expanding markets. The Vietnam War provided further economic opportunities in the transportation and construction industries. The external environment only provided the opportunity for the expansion of the chaebols in the economy. To achieve maximisation of exports, the

Park government directed generous financial resources to the chaebols. Clearly, the primary source for financing the chaebols' business expansion was access to state guaranteed foreign loans. To facilitate the chaebols' access to foreign loans, the state-guaranteed repayment of 90 percent of foreign commercial loans. Such a socialisation of the financial risk and costs by the state also facilitated the chaebols to finance their business expansion and diversification aggressively. To further facilitate export maximisation, during the 1965-70, while the South Korean domestic banks' interest rates ranged from 24 to 26 percent, the rates on export-policy loans, many of which were provided to the foreign loan-financed chaebols, stood in the range of 6.0-6.5 percent (Lee 2002; Kim and Park 2011; Woo 1991; S-J Chang 2003).

The first round of chaebol promotion had already shaped the industrial structure of the country by the end of the 1960s. The government's aggressive financing of the expansion of the chaebols resulted in a significant increase in the percentage of the domestic capital concentration in the economy. As Kim and Park (2011:283) report, 'Industrial concentration had been high even before Park's big push, with 12.5 percent of business firms accounting for 39.8 percent of South Korea's total value-added and 36.6 percent of its total production in 1960. By 1968, however, large firms, accounting for 12.4 percent of South Korea's total number of business enterprises, were responsible for 65.2 percent of the total value-added and 64.8 percent of the total volume of production'. With the domination of the chaebols in the economy, the SMEs became marginalised in the development process: whereas, in 1963, small and medium businesses produced 58.5 percent of the total output in manufacturing, by 1971 their share had plummeted to 27.7% (Chiu 1992:102). During the financial turbulence of the late 1960s, even the government had begun to show concern about the rapid expansion of the chaebols relative to the rest of the economy (Fields 1995:53).

However, the chaebol-led development strategy was irreversible in the 1970s. Two factors heightened the urgency to promote the chaebols, both of which linked to the political objectives of the Park regime to retain political power: Firstly, in the 1970s, facing increasing opposition, the Park regime had to step up its efforts in generating rapid economic growth to obscure its political shortcomings. Secondly, given the increased weight of the chaebols in the nation's economy, the task of the regime in export promotion became even more closely related to the promotion of the chaebols (Kim and Park 2011; Fields 1995; Kim 1988). Thus, the regime was, in the words of Ku-hyun Jung (1988:72), 'really not in a position to regulate the business groups who were the workhorses in the achievement of its economic goals'. Consequently, the strategy of the Park regime in cooperating with the chaebols to achieve economic growth continued in the 1970s. The state's policy preference for the chaebols was clear in the Emergency Decree of Economic Stability and Growth (EDES) announced in August 1972. Although the EDES intended to improve the financial situation of all businesses by freezing the loans on the curb market, the greatest beneficiaries were the chaebols which held 64 percent of the private curb-market loans. The result of the EDES was that the financial base of the chaebols was greatly strengthened and their ability to exploit further business opportunities during the state's push for HCI was also significantly enhanced (Kim and Park 2011; Fields 1995; Kim 1988).

The result of the industrial upgrading of the 1970s was therefore the second round of chaebol promotion engineered by the state for maximisation of exports. The strategy of the government was the institutionalisation of a system of the general trading companies (GTCs) in the mid-1970s. The state granted licences to 13 GTCs, 12 of which belonged to large chaebols and only one of which was established to coordinate the export activities of SMEs. The creation of the GTCs made it even easier for the chaebols to gain access to

various financial benefits such as cash subsidies tied to export volume and preferential access to foreign exchange. As a consequence, the chaebols, which already enjoyed advantages in size and scope, received an additional boost in their financial capability in expanding their business operations. By 1979, half of the nation's exports were handled by GTCs controlled by the chaebols. While the government was single-minded in promoting a few chaebol-affiliated trading companies, thousands of small trading companies were forced out of business due to the lack of financial support from the government. (Field 1995; Woo 1991; Kim and Park 2011). With the state's deliberate policy support, the phenomenal growth of the chaebols consequently reinforced the domestic private capital concentration in the country. In 1980, according to Haggard and Moon (1990:218), the top 50 chaebols contributed 49 percent of Korea's GDP, more than half of Korea's total exports, and 18 percent of employment in the manufacturing sector.

My analysis in this section clearly confirms my theoretical expectation that the military nature of the Park regime shaped the policy preference of the ruling elites for promoting domestic private capital concentration. The strong linkage between the military nature of the Park regime and the state policy preference for a high level of DPCC was clearly demonstrated in the two rounds of export promotions in the country: In the 1960s, the promotion of the chaebols which possessed both economic expertise and resources was the only solution of the military regime to initiate rapid export growth. In the 1970s, as the state embarked on industrial upgrading, the chaebols as the engine of the economy were further promoted to drive the state's push for HCI.

Transformation of the Political Foundation of the State in South Korea

Reproducing a Military Dictatorship

The Korean case presents two regime outcomes – the reproduction of a repressive government and the emergence of a liberal democracy. This session will first discuss how a working-class-led democratic movement led to the continuation of authoritarian rule in 1980 by shaping the strategic choices of the ruling elites. My following discussion involves two hypotheses: *Firstly, with a weak and divided liberal community, the working class is likely to pursue its own political agenda, whereas the middle class is likely to side with the authoritarian rulers to prevent a transition to democracy. Secondly, facing a mobilisation of the working class, the ruling elites can easily resort to authoritarian repression to achieve power consolidation.*

In South Korea, the democratisation movement was mobilised on a labour issue concerning socioeconomic injustice. By the early 1970s, the state-led development had resulted in a significant socioeconomic disparity in the country. As Jang-Jip Choi (1993: 29) observes, ‘The structure of society was reconstituted in pyramidal form’. The issue of socioeconomic inequality cut to the core legitimacy of the authoritarian regime, as the pyramidal form of social structure was not simply the inevitable result of capitalist development per se. In Korea’s case, it was a product of the political institutions of the country that favoured a small group of elites and alienated the majority of the citizens from redistribution of the fruits of economic growth. Thus, Korea’s industrialisation fomented a working-class consciousness that not only sought economic redistribution but also political justice. The social demand for socioeconomic and political justice provide fertile ground for the development of the grassroots democratisation movement – the Minjung movement (Koo 1993). To challenge the power monopoly of the authoritarian regime, the Korean

opposition elites tied its liberal political agenda to the grassroots demand for socioeconomic injustice after the 1979 Y.H. Company incident. As Sohn (1989:160) writes, 'The labour problem now occupied a central place in the policy of the mainstream and supposedly conservative opposition party'.

The idea of Minjung was certainly attractive to the working class who sat at the bottom of the social pyramid. The rise of the working class as a political interest group was aided by two social forces: The first was the university students who formed a labour-student alliance and became a champion for labour rights following the tragic death of Chon Tae-il; the second one was progressive Christian groups who provided space for the students and labourers to meet, organised night schools to empower the labour, and offered ideological protection for those involved in the labour movement (Lee 2007:218-22). In the 1970s, the rise of the working class as a political interest group was evident in three instances: the Pongnim Textile Company's overtime payment dispute, the Peace Market labour struggle, and the repression of the trade union at Tongil Textile Company (Sohn 1989: 132-40). The rise of the middle class as a political interest group was also clear: The anti-government sentiment among the middle class manifested itself formally in the national assembly election in 1978 when the main opposition party, for the first time, won more popular votes than the ruling party (Nam 1989:144). As they gained more resources and strength from the development process, the Minjung movement provided them with 'an outlet for their growing dissatisfaction with the construction of authoritarian' (Dalton and Cotton 1996:279). Given that working class was always ready for mobilisation, the success of a democratic transition in South Korea was clearly dependent on the ability of the opposition elites to bring the middle class into a cross-class democratic coalition.

The cross-class democratisation coalition could not be formed in 1980 because of the internal division between the opposition elites. The division between the Korean liberals was a combination of several historical and personal factors: Firstly, the chief faction leaders in the opposition NDP had been rivals since the NDP convention in 1970; secondly, regional loyalties also lay behind the rivalry of the two Kims, which can be traced back to the three-kingdoms era of Korean history and was exacerbated by Park's imbalanced regional development strategy ; thirdly, ideological differences also existed between Kim Yong-Sam's 'moderate centre line' and Kim Dae-Jung's 'left-of-centre' view (Cotton 1989; Kang 2003). In 1976, such intraparty conflict of the NDP had to be settled by the adoption of the collective leadership and the creation of a six-member Supreme Council consisting of various faction leaders (Nam 1989:103). Although the collective leadership was abandoned in 1979, the NDP remained deeply divided. The NDP's new leader – Kim Yong-sam – won the 1979 party election by a small margin. Much of his narrow victory was thanks to the support of the other opposition – Kim Dae-jung whose regional base overlapped with Kim Young-sam's opponent (Sohn 1989:156). The death of Park intensified the desire of the opposition leaders for greater political power. As the opposition was expected to win the forthcoming election by a wide margin, open conflict within the two major leaders – Kim Young-sam and Kim Dae-jung – escalated. As Nam (1989:196) describes, 'The competition between the two Kim erupted into violent clashes between the followers of the men in March 1980 at various local party conventions held to choose branch leaderships. As the delegates of the two Kims confronted and clashed, regional animosities were aroused'.

The limited opportunity for the working class to gain influence through a Lib-Lab strategy meant that the labour's class interest now had to be articulated vigorously. As early as October 1979 when a massive uprising broke out in Pusan and Masan, the liberal political

agenda had already been seriously challenged by the establishment of a radical interpretation of social phenomena especially among the students. As Sohn (1989:166) writes, 'the arguments of the students tended increasingly to contrast the interests of workers and farmers with those of a government they saw as serving only a privileged minority... This structural approach, coupled with a conception of social justice focused particularly on working people, dominated the student movement'. Such radicalisation of the labour interest reached a new level after the death of Park. Seeing the power vacuum as a rare opportunity for political liberalisation, the militant students stepped up their efforts to seek greater socioeconomic justice. Beginning in March 1980, the students held on-campus demonstrations that quickly spread to the streets. The students' action was apparently out of control. As Nam (1989:219) notes, 'Even some of the die-hard dissidents urged the students to go slow, while still agreeing with aims to liberalise campus surroundings and the country's political structure.' Another equally clear image of labour radicalisation was that, in April 1980, industrial actions launched by miners and steel mill workers led to large-scale riots. These disaffected Korean workers then were clearly mobilised as a group for their own political inclusion of not locally organised interest groups (Lee 1981; Nam 1989).

Without a strong liberal party, it was too insecure for the middle class to opt for political freedom and democracy at the risk of sacrificing the country's continued economic growth and its own newly secured socioeconomic status. The idea of democracy that gave centrality to the concepts of equality and social justice articulated by the students and workers were certainly in conflict with the orientation of the middle class for greater material benefits. Consequently, while the opposition elites were preoccupied with party realignments and the students and workers were agitated and ready for action, the middle class became increasingly concerned about growing social instability. What really

mattered to this group of economically well-off social actors was the prevention of material loss in a period of political turmoil. As Sung-Joo Han and Oknim Chung (1993:206) observe,

‘Even though riots broke out in certain cities such as Kwangju when martial law was extended throughout the nation in May 1980, citizens began to show as much concern about the social instability and disorder accompanying the democratisation process as about its delay. Such concern became more poignant as student demonstrations intensified and after large-scale riots by miners and steel mill workers broke out in April’.

Facing such a situation, the de facto authoritarian ruler of South Korea in 1980 – General Chun Doo Hwan – had no incentive to concede to democracy. To him, the demands of the students and workers could simply be suppressed by authoritarian repression. In the second half of May 1980, consequently the ruling elites’ speedy action to restore social and political order in the second half of May was seen. Starting from 17 May 1980, repressive measures were taken to quash social unrest. These included the arrest of student leaders and opposition leaders, the imposition of full martial law, and the issuance of new Martial Law Decree No. 10. The Decree No.10 led to an instant restriction on all political activities through closing universities, banning all political gatherings and imposing prior censorship over all publications and broadcasts. To project themselves as social reformers in the eyes of the public, the military also ordered the arrest of Park’s close allies (C-S Lee 1981). Chun’s willingness to use any means necessary to restore social order in the country was clearly demonstrated when army paratroopers trained for combating against North Korean troops were deployed to suppress a massive uprising in the southern city of Kwangju where his repression strategy was challenged (Clark 1987). By the end of May, social and political order was restored in South Korea.

The subsequent power consolidation of the ruling elites followed the old tactics of ruling elites to achieve power monopoly – political control. To tighten its control in the country, Chun launched a massive purge operation which resulted in a massive dismissal of government officials, a sweeping crackdown on civil society activities and the government's complete control over the mass media (C-S Lee 1981; Nam 1989). To prolong the authoritarian structure of the country, in October 1980 the new rulers adopted a new constitution that ruled out the possibility for a direct presidential election and resulted in the dissolution of all political parties and the National Assembly. The subsequent formation of the Legislative Council for National Security appointed by Chun to perform the legislative function of the government put South Korea under a 'constitutional dictatorship' between October 1980 and March 1980 (C-S Lee 1981; Nam 1989). With the ability to dictate the law-making process of the state, Chun passed a Political Climate Renovation Law which led to a further purge of 567 important opposition politicians and intellectuals who were banned from playing any role in politics until 1988 (Nam 1989). The regime also took further actions to crack down on remaining student activism at the end of 1980 (C-S Lee 1981). The ban on political parties was lifted in November 1980 to allow government-controlled parties to form not as rivals but as partners to supply a sense of political participation in the forthcoming elections (Nam 1989:244).

With all these strategic actions of the ruling elite in the aftermath of the social unrest in May 1980, it was certainly not surprising that the authoritarian rulers could achieve a near power monopoly by dominating both the executive and legislative branches of the government in early 1981. In February 1981, even before the final selection of the president, there was little doubt about Chun's ability to achieve a sweeping victory in the presidential election, as all he needed was a simple majority of the 5,278 electoral college deputies. The legislative election in the following month was also an easy win for the ruling

party. With severe limitations on campaign activities, a political ban on key opposition leaders, and new controls on the press, Chun's Democratic Justice Party (DJP) received 69.4 percent of the votes in the March legislative elections (Nam 1989; Suh 1982).

The above discussion on South Korea in 1980 clearly confirms my two theoretical propositions. In the 1970s, the Korean liberal community was extremely weak due to severe internal division. The weakness of the opposition elites forced the working class to become radicalised in seeking their own class inclusion. Consequently, the self-interested middle class chose to side with the existing political order to protect their newly-gained socioeconomic status. This led to the formation of the Minjung movement dominated by the political agendas of the working class concerning socioeconomic redistribution. South Korea in 1980 thus demonstrated to us a situation in which the authoritarian rulers were highly motivated to preserve the old repressive authoritarian system. Facing such a situation, new military rulers could simply consolidate their political position in the country by resorting to authoritarian repression to suppress labour unrest. As I showed, such strategic adaptation of the ruling elites precluded the reproduction of a new military dictatorship in 1980.

A Speedy Transition to Democracy

In the rest of the section, I will demonstrate an entirely different scenario facing the ruling elites in South Korea in 1987. In doing so, I will test three hypotheses: *Firstly, with the presence of an untied liberal community, the state-led development gives rise to a democratisation movement pushed by a cross-class alliance between the working class and middle class. Secondly, the emergence of a cross-class alliance can force the ruling elites to transform their old legitimacy formula by initiating democratic transition. Thirdly,*

facing strong electoral threats from opposition elites, the ruling elites are highly incentivised to initiate a rapid democratic transition to ensure their maximum political power in the country.

The formation of a cross-class alliance began with some limited political liberalisation of the Chun government. Starting from December 1983, university professors who were dismissed from their jobs because of their anti-government activities in the late 1970s were allowed to return to their jobs; students were permitted to go back to their universities and military police were withdrawn from the campus; about three hundred political prisoners or 'public peace breakers' were pardoned; the ban on political activities was lifted on 202 former politicians in February 1984 (S. Kim 2000:80). The decision of the authoritarian ruler to carry out political liberalisation measures was not motivated by the intention to transform the legitimacy formula but to strengthen authoritarian power. Internally, Chun was confident that the existing authoritarian institutions were more than sufficient to control society and allow him to pursue performance-based legitimacy. Not only would controlled political liberalisation improve the terrifying image of the regime, it could also contribute to further fragmentation and fractionalisation of the opposition. Externally, Chun was keen to boost the regime's legitimacy through hosting two international sports events – the Asian Games in 1986 and the Olympics in 1988. To achieve this, a certain degree of political contestation and participation was essential in the eyes of the authoritarian ruler (S. Kim 2000:80; Hsiao and Koo 1997).

Contrary to the authoritarian ruler's expectation, the liberalisation measures implemented for consolidating power provided the necessary conditions for the formation of a cross-class democratic coalition. A key factor for this was the emergence of a strong and unified opposition party. In January 1985, some of the released former opposition politicians

formed the New Korea Democratic Party (NKDP) in preparation for the forthcoming election. By then, both two major opposition elites – Kim Young-Sam and Kim Dae – Jung had announced their abandonment of personal ambitions to collectively challenge the power monopoly of the ruling elite (M. Lee 1990:25). A newly formed opposition clearly had the strong backing of the powerful political interest group – the middle class. In the following month, the February National Assembly election showed an impressive voter support of 29.26 percent for the NKDP while the DJP's share of the popular vote declined from 35.6 percent in 1981 to 35.3 percent, and it lost three seats it had won in 1981 (Nam 1989:301). Intraparty squabbles did break out because of the authoritarian regime's attempt to divide the NKDP. However, it was a temporary division between a minor group of opportunists – Lee Min-Woo, Lee Chul-seong, Lee Taek-hy – and the two united de facto party leaders – Kim Yong-Sam and Kim Dae-Jung (M Lee 1990:23-32). An even stronger and unified opposition liberal party emerged in March 1987, when the two Kims broke away from the NKDP and formed the hard-line opposition party – the Reunification Democratic Party (RDP), taking with them 66 of the 90 NKDP lawmakers (S. Kim 2008).

With the political liberalisation process, the Minjung movement further intensified and gained a new momentum. In March 1985, the radical faction and the moderate faction of the grassroots movement joined forces and formed the People's Movement Coalition for Democracy and Reunification (PMCDR) – a united Minjung movement coalition (S. Kim 2000; M. Lee 1990). A clear sign of the PMCDR's commitment to the establishment of a liberal democratic system was the creation of the Committee for Attaining Democratic Constitution under the PMCDR in November 1985. Under the common objective, throughout 1986, the Minjung movement and NKDP pushed for the transition to democracy through constitutional revision. As Sunhyuk Kim (2000: 87) notes, such social pressure was seen in three different forms: The first was a series of public statements and

declarations by Minjung activists for chastising the authoritarian regime; the second was the signature collection campaign by the NKDP; the third was a number of huge mass rallies organised and mobilised by the Minjung movement and NKDP. The middle class was finally lured into the democratic coalition in early 1987. Pak Chong Chol's death by torture and Yi Han Yol's fatal injury particularly angered the middle class because these two incidents most vividly demonstrated the immoral, illegitimate, violent and repressive nature of the authoritarian regime (Hsiao and Koo 1997). At this point, the calculating middle class made up their mind – they were better-off without an authoritarian ruler. In the subsequent event of '6.10 struggle' which lasted for 20 days, the formation of a cross-class alliance greatly challenged the authoritarian regime when millions of citizens came forward all over the country to demand democracy (Han 1988; Oh 1999:91-93; Nam 308-309).

When the conflict between the state and society reached a stand-off in the summer of 1987, authoritarian repression was clearly no longer an option for the ruling elites to retain power. Even the military were 'unhappy with the prospects of yet again taking a direct role in politics, a role that would undoubtedly have led to severe domestic and international censure' (Cotton 1989:253). At the height of the '6.10 struggle', Gaston Sigur, assistant secretary of state for Asia affairs, arrived to tell Chun that the US would not carry out any military intervention. Clearly, to the US, with the middle-class mobilisation, Chun's regime was doomed to fail. Sigur remarked that, 'The government wasn't dealing with a handful of left-wing students. They may have been out front, but it was plain you had strong middle-class support for the demonstrations' (Gibney 1992:87). The mobilisation of the middle class clearly signified to the ruling elites that the old legitimacy pact between the state and society had run its course. To remain in the politics of Korea, the presidential candidate Roh Tae-Woo thus needed to pursue a strategy of democratic concession that

would allow him to form a new legitimacy formula. Roh's democratisation declaration on 29 June, 1987 marked the regime's adoption of a new legitimacy formula, as he stated in his inaugural address in 1988: 'The era when human rights and freedom were neglected in the name of economic growth and security has now ended' (Gibney 1992:87).

A full democratic transition was implemented without delay in South Korea. The whole process of removing authoritarian institutions and installing new democratic electoral rules was completed by the Korean political elites over a span of a mere four months. The Korean ruling elites' preference for a speedy democratic transition was shaped by their calculations for maximising their political power. In the mid-1980s, the ruling elites had already realised the changed voter preference after the 1985 legislative election. A 1985 secret survey conducted by the pro-government *Kyunghyang Daily* further suggested to them that nearly 53 percent of the respondents did not support the Chun regime (M. Lee 1990:21). Facing an enormous electoral threat from the opposition party, the ruling elites had no reason to delay the introduction of democratic electoral rules that were essential to maximise their political power. The option to carry out an immediate full democratic transition became even more attractive to the ruling elites when they realised that democratic competition resulting from the installation of democratic electoral rules would renew the conflicts between opposition elites. With the opposition elites in disarray, they had a fairly good chance of winning the first presidential election (Saxer 2003; Heo and Roehrig 2010: 40).

Unsurprisingly, motivated by their desire to hold onto maximum political power, the Korean authoritarian leader was highly incentivised to carry out an immediate full transition to democracy in 1987. Roh already made it clear in his '6.29' declaration that he was willing to concede to practically all the demands of the opposition party. A special

commission was formed in the National Assembly after his declaration to amend the constitution. By October the National Assembly had adopted sweeping revisions to the constitution, which were ratified by a national referendum on 27 October. All democratic institutional changes to transform the authoritarian system were finalised in the 1987 amendments. The constitutional amendments led to the removal of authoritarian institutions that restricted various civil and political rights including freedom of the press, campus autonomy, the banning of arrests without a warrant, and the lifting of restraints on artistic creativity. The removal of authoritarian institutions paved the way for the installation of democratic electoral institutions – the first direct presidential election was held on 16 December 1987 and the National Assembly election was held in early 1988 (Bedeski 1994; Henderson 1988; Oh 1999).

My analysis of South Korea's rapid regime transition in 1987 confirms my three hypotheses. With the emergence of a united liberal community, both the working class and the middle class decided to form a cross-class alliance to push the authoritarian government out of power. The formation of a cross-class alliance played an important role in forcing the ruling elites to make democratic concessions in South Korea in the mid-1980s. The speedy transition to democracy in 1987 was shaped by two strategic calculations of the ruling elites to consolidate their power in the new political environment: On the one hand, the formation of a cross-class alliance clearly pushed the authoritarian rulers to transform the old legitimacy formula by accepting democratic concessions. On the other hand, the slim chance of the ruling elites to winning democratic elections incentivised them to introduce democratic electoral rules to ensure their maximum political power.

After the 1987 political opening up, the political elites and middle class changed their political strategy in the rapidly-democratising South Korea. The issue of socioeconomic

redistribution lost its saliency in the politics of Korea, as the middle class who became more concerned about maintaining their socioeconomic status quickly withdrew their support for labour issues. Consequently, the grand cross-class coalition immediately broke down after the removal of the authoritarian government (S. Kim 2000). With the intensified democratic competition, the anticipated opposition split did occur which allowed the DJP to win the first direct presidential election in December 1987 and it acquired the largest seat share in the 1988 legislative election (Oh 1999:110). Political parties relied on the charisma of party bosses to mobilise mass support instead of holding strong opinions on socioeconomic issues and political ideologies during elections (Cotton 1997; B-K Kim 2000; J. Kim 2014). To achieve greater political power, party merger and break-up was a typical strategy of Korean elites to increase their chance of winning elections (Cotton 1997; B-K Kim 2000; J. Kim 2014). To free him from the unbearable gridlock that the opposition-dominated National Assembly had imposed on the new administration, Roh sought the formation of a ‘grand conservative coalition’ with two other conservative opposition leaders to compete with progressive political elites led by Kim Dae-Jung. This resulted in a more balanced electoral strength between the conservatives and liberals – The DLP and its conservative descendent won three out of five presidential races and consistently occupied nearly half of the seats in the National Assembly.

Formulation of State Strategic Visions in South Korea

The Growing Inconsistency: South Korea under Abortive Reform

The previous section examined the two regime transition outcomes, i.e. the continuation of a repressive authoritarian government in 1980 and the rapid transition to liberal democracy in 1987. This section will assess the impact of the (non-) transformation of the

political system of the country on the formulation of the state strategic vision in South Korea. I will first examine the formulation of the state strategic vision under the military ruler – Chun-Doo-hwan – who came to power in 1980 through authoritarian repression.

The period of Chun between 1980 and 1987 witnessed a state policy shift towards a more market-orientated development model in South Korea. Both economic and political factors were behind the state's liberalisation agenda. Economically, it was clear that the push for HCI pursued by the Park government had destabilised the economy. Neoliberal reform to introduce some elements of market-led development was regarded as a cure by economists from both the state apparatus and international organisations to tackle the economic crisis of 1980. Chun also personally believed that, thrown into the rough waters of the international market without deliberate state support, the chaebols would be forced to change their monopolistic ways. Politically, neoliberal reform was a tactic of the new authoritarian rulers to defuse public anger at his harsh repression – especially of the Kwangju uprising to consolidate his hold onto power. In other words, a shift to a more market-orientated development vision could differentiate Chun from the unpopular Park regime that bred the privileged chaebol sector. The necessity for structural reform led to the rise of neoliberal economists within the state apparatus. As the neoliberal economists were put into the positions of principal architects of state policy, a reform manifesto – the Fifth Five-Year Economic Plan – kicked off the first round of neoliberal reform in South Korea (Moon 1994; Kong 2000; Kim 1999; Haggard and Moon 1990).

The state's neoliberal policy shift was a limited one. With the growth-first policy vision remaining unchanged, the continuation of the state-chaebol alliance was still central to the growth strategy of the Chun government. Despite the overall theme of a shift to a market-led development model highlighted in the Fifth Five-Year Plan, the state continued its

interventionist approach to reconstruct the chaebol sector (Moon 1994). To maintain the viability of the chaebol sector, there were clear limits on how much reform the ruling elites would allow in financial liberalisation. What was more at odds with the liberalisation agenda of the state was the state's financial injection of \$2.1 billion into the financial system to bolster the chaebols from 1985 to 1987 (Hundt 2009:78). While the state's financial support of the chaebols would have to continue to ensure the development of new export sectors, the state's chaebol de-concentration measures aimed at eliminating the market distortions caused by the domination of the chaebols in the economy could not be applied too rigorously. The Monopoly Regulation and Fair Trade Act passed in 1981 entrusted regulatory power to the EPB – the pilot agency to promote growth – and gave it wide discretion over implementation (B-K Kim 2003:60). In the later period of the Chun regime, the state's effort in reforming the chaebols became even weaker when the government 'fully appreciated the extent of the interdependence between state and conglomerate and the costs to both sides of any rupturing of the relationship' (Kong 2000:148).

The partial reform process of the Chun government illustrates what Tat Yan Kong (2000) refers to as 'chaebol non-reform'. Kong argues that the will of the state to forcibly restructure the chaebols tended to weaken once the urgency of the crisis had passed, and once the degree of short-term economic pain that would result from structural reform became palpable. It is clear that a contradiction between maintaining growth and conducting structural reform had emerged in South Korea even prior to the 1987 democratic transition. As a result, the developmental state began to show some signs of declining capacity in maintaining policy coherence in the state policy process. It is also clear that what had not changed was the growth-first principle of the state. Certainly, with the reproduction of an authoritarian government, maintaining the effectiveness of the

government-chaebol alliance was the top priority of the politically insecure Chun regime in the 1980s.

The problem of 'chaebol non-reform' was exacerbated by the democratic transition of the country. With the emergence of institutional constraints of the middle class, the contradiction between maintaining economic growth and reforming the state-chaebol alliance further deepened in the post-1987 period. On the one hand, the economic reform vision of the state became the singular most effective way for the Korean ruling elites to strengthen their political profile in the country. On the other hand, with democratic transition, the dangers associated with such reform (e.g. slower growth, unemployment) weighed even more heavily on the minds of the ruling elites. In the rapidly-democratising South Korea, the politically-motivated reform programme of the state eventually would run into conflict with the renewed desire of the ruling elites to generate performance-based legitimacy, as structural reform would inevitably undermine the viability of the state-chaebol alliance. Consequently, serious policy inconsistency in the state strategic vision was observed in the first two democratically-elected administrations (i.e. Roh Tae-woo and Kim Young-sam) from 1988 to 1997. To elaborate this argument, I will provide a close examination of the transformation of the state strategic vision from 1988 to 1997.

A strategic vision of the state to upgrade the economy failed to emerge immediately after the 1987 democratic transition. Two developments shaped such an outcome: Firstly, the favourable external economic climate of the late 1980s automatically guaranteed the satisfactory performance of the country. With the economy blessed by the favourable economic factors of the 'three lows', the first democratically-elected president – Roh Tae-woo – was simply not concerned about economic development (Lee 2002:53; Kong 2000). Insecure in regard to political legitimacy, Roh attempted to buy popularity through the

implementation of populist development policies (Kong 2000; Oh 1999:112). Secondly, to fulfil the DJP's electoral campaign platform that emphasised greater 'equity' rather than 'efficiency', the democratically elected ruling elites now had even more reasons to reform the privileged chaebol sector and transform the state-chaebol alliance. A concrete step that Roh took to convert his election manifesto into state policies was the promotion of his head economic secretary to minister level so that he had the power to execute the restrictive policies on the chaebols (Lee 2002:57).

Clearly, what emerged after the 1987 political opening was not a strategic vision of the state to upgrade the economy but a populist reform agenda. However, the populist reform vision of the Roh government soon gave way to the formation of a crisis management vision of the state after 1989.¹⁸ The slow-down of growth in 1989 and the return to trade deficits in 1990 shifted the attention of the ruling elites back to the economy. As the ruling elites moved to stimulate growth, the impulse for chaebol reform was over-ridden by the public desire for recovery. Naturally, only the chaebols could spearhead that recovery. With the appointment of a conservative economic team, a new round of state interventionist policies was launched to strengthen the state-chaebol alliance (Lee 2002; Kong 2000; B-K Kim 2003).

The change of political leadership in 1993 provided fresh impetus for a new round of structural reform. There is no doubt that Kim Young-sam wished to develop a higher international profile and to differentiate himself as a new civilian leader from the generals who had gone before him. Two key means of achieving these objectives were gaining membership of the OECD – something that would require considerable structural reform

¹⁸A long-term economic development plan was formulated by the Roh government in 1992. However, the new five-year plan was not implemented since it had to be revised by the new government after the presidential election in 1992.

– and the creation of a ‘new economy’ (Gill 1996; Kong 2000). More importantly, labelling his economic management as ‘Y-S NOMICS’, Kim Young-sam was eager to impress the middle class with economic growth to achieve greater popularity. As Iain Pirie (2007:94) writes, ‘although the “poor” economic performance of the economy in 1993 was largely a result of the government’s own short-lived but serious attempt to force the chaebols to rationalise their activities, this does not alter the fact that the administration clearly felt that “something” ought to be done to boost the economy’. The development commitment of the Kim Young-sam government was crystal clear in the 100-day new economic development plan and subsequent release of a much-awaited five-year economic plan (Cha 1994; Kong 2000:146-7). The final imperative of the liberalisation plan was the new administration’s mandate to put an end to jungkyung yuchack (state-chaebol relations). To achieve this goal, a comprehensive programme of globalisation, or the segyehwa drive, was launched to reform the chaebols through introducing greater market discipline within the domestic economy while encouraging domestic firms to face global competition (Lee and Han 2006; Kong 2000; Hundt 2009).

However, the structural reform agenda of the state was half-hearted. The emergence of a growth-orientated neoliberal vision exacerbated the problem of ‘chaebol non-reform’ by further deterring the state’s willingness to reform the chaebol-state alliance. The Chungkyung Yuchak (government-chaebol relationship), which is the centre of Korea’s state policy process, proved difficult to relinquish. Barry Gills points out that Kim Young-sam’s ‘initial anti-chaebol (big deal) measures and attempts to dismantle vested interests and root out corrupt practices made part of the middle class uneasy, reviving a conservative backlash against reform. More fundamentally, Kim Young-sam concluded that he could not conduct his economic policy without the cooperation of the chaebols, and thus turned away from the idea of a decisive break in the government-chaebol reliance’ (cited in Dent

2000:281). Clearly, the developmental goal of the state in industrial upgrading ultimately had to be carried out by the state-business alliance. Gills (1996) also notes the tension between the Kim Young-sam twin 'segyehaw' policy objectives, concluding that 'the imperative of supporting chaebol global strategies proved stronger than that of economic liberalisation, and that replacing statist, neo-mercantilist forms with "competitive capitalism" in Korea's political economy was generally unworkable' (cited in Dent 2000:283). According to Dent (2000), the segyehwa (globalisation) policy was formulated to support the shift of the chaebols' globalisation strategies from internal internationalisation (export-based) of the Korean economy towards external internationalisation (FDI-based).

The More Coherent State Strategic Visions after 1997: From Structural Reform to Shared Growth

The inconsistency in the formulation of the state strategic vision for industrial upgrading was alleviated after 1997. Many Taiwanese scholars attribute the more coherent state strategic visions to the country's single-term for presidency.¹⁹ They argue that, because of this institutional design of the political system, Korean ruling elites are more incentivised to push for economic progresses in order to create economic legacies for themselves. In comparison, as they argue, the possibility of being re-elected for a second term motivates Taiwanese ruling elites to prioritise the task of winning elections when they come to power. This observation of Taiwanese scholars offer little guidance to account for the return of more coherent state strategic visions in recent years. Why did the ruling elites fail to

¹⁹ This point was obtained during my fieldtrip in Taiwan. These sessions of discussion with Taiwanese scholars took place in March 2014 and February 2015.

formulate coherent state strategic visions prior to 1997? How did the ruling elites manage to gain more coherent strategic visions after 1997? I attribute the return of more coherent state strategic visions in South Korea to the desire of the ruling elites to meet the expectation of the middle class for economic revival. The national sentiment for economic growth was `prevalent after the 1997 Asian financial crisis and was again renewed in more recent years.

The 1997 financial crisis brought intensified urgency for structural reform. Such reform clearly had the strong support of the middle class, which was demonstrated by a surge of social movements led by Korean civil society (e.g. the minority shareholder movement) to reform the chaebol-dominated economic system in the post-1997 period (Gong 1999; Kalinowski 2008; S. J. Lee 2008). As the urgency for reform gained great momentum in the country, the contradiction between maintaining growth and deepening reform in the state policy vision was finally alleviated. The result was the end of the problem of ‘chaebol non-reform’. Consequently, what emerged during the Kim Dae-jung administrations and the Roh Moo-hyun administration between 1998 and 2007 was a strategic vision of the state for a thorough neoliberal structural reform.

One major part of the structural reform was to push forward the long-overdue reform of the government-chaebol alliance. When Kim Dae-jung took office as the head of state on 25 February 1998, a comprehensive neoliberal reform programme had already been formulated by the government and IMF (in conjunction with the World Bank) to conduct a fundamental structural reform and major overhaul of the state-led development model (Kong 2000; Shin and Chang 2003; Ha and Lee 2007; Mo 2008). Although the IMF programme ‘was expected to deepen the economic and social pain’ (Kong 2000:216), the political legitimacy of the Kim government was clearly contingent on its ability to carry

out such externally-imposed reform programme. The state's determination to implement the corporate reform programme was vividly demonstrated in the handling of the Daewoo Group's bankruptcy in the second half of 1999. Hitherto, the state had been reluctant to allow chaebols of Daewoo's scale to collapse due to the potential social and economic fallout of such incident. In contrast, the Kim Dae-jung government that was single-minded in pursuing a thorough corporate restructuring refused to rescue Daewoo when it failed to comply with the conditions of the government's programme (Mo and Moon 2003; Hundt 2009; Shin and Chang 2003; Crotty and Lee 2002). The reform agenda of the state was fuelled further under the succeeding President Roh who was elected on the basis of his image as an outsider politician and an anti-establishment voice (Lee 2008). A task force was organised by the government to oversee a three-year plan for market reform (Roh 2003).

While structural reforms aimed at dismantling the government-chaebol alliance were underway, serious attempts were also made to move the Korean economy towards a new market-orientated paradigm of economic growth. To further strengthen the government's political standing in the eyes of the public, some concrete steps also had to be taken to enhance the competitiveness of the economy to meet the public desire for economic revitalisation. Such calculation of the ruling elites provided the rationale for the government's push for a new round of globalisation drive in the aftermath of the 1997 financial crisis. Ambitious initiatives were launched during both the Kim and Roh administrations towards making South Korea into a regional economic hub for the Northeast Asia region (K-K Lee 2004; Lee and Hobday 2003). Another major effort of the state to accelerate the globalisation drive was the government's FTA strategy. By then, trade and liberalisation through FTA came to be realised as an integral part of South Korea's long-term economic vitality (Sohn 2001; Liou 2008). The 1997-1998 financial

crisis also served as a wake-up call to make South Korea realise the importance of supplementary trade mechanisms at the sub-multilateral level in safeguarding its economic security (Park and Koo 2007). The most ambitious project of the government's push for the FTA strategy was the pursuit of FTA with the US (Lim 2006; Choi 2009). By setting the wheels of the Korea-US FTA in motion, the Roh administration advanced Korea into the next stage of the market-orientated growth model.

The evolving institutional constraints of the middle class after 2008 transformed the state strategic vision. Subsequently, the post-2008 period witnessed a transformation of the state strategic vision in South Korea in two aspects: (1) The priority of the state shifted from conducting structural reform to generating economic growth; (2) as this occurred, the state also moved away from the chaebol-centred development vision. An examination of such transformation of the state strategic vision is provided below.

The impetus for the return of state developmentalism after 2008 was the evolving preference of the middle class. Towards the end of Roh's period, there was clear dissatisfaction amongst the middle class with the neoliberal restructuring project pursued by Kim Dae-jung and Roh Moo-hyun. As H. Y. Kwon (2010) observes, 'Many South Koreans became disappointed by the decade-long rule of liberal presidents, who promised much but failed to deliver on either robust economic growth or increased quality of life'. While the support for structural reform was fading, the desire of the middle class for a revival of Korean's state developmental model was growing. The post-1997 saw the rise of the intriguing social phenomenon of 'Park Chung-hee nostalgia' in South Korea (Moon 2009). Such developmental nostalgia was particularly notable in the years immediately preceding the 2008 and 2012 presidential elections when two conservative candidates who campaigned on the basis of their visions for reviving state developmentalism swept to

power (W-T Kang 2010; W-J Kang 2016). In the context of a renewed social support for developmentalism, the ruling elites shifted back to the state-led policy paradigm to strengthen their political standing in the country. Indeed, by offering themselves as a new Park for the middle class, the two conservative presidents and their team certainly did not hesitate to bring back an interventionist approach to promote the economy. Consequently, we saw the statist push for ‘Green Growth’ launched by the Lee government in the wake of the global financial crisis of 2008 and the ‘creative economy plan’ formulated by the Park Geun-hye administration to promote a state-led innovation (Kim and Thurbon 2015; Connell 2013).

However, the return to state developmentalism was not accompanied by a renewal of the chaebol strategy. Despite the aspiration of the new Korean rulers to bring back the statist model of Park, they had no intention to emulate Park’s chaebol strategy to achieve rapid growth in democratic Korea. The concern of the ruling elites for the policy preference of the middle-class was clearly behind their decisions to shift away from the chaebol strategy. The source of the preference of the middle class for the government’s shift away from the chaebol strategy was the old problem associated with the structural imbalance in the economy. After the 1997 crisis, the power of the chaebols was strengthened effectively through government-led corporate restructuring, while the SMEs suffered greatly from the crisis (Mo and Moon 2003; Gregory, Harvie and Lee 2002). To most economic observers in the country, the increasing weakening of the SME sector had contributed to the decade of ‘jobless growth’ experienced by Korea following the 1997 crisis. Such structural imbalance in the economy had clearly fuelled the anti-chaebol sentiment among the middle class. In response, the Lee administration staged an onslaught on chaebol to improve its standing with the public and to reverse the lame duck status of the outgoing president (H-

S Lee 2012). Despite the initial attempt of the state, anti-chaebol sentiment further escalated throughout the Park administration.²⁰

Realising the clear policy preference of the middle class, the ruling elites began to make the shift to reduce the economy's reliance on the chaebols in 2010. In the aftermath of a major loss in a by-election, the ruling party decided to focus on serving the interests of the middle class to gain their popularity among the public (Jung 2011). The result of the ruling elites' soul-searching was the policy of 'shared growth' (Jeon 2012). Under the principle of promoting co-existence of SMEs and chaebols, a series of government policies was formulated to contain the overcrowding effect of the chaebols on the SME sector during the second half of the Lee administration (Mukoyama 2013). Along with the previously established FTC, a semi-government organisation – the Presidential Commission on Shared Growth – was set up to enforce the government's chaebol-containing policies. A dispute dubbed the 'tofu war' broke out as the commission waged an uphill battle to loosen the iron grip of the chaebols over the economy (Oliver 2011). The government's policy shift to end the reliance on chaebols as a driver of the economy went one step forward during the Park administration. Similarly, Park also emphasised the importance of 'chaebol-SME co-prosperity' as soon as she came into power (Seo 2013). The government even went further to nurture grassroots entrepreneurship to meet the expectation of the middle class. This SME-nurturing strategy to promote SMEs was crystal clear in the 'creative economy plan' in which the government rolls out funding and infrastructure to aid grassroots innovation and boost the SME-dominated service sector (Connell 2013; Mundy 2015).

²⁰ The most dramatic event to illustrate the level of anti-chaebol sentiment was perhaps the massive public outcry after an infamous nut rage incident involved the heiress of the Hanjin group (see Deciantis and Lansberg 2015).

State Policy Constraints of Business Elites in South Korea

The Rise of Chaebol Interests and the End of State-Led State-Business Cooperation

A large part of the transformation of the developmental state is the emergence of state policy constraints of business elites in the development process. In South Korea, the business elites have produced enormous policy constraints on the state policy process since the early 1980s. Both the two variables – industrial structure and democratic transition – have played roles in producing a high level of policy constraints on the state policy process. The first important factor explaining the high level of state policy constraints from business elites was the country's high percentage of DPCC. My hypothesis is: *A high degree of DPCC results in a high level of structural constraints of business elites on the state policy process.* The key logic for explaining such an outcome is that the high level of DPCC gives rise to the emergence of concentrated business interest groups.

In South Korea, the concentrated business interest groups are the country's major business leaders – chaebol owners. The chaebols had both incentives and capacity to shape the state policy process. The rapid export-led growth animated the desire of the chaebols for advancing their economic interests in the development process. In the early 1980s, the main strategy of the chaebol owners to advance their material interests was to push for greater market autonomy – a goal which was compatible with the state's fledgling neoliberal agenda. In 1981, the FKI announced its desire for greater economic decision-making power in the state policy process in its annual report. It stated that 'we must actively seek and adopt the opinions and expertise coming from various corners of our society, and in particular from the business elites... Thus, we will be able to improve the total efficiency of our economic and social activities' (Kim 1997:198). Given the weight

of an individual chaebol owner in the economy, the rise of the chaebol interests was also visible at an individual enterprise level. As Jong-Chan Rhee (1994:213) observes, ‘During the latter half of Chun’s presidential terms, however, owners of the largest business groups often directly contacted the top of the government, while hired top managers of business groups met with the minister- or vice-minister-level bureaucrats in order to represent big business interests and to demand individual conglomerates’ interests’.

The strong structural power of the chaebols vis-à-vis the state was already visible in the 1980s. The policy of the Chun regime designed to reduce the concentration of the chaebols (i.e. the fair Trade and Anti-Monopoly Act) was far from successful because of the chaebols’ open defiance of the state by increasing their horizontal integration through acquiring new firms. Similarly, although the chaebols were forced to sell off some of their real estate, they had acquired land holdings worth 20 times more than those they had released (Kim 1997:195; Kim 1993; Moon 1994:152). During the reorganisation of the HCI, the chaebols even reversed the initial policy choice of the state – The government’s decision to reverse its plan of promoting Daewoo and to create a SOE to produce electrical generators was a compromise solution to avoid jeopardising its relations with other chaebols which collectively opposed to the government’s plan (Kim 1997:193-94; Kim 1993). The structural power of the chaebols to challenge the state was significant given the state’s preference for the promotion of the private sector and the privatisation of the public sector. Certainly, in the 1980s, the state did not lose all its power vis-à-vis the business elites in the development process. The government’s success in forcing the seventh-largest chaebol Kukje bankruptcy demonstrated that the state could still exercise its authority in determining the fate of big businesses. However, the ability of even more powerful chaebols to control the process of distributing Kukje’s assets nevertheless suggests the

significant structural capacity of the chaebols vis-à-vis the state (Kim 1997: 200-3; Hundt 2009:80).

Not only did the chaebol resist the government's attempt to reign them in, they also used their structural power to achieve financial independence during the state's policy shift toward economic liberalisation. Although the government's expectation was that neoliberal reform would curb the economic power of the chaebols, the reform process provided the chaebols with new opportunities to enhance their financial strength. During the privatisation of government-controlled commercial banks, the economic power of the Korean business elites was strengthened with the chaebols' acquisition of shares of privatised banks: In the mid-1980s, the top ten chaebols were said to have collectively secured 22 percent to 57 percent ownership of five nation-wide commercial banks in the mid-1980s (Zeile 1996:261). More significantly, the chaebols successfully achieved financial independence from the state through acquiring the ownership of non-bank financial institutions (NBFIs) which was developed specifically to get around the nationalised banking system (E.M. Kim 1997:189). The ownership of the Korean stock and bond markets also grew rapidly in the second half of the 1980s (Lee et al. 2002:23). As these alternative financing channels came to replace banks as a major source of funds, we witnessed the change in corporate financing of the chaebols from their sole reliance on bank loans to the growth of the share of NBFIs loans and direct financing increased as a major source of financing for the chaebols (Lee et al 2002:23).

Both the capacity and incentive of the business elites to influence the state policy process increased after the 1987 democratic transition. The newly-acquired financial strength enabled the chaebols to gain a better position to advance their economic interests in the development process. Consequently, it became even more difficult for the government to

control the chaebols. The Roh administration's measures to reconstruct the chaebol sector largely failed to force the chaebols to sell off their non-productive real estate holdings and enhance their competitiveness by selecting three core industries to specialise in (Fields 1995:59; Moon 1994). Politically empowered by the opening of the political system in 1987, several chaebol owners and high-ranking managers also ran for National Assembly seats to directly participate in the state decision-making process in the late 1980s and early 1990s (Lee 2002; Kim 1997). In the period, the most significant act of defiance on the part of the chaebols was the decision by Chung Ju-yong to form his own party and stand against the government's candidate in the 1992 election under the provocative slogan of 'get government out of business' (cited in Evans 1995:229). Even when Chung was later convicted for electoral and other financial malpractices, the Hyundai chairman was pardoned by the new president in 1993 for his apparent influence over the economy (Hundt 2008:85).

The 1987 domestic transition also intensified the desire of the chaebols to influence the state policy process. As Tat Yan Kong (2004:207) puts it, 'For business, democratisation meant having to adopt a more proactive attitude to fostering beneficial relations with the state. Business could no longer rely on a benevolent state whose support was guaranteed on the basis attaining performance targets and regular donations to the ruling party'. The chaebol club – the FKI – immediately declared its autonomy and stepped up its efforts to obtain favourable state policies after the 1987 democratic breakthrough. With the emergence of a neoliberal agenda of the state, greater market liberalisation was certainly the key for the chaebols to achieve greater economic gains. The FKI's New Year announcement in 1988 on the importance of a free market for future economic growth and the establishment of a creative entrepreneurial spirit was considered a 'bombshell announcement' by the media since the New Year press conference was when the FKI

ceremonially announced its support of state policies in the past (Kim 1988). The desire of the chaebols for less government interference in the economy and faster dismantling of the state policy process grew even greater in the 1990s and culminated in a 1995 FKI policy report in which the chaebols called for a radical retrenchment of the state and the abolition of all government bureaucracy by 90 percent (Chang and Evans 2005).

The above discussion confirms my theoretical proposition that a high level of DPCC leads to a high level of structural constraints of business elites. The Korea case shows that the high level of DPCC of the country resulted in a high level of structural constraints of business elites by producing concentrated business interest groups – the chaebols. Given their enormous wealth in the country, the chaebol owners possess both the motivation and capacity to shape the state policy process. The high level of structural constraints of business elites was already visible in the early 1980s when the chaebol successfully resisted the government's attempt to curb their economic power and quickly achieved financial independence during the process of financial liberalisation. As I noted, in the late 1980s, the high level of structural constraints of Korean business elites further increased as a result of their financial independence and the democratisation of the political system of the country.

In addition to the increasing structural constraints of the business elites, the democratic transition initiated in 1987 resulted in institutional constraints of the business elites. As political parties in South Korea were more dependent on their leaders than on any ideology or formal organisational structure, Korean politicians faced a high demand for political funds to reward their followers, to activate party organisations and to mobilise voters to win electoral competitions. David C. Kang (2002:161) used the Korean word 'oribal' (duck feet) to describe the situation – 'on the surface decorum is maintained while below

the surface the parties scramble like mad to raise funds'. In addition to running a party, the ruling elites also needed to seek funds to meet the growing financial demand for the increasingly capital-intensive elections. Aurel Croissant (2002:258) describes the increased role of money politics since the democratisation began in Korea: 'Money matters in electoral competition... The more a candidate spends, the better his chance of winning.' The source of the increasing demand for political funding came from the business community, particularly the chaebols. The result was the drastic increase in quasi-taxes between the government and big businesses in the 1990s (Kang 2002:163; Eckert 1993:109). Particularly, Kang (2002) points out that there was a drastic increase in quasi-taxes from 1994-1998 under the Kim Young-sam administration.

As the ruling elites turned to the chaebols for political funding, the state-business relations continued to evolve in Korea.²¹ By then, it was clear that, with the financial leverage against the ruling elites, the chaebols had gained an upper hand in the state policy process. In October 1988, the FKI's announcement sent a strong warning to the ruling party that the FKI intended to use its formidable concentration of wealth politically, through the election process, to push the ruling party into giving more control of the economy to the private sector (Eckert 1993:109). Towards the end of the Kim Young-sam terms, the kind of state-business relations that ensured the insulation of the state from societal interest had been completely lost in South Korea. A new kind of state-business relations closely associated with 'crony capitalism' emerged (Kang 2002). The new kind of state-business relations resulting from the increasing role of money politics allowed the chaebols to gain direct access to the state policy process through capturing those who had the ability to influence the state decision-making. As Ha-Joon Chang (1998:1557) observes, 'Under the

²¹ To many statist, the transformation of the state-dominated state-business relationship led to the problem of 'moral hazard', which was responsible for the 1997 financial crisis (e.g. Chang 2002)

Kim Young Sam government, for the first time in the post-1960s Korean history, we heard the names of some particular chaebols, such as Samsung, talked about as being “close to the regime”. Previously, the chaebols as a group were treated preferentially, but rarely was any one or few of them regarded as being closer to the government than the others’.

The emergence of both structural and institutional constraints of business elite on the state policy process led to the rapid decline of the state’s leadership role in directing state-business cooperation after 1987. In the manufacturing sectors, the state strategic actions were not as insulated from corrupt political exchanges as before. Industrial policy began to reflect the private interests of the chaebols rather than national interests. The Kim government’s decision to support the market entry of ‘a medium-sized chaebol with a dubious track-record in manufacturing’ was ‘not taken as a part of coherent industrial policy’ (Chang et al 1998:740). As the investigation into the bankruptcy of the Hanbo group later revealed, behind the government support of Hanbo lay high-profile corruption involving closest aides and even the son of President Kim (Chang 1998; Chang et al. 1998). In this period, the state policy agenda of neoliberal economic restructuring was also hijacked by the chaebol interests. After gaining financial independence through NBFIs and direct financing, the chaebols turned their interests to pushing for liberalisation of restrictions on foreign borrowing to gain new sources of funding. In the late 1980s, the government still had control over foreign borrowing, but five or six years later there were virtually no restrictions left. The opening of capital accounts, particularly short-term loans, outpaced the introduction of effective instruments of corporate governance. Towards the mid-1990s, while the state basically lost its control over chaebol and the process of financial liberalisation, the chaebols became unsupervised and indulged in the accumulation of foreign debts, which paved the way for the 1997 financial crisis (Chang 1998; Chang et al 1998; Wang 2012:115-124; Kalinowski and Cho 2009).

Chaebol Interests and the Changing State in the Post-Crisis Period

The state policy constraints of the chaebols significantly reduced in the period immediately after the 1997 financial crisis. The reduction in the structural constraints of the business elites was the result of a temporary structural weakness of the chaebols. Not only did the economic crisis financially weaken the previously privileged corporate and financial actors, it also removed the political status of the chaebols as builders of the economy (Wang 2012: 126).²² Consequently, the chaebols did not have the same strength to influence the state policy process as before. While the structural constraints of the business elites reduced, the ruling elites also temporarily escaped from the institutional trap created by their need for political funding for electoral cycles. Winning the December 1997 presidential election in the midst of the financial crisis, Kim Dae-jung had strong incentives to dismantle the collusive ties between previous governments and the chaebols to advance both his ideology and the interests of his primary constituents. In an interview given shortly after he was elected, Kim criticised the financial crisis as a result of a ‘collusive intimacy between business and government’ (cited in Cumings 1999:38). As the former ruling party was widely criticised for having mismanaged the economy, favouring chaebol interests in the state policy process was clearly a politically risky strategy in the immediate aftermath of the national crisis.

The reduced policy constraints of the chaebols resulted in a temporary renewal of a state-led state-business cooperation. Despite the unwillingness of the chaebols to fully cooperate with the government, the interventionist approach of the Kim administration did succeed

²² Chaebols were regarded as being primarily responsible for the crisis and were subject to public criticism for the hardships that Korea experienced after 1997.

in trimming down the excessive capacity of the chaebols and increase their competitiveness through six swaps completed by the end of December 1999 (Mo and Moon 2003; Cherry 2005; Weiss 2003; Pirie 2008). Although scholars disagree on the degree of success or failure of the Big Deal programme, the fact that major industry realignment did occur demonstrated the enhancement of the power of the state whose previous attempts to reign in the chaebols failed miserably. The renewed state capacity in the policy-making seems to be even clearer during the neoliberal restructuring of the financial sector under the Kim administration. Unlike the previous rounds of financial liberalisation that served the interests of the chaebols, the financial liberalisation in the immediate post-crisis period was designed to tackle the power of the chaebols. A key strategy of the government was to allow increasing foreign entry into Korean markets, especially in banking, to tackle ‘crony capitalism’ and rampant corruption, and eventually to discipline the investment behaviour of the chaebols. To hinder reckless expansion by the chaebols, the government also tightened regulatory measures in the financial sector (Kalinowski and Cho 2009; Wang 2012: 125-33). The chaebols clearly had interests in delaying the reform and in maintaining lenient regulatory standards to be kept afloat. However, with the renewed state capacity in the state policy process, the government’s strategy worked smoothly.

The temporary reduction in the policy constraints of the business elites as an unexpected consequence of the financial crisis was short-lived. As economic recovery progressed in the country, it was just a matter of time before the chaebols regained their title as the ‘saviours of the national economy’. After trimming down their businesses, the chaebols emerged from their previous defensive position by the early 2000s.²³ Already during the

²³ Although the total number of chaebols reduced but their size of them increased after the crisis.

Roh Moo-hyun presidency, the chaebols had regained some of their standing in the country ‘due to their ability to earn the foreign currency that was needed to repay foreign debt and recover from the financial crisis’ (Kalinowski 2009:296). As the Roh administration came to office with a renewed mandate to push for reform against chaebol interests, the state and the business elites were already ‘on a collision course’ (Shim 2003). With the return of a pro-growth state vision by the end of the Roh’s term, the chaebols’ status as national economic builders was firmly rehabilitated. Many of the chaebol leaders who were convicted for wrongdoings were spared prison terms either by judges who recognised their significance to the national economy or by the ruling elite who sought to lift national spirits (Choe 2008; Cheng 2015; Haggard 2017). What also returned by the early 2000s was their institutional constraints of the Korean business elites, along with their structural constraints. The investigation of a political scandal involving the president and her confidant in 2016 offered us a glimpse of the continuation of money politics in the state policy process. Relegated to a corrupt venue used by the government to extract funds from the conglomerates, the FKI, which previously acted as an agent of connecting the state and the business elites, was at the verge of disbanding (Yeo 2016).

With the solid return of the policy constraints of the business elites, the state-led state-business cooperation, once again, became a thing of the past. The financial crisis pursued after the Kim Dae-Jung administration was no longer free from the influence of the chaebols (Wang 2012). Any further financial reform would be achieved at the expense of serving the interests of the business elites. As the state moved to promote the economy, the chaebol interests dominated the policy agendas of the state for industrial upgrading after 2008. The ‘green growth’ strategy of the Lee Myung-Bak administration did not support infant industries but amounted to a government subsidy for sunset industries, such as an oversized construction sector dominated by the chaebols (Kalinowski 2009).

Similarly, the formulation and implementation of the ‘creative economy’ plan launched by the Park administration also demonstrated the limit of the state’s industrial policy as a result of the rise of chaebol interests. Despite the government’s intention to reduce the reliance on the chaebols through promoting high-tech SMEs, the newly-established regional innovation centres aimed at nurturing start-ups were all put under the control of the chaebols (Mundy 2015). However, it is still debateable whether the business culture of the chaebols makes them best placed to nurture the sort of creative and dynamic start-ups able to compete with those located in Silicon Valley. It is almost certain that the creation of such innovation networks would end up undermining the state’s development goal by hardening the grip of the chaebols on the economy.

State Policy Constraints of Organised Labour in South Korea

The Rise of Chaebol-Based Unions

The state policy constraints of organised labour on the state policy process is equally strong in South Korea. The factor that shaped the outcome was the high percentage of DPCC of the country. This argument involves the testing of my hypothesis – *A high degree of DPCC leads to a high level of structural constraints of organised labour on the state policy process by producing concentrated labour interest groups in the country.* In South Korea, the domestic labour actors who provided the organisational base of the concentrated labour interests groups are industrial workers based in chaebol-owned firms. During the first decade of EOI, the number of female workers employed in the light industries grew rapidly and were mainly concentrated in a few geographic locations in the Seoul-Inchon area (Koo 1993; 2001). By the early 1970s, such concentration of industrial workers created the initial conditions for the formation of concentrated labour interest groups in South Korea. As

economic development animated the desire of industrial workers to advance their economic interests, the first wave of unionisation strategy of the chaebol workers occurred in authoritarian South Korea in the 1970s. Several attempts had already been made by the chaebol workers to set up new independent unions or capture the control of company unions at large textile companies (Koo 2001:73).

The eruption of labour interests extended into the brief period of a political vacuum after the death of Park. The temporary absence of authoritarian repression further provided a political environment for the chaebol workers to assert their economic demands. With the intensified desire of the chaebols to advance their economic interests, more labour unrest erupted to achieve the dismantling of the company-controlled unions in the period between 1979 and 1980. This was a natural extension of the democratic union movement that had appeared in the 1970s (Koo 1993:142). The first wave of the unionisation drive of the chaebol workers came to an abrupt end when the military finally moved in May 1980. This end of the unionisation strategy of the chaebol workers was reflected in the fact that both the number of unions and the number of union members dropped dramatically as a consequence of Chun's anti-labour policy (Koo 1993: 148). Clearly, the emergence of labour interests was constrained by the authoritarian system of the country. As Koo (1993:149) puts it, 'Over the next three years, organised labour found no legitimate space in which to operate, and the labour movement was forced into a state of apparent quiescence'.

The desire of the chaebol workers to organise labour unions resumed in the early 1980s. By then even more favourable conditions for the organisation of chaebol workers had been developed. The promotion of the HCI resulted in an extremely high concentration of male workers in Korea's domestic private sector. Such a concentration of industrial workers

took two forms: Firstly, there was an increasing concentration of industrial workers in large-scale private enterprises. In 1985, almost two-thirds of Korean workers were employed in large-scale enterprises. The majority of them were employed in heavy and chemical industries. Secondly, the geographical concentration of industrial workers occurred in a more spectacular fashion. As the government encouraged the development of strategic industries in certain areas, about half of all manufacturing workers resided in the Seoul-Kyungin area and another 40 percent in the Youngnam area in the Southeast, which includes two major cities, Pusan and Taegu. Within these densely populated areas, workers are concentrated in these newly built industrial zones (Koo 1990, 2001; Yu 1993).

More importantly, political liberalisation implemented by the Chun government provided crucial political space for the demonstration of labour interests. The rapid export-led growth re-activated the desire of these industrial workers to defend their economic interests in the development process. As Koo (1993:151) observes, 'The character of the labour conflicts had changed noticeably by the mid-1980s, the focus of workers' struggles was no longer on isolated economic issues but on organising new independent unions'. The result of the eruption of labour interests was that 200 independent labour unions were created by industrial workers and they attempted to develop regional solidarity between the unions (Koo 1993:150). By then, the intention of the chaebol workers to advance their economic interests by establishing independent labour unions was clear. What they needed was a political environment that could accommodate their desire to challenge the state-business alliance in the development process.

With the clear desire of the chaebol workers for interest advancement, it was hardly surprising that the democratic transition of 1987 led to a full-scale eruption of collective efforts of the chaebol workers to organise labour unions. The end of authoritarian rule

meant that the economic interests of the labourers could now be voiced openly. Consequently, this led to what became known as ‘the Great Workers’ Struggle’ in the summer of 1987. The massive labour outburst was led by the industrial workers in heavy and chemical industries in the cities of Ulsan, Masan and Changwon in the southern coastal region (Koo 1993, 2001; D-O Chang 2009). Certainly, with the experience of the first wave of unionisation drive in the 1970s and mid- 1980s, the chaebol workers were more than ready to release their pumped-up energy in the new political environment. The desire of these chaebol-based unions for greater material benefits was clearly demonstrated in the huge wage hike that occurred in 1987. As the state took a hands-off approach to labour unrest in 1987 and 1988, workers obtained wage increases of over 20 percent in that period in many large factories by forcing the management to make concessions (Koo 2001:189).

The eruption of economic interests of the chaebol workers was accompanied by an organisational revolution. The concentration of industrial workers in the chaebol sector clearly provided the organisational advantage for industrial workers to organise labour unions. According to Koo’s study (2001:196), at the end of 1989, the unionisation rate in companies with three hundred or more workers was 60 percent, whereas the rate for small companies with 50-99 employees and medium companies with 100-299 workers was 9.5 percent and 26 percent respectively. In a short time, with organisational advantages, the chaebol-based unions quickly developed themselves to parallel the organisation of the chaebol. The organisational revolution reached its peak upon the inception of a radical labour umbrella organisation, the National Trade Union Congress in 1990 (the forerunner to what later became the Korean Confederation of Trade Unions). With the rise of strong labour interests, the established FKTU also asserted its independence from the state immediately after the 1987 democratic transition (Koo 2001; 1993; Chang 2009).

Given their membership base, the chaebol unions had strong structural power to advance the economic interests of their members. The clear indication of this was the significant transformation of labour relations in the democratising South Korea. After the end of the late 1980s, even though the state returned to a more cohesive stance against organised labour, neither capital nor the state was able to return labour relations to where they were before the summer of 1987. Collective bargaining, which had been largely ignored or regarded as a merely formal procedure between old company unions and chaebol owners, now became a necessary procedure that the state-business alliance had to go through in order to implement managerial decisions. The result was that chaebol owners could no longer exercise the maximised managerial authority 'to make unilateral decisions about wage and employment conditions' and now had to reach agreements with trade unions through collective bargaining (Koo 2000:233). Consequently, the rise of labourers' demands for greater economic benefits resulted in a quick loss of South Korea's comparative advantage over a range of products in the global export market by the end of the 1980s and early 1990s (Minns 2001).

The organisational base of the chaebol unions changed little after the late 1990s. Despite resumed repression from the state-business alliance, the organisational advantages for labour unionisation were still obvious within these business groups. Koo (2007) noted that more than 70 percent of union members were employed at large firms hiring 300 in 2007. Given the mobilisation advantages for the chaebol unions, it was an extremely difficult to alter the structure of the collective actions of organised labour. Although both the FKTU and the KCTU have attempted to move towards industrial unionism and industry-wide collective bargaining since the late 1990s, the outcome of such attempts shows little success. The number of industrial unions did increase noticeably, but changes in union organising structure did not lead to an immediate change in collective bargaining structure.

Jin Ho Yoon (2010) points out the main problem in the development of industry-wide collective bargaining in Korea: Although most big unions have joined industrial unions, they have all retained independent decision-making bodies and a large share of union budgets. As he reasons, 'There are huge differences in wage rates between big companies and small and medium-sized companies, so that industry-wide bargaining would potentially undermine the better wages and working conditions of workers in big companies. This is a constant source of conflicts between industrial unions and their locals'. Clearly, the new strategy of industrial unionism could not alter the enterprise-based union structure where the powerful chaebol-based labour unions dominated the interest articulation of industrial workers.

The continuation of the organisational strength of chaebol-based unions was clear after the full-scale neoliberal restructuring. The effectiveness of the chaebol unions in achieving greater economic interests through collective bargaining was demonstrated during the annual wage negotiation when chaebol unions were always able to 'exert their mobilisation strength to maximise company-level gains beyond the recommended guidelines set by the government' (Lee 2011:199). Despite the government's push for labour market flexibility, the organised labourers in chaebols enhanced their job security as 'regular workers' to protect themselves against labour market uncertainties. One of the most extraordinary company-level gains was job security for regular workers (mostly chaebol workers) to the extent of securing what can be described as priority employment opportunities for the children of retiring workers with more than 25 years of service (Kim 2013). While the industrial workers belonging to powerful chaebol unions elevated their economic status and became 'labour aristocracy' (H-A Kim 2013), SME workers that were not protected by unions lost out during the period of economic restructuring. By the mid-2000s, a dual and segmented labour market characterised by a clear divide between the privileged

regular chaebol workers and underprivileged irregular workers mainly located in the SME sector emerged in South Korea (Chan 2006). The unbalanced development did eventually give rise to the desire of irregular workers to advance their economic interests. However, in contrast to the chaebol workers, without the organisational advantage to organise large and stable labour unions, irregular workers could only risk their life by resorting to extreme forms of labour resistance such as ‘sky protests’ in order to make their economic demands heard by the government (see Shin 2010; Y. Lee 2015).

The above discussion allowed me to test half of my hypothesis that a high level of DPCC leads to a high level of structural constraints produced by organised labour. In South Korea, the high percentage of DPCC of the country led to the emergence of concentrated labour interest groups. As I showed, with the organisational advantage for organising labour unions resulting from the concentration of industrial workers, the emergence of labour interests in chaebol companies began even prior to the 1987 political opening. The subsequent democratic transition soon led to the formation of strong chaebol unions that possessed strong structural power to acquire their perceived interests vis-à-vis the state-business alliance. Given their effectiveness in advancing their economic interests, the organisational basis of the chaebol unions has been well-maintained despite the attempt of the national labour unions to move toward industrial unionism. To complete the testing of my hypothesis, I will assess the strong effect of the presence of these concentrated labour interest groups on the level of structural constraints of organised labour in South Korea in the rest of the section.

The Unstable Tripartite Arrangements

The presence of chaebol unions has resulted in strong structural constraints of organised labour since the 1987 democratic transition. As a result, organised labour was no longer a political actor subordinated to the economic agendas of state-business alliance. A clear indication of the strong policy constraints of organised labour was the ineffectiveness of tripartite arrangements since the late 1980s.²⁴ With the presence of powerful chaebol unions, the organised labour in Korea has strong bargaining power to challenge the state-business alliance in the state decision-making process. Consequently, as I will show, the government's attempt to bring labour into the negotiation table with the state-business alliance has mainly failed from the 1990s to the present day.

In the late 1980s, as the state moved to enhance the competitiveness of the economy to mitigate the sharp wage hike after the 'Great Workers' Struggle', policy constraints from the organised labour first emerged during the labour market reform. The economic reform process was difficult as the state attempted to minimise the discontent of organised labour while maintaining the strong alliance with business leaders. The creation of the first tripartite arrangements was ineffective – the state-business-labour negotiation failed to submit any meaningful reform proposal due to the unwillingness of organised labour to compromise (B-K Kim 2003). Challenged by the organised labour, the state policy process was clearly no longer coherent developmental policies. The urgency for reform eventually forced the ruling elites to bypass the tripartite mechanism and push through reform bills through the legislative process and triggered an unprecedented general strike (Koo 2001). However, the government-made bill also suffered from serious policy inconsistencies. As Byung-Kook Kim (2003:72) writes on the 1996 labour market reform bill, 'essentially

²⁴ See Kong (2004) for a discussion of the government's efforts in creating Tripartite arrangements between the late 1980s and late 1990s.

compromise bills, they suffered from internal contradictions, doing too little to deal effectively with the structural flaws of Korea's fragmented system of company unionism, but too much for both capital and labour to remain politically unruffled'.

The 1997 financial crisis provided the catalyst for the reform of the labour market. To a large extent, the country's breakthrough in labour reform was the result of a sudden reduction of labour constraints over the state reform agenda in the midst of a national crisis. Allowing the reform of the labour market as a major part of the IMF reform programme was crucial for the state-business alliance and organised labour alike. The imminent collapse of the national economy could clearly jeopardise the core interests of organised labour – job security and employment. Clearly, in late 1997 and early 1998, the state-business alliance and organised labour, for the first time, shared the same interest: overcoming the financial crisis. Such a strategic compromise of organised labour consequently led to the formation of an effective tripartite institution – the Tripartite Commission for Fair Burden-Sharing (TAFBS) – in January 1998. Unlike previous ones, the creation of the TAFBC symbolised the formation of a temporary state-business-labour alliance to overcome the 1997 financial crisis. As Kong (2000: 220) writes, 'While not removing the underlying differences, the financial crisis restored some sense of shared interest between state, organised labour and business'. As an alliance of the state, organised labour was also compensated for this acceptance of economic hardship during the period of neoliberal restructuring. In exchange for lay-offs and labour market flexibility, the labour gain was not insignificant: The government agreed to extend the social safety-net and to provide schemes for those affected by the reform; Korean organised labour also gained greater political rights and extended their membership base to the public sector (Kong 2000:222).

However, the period of reduction of labour constraints did not last very long. The social pact between Korean organised labour and the state-business alliance for economic restructuring soon came to an end in the early 1999. The sustainability of the social pact required some genuine transformation of business practices and real sacrifice on the part of the business. However, to organised labour, the growing income inequality and mass lay-offs in the post-crisis period seemed to suggest that the organised labour had shared much more of the burden than the businesses did (Kong 2000:234). With the removal of an immediate economic threat, the organised labour led by strong interests of the chaebol workers were clearly unwilling to make further compromises within a framework set up by the state-business developmental alliance at the expense of undermining the economic interests of their members. As Han et al. (2010:298) writes, 'Labour made it clear that more of the burden for restructuring the economy needed to be placed on the chaebols, which had spent recklessly over the years and were regarded by many as the chief of the economic crisis'. With the departure of the KCTU and FKTU from the social pact, the strategy of organised labour moved from the negotiation table to the streets. The months of March, April, and May of 1999 witnessed major labour strikes (Han et al 2010; Kong 2000).

The subsequent return of the labour constraints over the state policy process was significant. In mid-1999, to lure organised labour back to the negotiation table and avoid the danger of an escalation of labour strikes, the government risked harming the relationship with its developmental partners by making concessions including shortening of legal working hours from 44 to 40 hours and requiring businesses to pay the salaries of full-time union officials (Kong 2000:236; Han et al 2010). When the state shifted back to its pro-business orientation, the Roh Moo-hyun government reached a deal with the moderate FKTU to further promote the labour market flexibility in exchange for some

limited labour gains in 2006. Needless to say, the deal triggered strong opposition from the radical TCTU (TCTU 2006). Despite the government's attempt to reactivate the tripartite negotiations in April 2007 with the renaming of the Korean Tripartite Commission (KTC) to Social Development Commission (ESDC) in April 2007, the efficiency of such social dialogue mechanism is still questionable. With the presence of both strong business and labour interests, deadlocks occurred during the state decision-making process over several issues including the permission of multiple unions at company level and prohibition of payment for full-time union officials by companies (Han et al. 2010). The tripartite talks between the labour, management and government eventually failed as the government unilaterally pushed for a new round of overhaul of the labour market to enhance the competitiveness of the economy and drive up youth employment (Jhoo 2016; Mukoyama 2015). Clearly, unlike the labour market reform in 1998, organised labour is no longer willing to make compromises to allow the state-business alliance to achieve its developmental goals through further labour market reform.

The above analysis confirms my hypothesis – the level of DPCC corresponds with the level of structural constraints of organised labour. In the Korean case, the rise of chaebol-based unions provided organised labour with mobilisation strength to challenge the state-business alliance in the development process. The result of the emergence of strong structural constraints of organised labour after 1986 was the transition of the role of organised labour from a subordinate actor to a powerful one that are capable of challenging the state-business alliance. Consequently, with the only exception of the post-crisis period, the state's several attempts to incorporate organised labour into the state policy process through the establishment of tripartite arrangements since the early 1990s have been largely ineffective.

Summary of the Chapter

In this chapter, I demonstrated how the industrial structure and democratic transition of the country have played important roles in shaping the rapid transformation of the developmental state in South Korea. I showed that the industrial structure of South Korea characterised by a high proportion of DPCC was shaped by the political objectives of the Park regime to establish a partnership with the chaebols for promoting growth. I also showed that the two regime-transition outcomes – the reproduction of a military dictatorship in 1980 and the rapid transition to democracy in 1987 – were both adaptive choices of the ruling elites. In 1980, when the ruling elites were confronted by a democratic movement led by the working class, the establishment of another repressive authoritarian government was motivated their intention to repress labour radicalisation in order to regain the control of the country. In 1987, South Korea's speedy transition to liberal democracy was shaped by the strategic considerations of the ruling elites to transform the old legitimacy formula in response to the formation of a cross-class alliance for democratisation and to maximise their political representation in the country when they were facing a high level of electoral threat.

Both industrial structure and democratic transition contributed to the rapid transformation of the developmental state in South Korea by shaping the levels of structural and institutional constraints of societal actors on the state policy process. The high level of DPCC of the country produced a high level of structural constraints of business elites and organised labour. I showed that such theoretical linkage between the level of DPCC and structural constraints was established as a result of the emergence of both concentrated business interest groups (i.e. chaebol owners) and concentrated labour interest groups (i.e.

chaebol-based unions) in the country. Given their strong economic power, the chaebol owners had both incentive and capacity to shape the state policy process. As the chaebols achieved financial independence and were empowered by democratic transition, the state-led state-business alliance transformed in the early 1990s. In addition to the powerful chaebols, another source of structural constraints came from the emergence of chaebol unions. After democratic transition, these strong labour unions quickly emerged in South Korea because of their organisational advantage resulting from the concentration of industrial workers. Given their large membership basis, chaebol-based unions were particularly effective in achieving their perceived economic interests in the development process. Consequently, the government's attempt to incorporate organised labour into their developmental alliance through creating tripartite arrangements has been largely unsuccessful in South Korea.

While the high level of DPCC of the country produced a high level of structural constraints of business elites and organised labour, the rapid democratic transition of the country also resulted in institutional constraints of the middle class and business elites in the development process. In the third section, I showed that institutional constraints of the middle class emerged after the democratic transition. Between 1988 and 1997, the formulation of the state strategic vision showed signs of inconsistency between maintaining the economic performance of the country and carrying out structural reform. Such inconsistency in the formulation of the state strategic vision lasted until the 1997 financial crisis when structural reform became a priority of the two liberal governments between 1998 and 2007. After 2008, we saw the formulation of state strategic visions for shared-growth to meet the expectation of the middle class for equitable growth. Furthermore, the institutional constraints of business elites were also present immediately after the 1987 democratic transition. As the ruling elites became financially dependent on

business elites for political funding, a new kind of state-business relations closely associated with 'crony capitalism' emerged.

Chapter Four

The Non-transformation of the Developmental State in Singapore

Introduction

The previous chapter demonstrated how industrial structure and democratic transition played decisive roles in shaping the rapid transformation of the developmental state in South Korea. In this chapter, I aim to show that industrial structure and democratic transition are also vital for understanding the non-transformation of the developmental state in Singapore. I argue that the state policy process in Singapore has been largely immune from the structural constraints of business elites and organised labour because the industrial structure of the country (with both high SOE and FDI) gave rise to non-constraining interest groups (i.e. non-indigenous business interest groups, state-linked business interest groups and state-controlled labour interest groups). I also argue that, the ruling elites remained single-minded in pursuing growth-first developmental agendas due to the lack of the institutional constraints of the middle class and business elites resulting from the absence of a democratic transition in the country.

This chapter is organised into five sections. In the first section, I will explain the formation of the industrial structure of the country. I trace the state's preference for a high level of FDI and SOE to the early period after the founding of the PAP. I then show how the specific political objective of the ruling elites led to the formation of the industrial structure of the country by shaping the state policy choices in regard to the proportion of domestic capital, state-owned capital and foreign capital. The second section examines the transformation of the political foundation of the developmental state in Singapore. I will

demonstrate the adaptive choices of the ruling elites in response to the absence of a democratic movement. Three sub-sections will show three sets of strategic actions of the ruling elites: Firstly, their desire for maintaining the authoritarian structure of the country; secondly, their attempt to pursue a strategy of authoritarian co-optation in response to the antagonism of the middle class; and, thirdly, their heightened efforts in authoritarian co-optation following the party's the 2011 electoral setback.

The third, fourth and fifth sections show how the FDI-SOE-dominated industrial structure and the lack of a democratic transition hampered the transformation of the developmental state in Singapore. The third section examines the formulation of the state strategic vision in the absence of the institutional constraints of the middle class. I argue that, with the continuation of the authoritarian structure of the country, the economic performance of the country has remained the top priority of the PAP since the early 1990s. The fourth section explains why the state policy process has also been largely immune from the state policy constraints of business elites. I argue that such an outcome was the result of the lack of a democratic transition and the industrial structure of the country. The former has protected the state from the institutional constraints of business elites, while the latter has negatively affected the structural constraints of business elites by producing non-constraining business interest groups. In the fifth section, I will examine the manner in which the high level of FDI led to the emergence of a state-controlled labour interest group at the national level. I will then show how the emergence of a non-constraining labour interest group eventually led to the absence of the structural constraints of organised labour in the development process of Singapore.

Political Origins of the State Policy Choices in Singapore

The PAP's Struggle with the Leftist Movement

To understand the formation of Singapore's industrial structure in the state-led development, we must first understand the logics of the state-led development emerging from the period immediately after the founding of the People's Action Party (PAP) in 1954. From the inception of the party, the PAP led by English-speaking political elites lacked an electoral base in a city of the Chinese-speaking masses (Haggard and Low 2002; Rodan 1989; Huff 1995). To secure political power, the PAP elites forged an alliance of convenience with the extreme leftists who had broad support of the local Chinese population (Turnbull 1977; Huff 1995). However, such marriage of convenience did not last long. In the early 1960s, significant conflicts between the two groups of political elites quickly developed and escalated, particularly over the issues of merger, which precipitated the party's breakup in 1961 (Chan 1971; Turnbull 1977; Rodan 1989). The party split and the subsequent formation of the Barisan Sosialis almost caused an annihilation of the PAP. Historian C.M. Turnbull (1977:279) described the dangerous situation confronting the PAP in the early 1960s:

‘When the split came in July 1961 most key figures in the party's branches defected to the Barisan, and at the lower level the PAP's organisation was almost crippled. Thirty-five branch committees resigned, and nineteen of the twenty-three paid organising secretaries defected. Large numbers of cadres quitted, and only 20 percent of the party's former members paid their subscriptions in 1962. Many branches were almost destroyed. Eleven had less than twenty-five members each and one had only ten. The PAP lost most of its active party workers and a great mass of supporters, many of whom were not pro-communist but the party was doomed and scrambled to leave the apparently sinking ship.’

The need for political survival prompted the PAP elites to build a strong developmental state to generate performance-based legitimacy. One major part of the PAP's survival

strategy was to impose immediate control in the country. In this respect, containing the spread of the leftist movement among the masses was clearly the first step for the PAP to achieve regime survival. In the late 1950s, the PAP saw the merger with Malaysia as the only short-term solution to the problem of the troublesome left opposition (Chan 1971; Rodan 1989; Turnbull 1977). With security in the hands of the central authorities, it was expected that the conservative Malayan government would take measures to eliminate the leftist threat (Chan 1971:5). Understandably, the Barisan Sosialis opposed the PAP's approach to merger. In response, Lee Kuan Yew set out in a series of broadcasts to promote popular support for the proposed merger, labelling the Barisan as a communist organisation, intent on sabotaging the whole issue (Turnbull 1977; Rodan 1989:71).

To further impose political control, the proposed merger with Malaysia was accompanied by the PAP's political centralisation. A referendum victory in September 1962 boosted the PAP's confidence in finalising the merger arrangement and dealing with the leftist groups at home (Rodon 1989:71). It was possibly around this time that the PAP began to plan its repression of the leftist opposition parties. The PAP banned the radical SATU and granted legal status to the NTUC that sought government cooperation (Rodan 1989:71). To remove any immediate electoral threat, the PAP launched two rounds of substantial political purging against the leftist groups: In February 1963 the Internal Security Council launched 'Operation Cold Store', involving the arrest of several Barisan Sosialis leaders, and in September and October, immediately following the election, further steps were taken against 'extremists'. The arrests helped the PAP to consolidate its power by removing its political rivals (Turnbull 1977; Trocki 2006; Bellows 1970; Chan 1976).

The government's political crackdown conclusively defeated the political threat posed by the leftist groups by late 1963. An early election called for by the PAP after finalising the

merger deal with Malaysia saw an infinite decline of the Barisan Sosialis (Turnbull 1977:282; Kim 1985:8). Being firmly squeezed by the PAP in the electoral arena, in 1968, three short years after independence, the only viable opposition party at that stage, the Barisan Sosialis, boycotted the general elections, leaving the PAP monopolising the state decision-making process (Milne and Mauzy 1990). Despite the continuation of regular elections, there were no political opponents to challenge the dominant PAP. By the mid-1960, Singapore's political system transformed into a system of one-party dominance – there were no opposition members in Parliament between 1965 and 1983 (Milne and Mauzy 1990; Trocki 2006; Bellows 1970; Chan 1976).

The absolute political domination of the PAP in the politics of Singapore was certainly a result of the ruling elites' building of authoritarian institutions. After crushing the leftists, authoritarian types of institutions were put into place by the PAP to ensure that no opposition party would ever be able to rise again. One key piece of authoritarian institution constructed by the PAP in the early 1960s to restrain the political opposition forces was clearly the Internal Security Act (ISA). The ISA allowed the PAP leaders to combat opposition groups in the name of national security (Trocki 2006; Ortmann 2010). Legislations were also enacted to make it virtually impossible for an independent group to amass the financial and public resources to organise a credible opposition party (Trocki 2006). Furthermore, the PAP considerably extended its control over educational institutions to curb radical ideas and took control of the mass media (see Rodan 1989:97; H-C Chan 1976:205).

Two other political institutions of the PAP for achieving its political domination were the Citizens' Consultative Committees (CCCs) and the community centres. The creation of these institutions led to a near saturation of the political arena and reduction in the political

space for the opposition parties to expand (H-C Chan 1976; Bellows 1970). More importantly, the co-option of people into the governmental grass-roots institutions strengthened the link between the ruling party and the masses, and cut into the potential recruitment source of the opposition (H-C Chan 1976). This ultimately led to the party's domination at grassroots level through merger of the state and the party. As Chan Heng Chee (1975:52) puts it, 'Although these measures were initially enforced to suppress the communists, they have in fact resulted in the control and limitation of all political activity other than those of the ruling party'.

What also emerged in the immediate period after the PAP's founding was the state's commitment to long-term economic development. In the immediate period after the PAP came to power in 1959, there was the fear of massive unemployment due to high population growth rates as a result of the declining mortality rate coupled with a high birth rate and migration from the Peninsula to Singapore (Cheng 1991:185). It was therefore crucial for the PAP to actively promote the transformation of the economy from one dependent on entrepot trade and related services to manufacturing. The PAP's first initiative towards industrialisation involved a request to the World Bank for advice (Rodan 1989; Low 1995). Under Dutch advisor Albert Winsemius, a State Development Plan, 1961-64, was formulated in early 1961. The emergence of the state's development orientation prior to the 1961 party split was short-lived. However, facing an immediate political threat from the leftist groups, the PAP had little motivation to be committed to long-term development. Shortly after the release of the plan, in the words of Rodan (1989:66), 'The PAP was again preoccupied with urgent political questions which temporarily overshadowed the industrial programme'.

The party split of 1961 renewed the desire of the PAP to launch their economic development programme. The government realised that rising unemployment could fuel the leftist movement. As Chan Chin Bock (2002) the former EDB chairman recalls, ‘Without jobs, the unemployed would roam the city streets, create mischief and become perfect targets for communist agitators. These were mostly Chinese-educated student activities who, as they joined the workforce, soon became politicised union members. The mandate of the newly-elected PAP government could be threatened by such unrest’. Clearly, the need for containing the leftist sentiment consequently pushed the ruling elites to shift all their energy to economic development. The renewed commitment of the ruling elites immediately led to the formation of a state policy-making agency – the Economic Development Board (EDB) in August 1961, shortly after the formation of the Barisan Sosialis. With the formulation of the state policy-making agency, we saw the revival of the government’s economic development plan. As Garry Rodan (1989: 68) describes,

‘One of the immediate implications of the split for the PAP government was that the State Development Plan, 1961-64, suddenly assumed even more importance than it already had. Lee’s government would be heavily reliant on the Plan to take effect and thereby increase his government’s electoral appeal. Not coincidentally, from mid-1961 the implantation of the Plan rapidly gained momentum. After a very slow start in the first half of the year, by the end of 1961 M\$85.78 million of the M\$118.84 million, or 72 per cent provided for economic development for the year had actually been invested. The EDB had also been established in August and wasted no time in assuming its intended role’.

In the late 1960s, the development commitment of the PAP elites was further strengthened by an historical event. In January 1968, the British Labour Government announced its plan to close all its bases in Singapore within the next three years. If not handled properly, the British pull-out could create a serious economic crisis for the country as the British spending in Singapore accounted for about 25 percent of its GNP, and the bases employed some 21,000 Singaporeans (Le Poer 1991). The withdrawal was expected to lead to an

estimated loss of approximately 100,000 jobs (Rodan 1989:87). The inevitable deterioration in living standards and the rising unemployment resulting from the British pull-out would further fuel leftist movement in the country. Consequently, in the view of the British pull-out, it was necessary for the PAP to intensify its efforts at creating economic opportunities for its people. With heightened need for economic growth, the institutional capacity of the EDB in directing development was enhanced with the establishment of the Jurong Town Corporation (JTC) and the Development Bank of Singapore (DBS). The former had the dedicated role of providing infrastructure development, while the latter was formed to provide a financing function for industrial development (Rodan 1989; Perry et al 1997).

In Singapore, state industrial policies were formulated in parallel with a set of public housing policies to meet the basic material needs of the people. In the 1960s and 1970s, in addition to employment, the primary need of the population was housing, the government's supply of housing was equally crucial for the PAP to generate social support and maintaining political legitimacy.²⁵ Once in power, the PAP formed the Housing and Development Board (HDB) to build heavily-subsidised and higher-standard housing in the country to boost the PAP's popularity (Rodan 1989; Milne and Mauzy 1990, 2002; Low 1998). To help more become homeowners, the government allowed the Central Provident Fund (CPF) savings for house purchasing (Rodan 1989; Low 1998; Milne and Mauzy 2002). The public housing policy of the PAP was in line with the state's development commitment. In the short run, the development of the construction and building industry through building public housing provided urgent employment to Singaporeans in the 1960s (Milne and Mauzy 2002; Rodan 1989). In the long run, becoming house owners gave 'the

²⁵ The point was also raised by Donald Low during an interview in July 2015. For a detailed account of the linkage between the PAP's housing policy and political legitimacy, please also see Chua (1997).

people a commitment to work hard at their jobs to pay their mortgage and ensure real estate value rises with economic growth' (Low 1998:179). In short, it was an economic-political dual solution for the regime of the PAP.

Substituting the Domestic Private Capital

The previous section examined the rise of the developmental state in Singapore in the aftermath of the 1961 party split. The need for political legitimacy pushed the ruling PAP elites to create a dominant one-party system to achieve a political monopoly and formulate a combination of economic and social policies to generate performance-based legitimacy. From the above discussion, we derived the political objective of the Singaporean ruling elites to initiate the state-led development – the urgent need to kick off the industrialisation process to contain the expansion of the leftist movement. *I hypothesised that the political objectives of ruling elites were closely linked with their strategic choices in regard to the proportion of DPCC, SOE, and FDI to promote the economy.* In the rest of the section, I expect to see that the political objective of the PAP to generate rapid growth pushed them to adopt a set of the state policy choices which had resulted in the FDI-SOE-dominated industrial structure of the country.

When the PAP launched its industrialisation drive in the early 1960s, there was a dynamic influential domestic business community that had emerged during the colonial period and was comprised of mostly small, family-owned firms and a number of large enterprises (Haggard and Low 2001). They could have become the agent of the PAP's industrialisation drive. However, for both economic and political reasons, they seemed incompatible with the PAP's political goal of rapidly creating jobs to contain the leftist sentiment. Economically, they were not capable of helping the PAP jump-start the economy. PAP

party leaders were convinced that the local business community, consisting overwhelmingly of small Chinese merchants and financiers, did not possess either the technologies and managerial skills to drive industrialisation or the willingness to embark on long-term development projects (Vogel 1991:77; Haggard and Low 2001; Cheng 1991:190). Politically, the Chinese merchants who backed China and Chinese languages and cultures were also at odds with the English-speaking PAP leaders' political vision. Particularly, the PAP was suspicious of these indigenous capitalists for their political association with the leftist movement (Haggard and Low 2001; Regnier 1993; Huff 1995).

The unsuitability of the local private firms in relation to the PAP's development ambition pushed the PAP to attract FDI to jump-start the economy. As the PAP urgently wanted an immediate boost in employment creation through rapid industrial development, the utilisation of foreign capital became inevitable.²⁶ Such need for a quick fix of the economy was not seen in the other cases in which the ruling elites opted for the promotion of an organically-orientated industrial outlook.²⁷ In the words of Vogel (1991:77), 'The PAP permitted a level of foreign control that Taiwan and South Korea, more confident of their own entrepreneurial talent, would have found unacceptable'. From 1961-65, as the PAP leadership was hopeful that a common market with Malaysia would be established, the role of the EDB in promoting industrial growth was somewhat downplayed (Low et al. 1993:64). The State Development Plan, 1961-64, called for building Singapore into 'an attractive investment site in itself' (Rodan 1989:64). The central effort of the government in building Singapore into an attractive site for foreign capital was a large amount of public

²⁶ This point was confirmed by both Lam Keong Yeoh and Alexius A. Pereira during private meetings in July 2014 and July 2015 respectively.

²⁷ Certainly, the ruling elites in South Korea and Taiwan had many more domestic entrepreneurial resources at their disposal. In Taiwan, a number of mainland capitalists retreated with the KMT regime to the island. In South Korea, the domestic enterprises were even more developed as a result of the Japanese colonial legacy.

investment in the construction of industrial estate. Government special attention to the development of industrial estates in the early 1960s was due to two considerations: (1) with the high wage levels in the region, the government had to examine other cost-cutting ways to attract foreign capital; (2) with Malaya's industrial town of Petaling Jaya, Singapore needed to provide a better industrial site to redirect the FDI toward Singapore (Rodan 1989:65).

A series of events that occurred in the second half of the 1960s intensified the desire of the ruling elites to attract FDI. The loss of Malaysia as an economic hinterland in August 1965 made the import substitution industrialisation strategy adopted by the PAP seem unlikely to be successful. Singapore's post-separation entrepot trade declined as both Malaysia and Indonesia pursued policies of greater economic self-reliance (Rodan 1989:87). After separation, the PAP leaders had frequently embarked on world trips in search of new markets, with limited success (H-C Chan 1971:15). By then, FDI promotion seemed to be the only possible strategy for the PAP. FDI would not only provide Singapore with high levels of technology and management skills to generate industrial growth, but, more importantly, also ensure the small island's access to global markets. As Lee Kuan Yew (2000:75) recalled in his memoirs, 'Since our neighbours were out to reduce their ties with us, we had to link up with the developed world – America, Europe and Japan – and attract their manufacturers to produce in Singapore and export their products to the developed countries'.

As the EDB stepped up its efforts in creating jobs after 1965, we saw the formation of the PAP's FDI promotion strategy. The period of 1965-69 saw the surge of FDI promotion in the country. In late 1965, gross fixed assets of foreign investment were just \$157 million. By late 1969, with the enhanced institutional capacity of the EDB, the figure had risen by

\$443 million, of which \$297 million was invested between 1968 and 1969 as an apparent attempt to boost employment in sight of the British pull-out (Rodan 1989:99). In the early 1970s, as the task of job creation had been completed and the British pull-out took place smoothly, the government began to adjust its FDI strategy to being more selective in attracting MNCs to facilitate the country's transition to higher value-added manufacturing (Rodan 1989: Low et al 1993). In the late 1970s, in the aftermath of an economic recession, the PAP attempted to integrate the operations of local and foreign capital to enhance the competitiveness of the industry with little success (Rodan 1989). In this context, limited financial resources and assistances were channelled to develop locally-based firms into a support network to facilitate the party's FDI strategy.

The ruling elites also committed to the development of SOEs through the government's direct public investment in the economy. The government's direct role in the economy was clear from the outset. Between 1960 and 1967 the total number of public investments in manufacturing enterprises was 18. In 1968, as many as 13 such enterprises were established and another eight were set up in the following year (Rodan 1989). The formation of these enterprises was also the result of the inability of the private enterprises to take the initiative. In the late 1960s, there were two main motivations for the PAP to set up SOEs. One of them was the government's initiatives in taking over various operations vacated by the British, as 'the government was not prepared just to hope that private enterprise would fill the gap' (Rodan 1989:95). The other motivation for setting up SOEs was that the government recognised the commercial viability of SOEs and taking the initiative to ensure the survival of the enterprises in the absence of any alternative capital formation (Rodan 1989).

The comparison is clear by now. While the Taiwanese and the Korean ruling elites either limited or promoted the DPCC in the market, the Singaporean ruling elites substituted the domestic private capital with other forms of capital – FDI and SOE to expedite the process of nurturing a strong industrial base in the country. For both economic and political reasons, domestic business elites were excluded from the PAP's industrialisation project at the beginning of the development process. This clearly confirms my theoretical expectation that the ruling elites' preference for the use of SOE and FDI in the country's developmental model was closely linked with the political objective of the PAP of generating immediate performance-based legitimacy to contain the leftist movement. Consequently, such political choices of the ruling elites led to an industrial structure of the country dominated by FDI and SOE in Singapore.

The domination of the FDI in the economy was clear by the late 1970s. While foreign investment accounted for 78.5 percent of total gross fixed assets in manufacturing in 1978, wholly foreign-owned companies also accounted for 52.3 percent of all manufactured exports for 1976-78 and companies with at least 51 percent foreign ownership 87.5 percent (Rodan 1989:130). In the same period, the SOEs also became the backbone of the Singapore economy and contributed 76 percent to the country's growth in GDP (Rodan 1989:148). In the early 1980s, as Singapore embarked on 'second industrial revolution', the state reinforced the FDI-SOE two-legged developmental strategy with its major effort to expand the Jurong Town Corporation (JTC) and made more investment to expand and diversify GLCs through the government's three wholly-owned holding companies (Rodan 1989).

Transformation of the Political Foundation of the State in Singapore

The Continuation of the PAP's Authoritarian Control

The rapid economic development did not lead to any change to the authoritarian structure in Singapore. I argue that the lack of democratic changes to the political system of the country can be explained by the strategic choices of the ruling elites in response to the absence of a democratic movement. In this section, I aim to provide empirical support to my hypotheses – *The absence of a democratic movement occurs in the development process when it fails to shift the balance of power between the state and society*. Without witnessing any social challenge from the opposition movement, I expect to find that it was highly unlikely that the ruling elites would change the old legitimacy formula by democratising the authoritarian system.

The rapid socioeconomic development did give rise to political interest groups in Singapore. Since the late 1980s, the empowered society has alienated itself from the authoritarian party. As Catherine Lim (1994) notes in the early 1990s, 'It is easily seen that the main criticisms levelled against the PAP point to a style deficient in human sensitivity and feeling – "dictatorial", "arrogant", "impatient", "unforgiving", "vindictive"'. However, the development process did not shift the balance of power between the state and society. The small size of the country made it extremely easy for the authoritarian government to control the empowered society. As Beng-Huat Chua observes (1995:207-208), 'Being political opposition can be a perilous activity in a very small island city-state where the state is pervasive in every sphere of social life'. The PAP's strong control of society generated a deep climate of fear, which gave 'rise to the prevalent practice of self-censorship, to the extent that many avoid or even vilify participation in activities that are held in the public sphere' (Lee 2002; see Lim 2007). As most Singaporeans chose to stay

out of the political sphere and focus solely on their private lives, the 1990s saw the beginning of a widespread political apathy in the affluent society. Consequently, the form of state-society relations in Singapore evolved into what Novelist Catherin Lim (1994) calls 'the Great Affective Divide'. As Lim (1994) writes,

'The Great Affective Divide has created a model of government-people relationship that must be unique in the world: solid, unbreakable unity of purpose and commitment on the economic plane, but a serious bifurcation at the emotive level, resulting in all kinds of anomalies and incongruities. A kind of modus vivendi appears to have developed, by which each agrees to live with the other's preference as long as both work together for the good of the country. Hence the Government continues to say: "we know you dislike us, but..." and the people continue to think: "We are totally grateful to you for the good life you've given us and will vote you again, but..."'

More recently, with deepening socioeconomic development, the sense of fear among the Singaporeans toward the PAP regime was overcome to some degree in more recent years. In the early 2010s, this was seen in three aspects: Firstly, the people resorted to forms of high-visibility, high-risk protest never seen before, such as graffiti writing on public buildings, persistent, strident online criticism, and intensified public gathering at the Speakers' Corner; Secondly, the protest was not confined to a small group of young dissidents emboldened by Internet power, but was spreading to involve large segments of the population; Thirdly, a few young and exceptionally qualified Singaporeans joined the ranks of the opposition to stand as candidates against the PAP (Lim 2014; Da Cunha 2012). Despite the fact that the Great Affective Divide had seemingly 'reached crisis proportions' (Lim 2014), there was still no conclusive evidence to suggest that there was any national sentiment among most Singaporeans for greater democracy and political freedoms that is

comparable to the Minjung Movement in South Korea and the Tangwai movement in Taiwan.²⁸

With no strong demand from below to challenge the authoritarian regime, there was no incentive for the ruling elites to change the old legitimacy formula. Clearly, retaining the authoritarian types of political institutions could still yield the maximum political power in the country as it was the key for allowing the ruling party's power monopoly in the country. Consequently, we saw that all political institutions that limit political rights remained in place. The controversial ISA remained the core of the authoritarian structure of the country and was still considered important for maintaining political order of the country.²⁹ Even though the ISA is rarely used today, its existence 'functions as a psychological restraint on individuals who are potentially willing to voice their opinion in public or even join opposition parties' (Ortmann 2010:128). To control the empowered society, the PAP's authoritarian structure was even strengthened. In 2009, with the construction of a new updated piece of authoritarian institution – the Public Order Act, which resulted in further restrictions on political rights to peaceful assembly and enhanced policing powers to control public gatherings in Singapore (Amnesty International 2009). The PAP's longstanding stringent control over traditional media increasingly extended to the Internet through state regulation (Lee 2004; Rodan 1998). With the establishment of a new institution, the Community Development Council (CDC) in 1996, the PAP's existing grassroots organisation in the country was also strengthened to mobilise mass support (Vasil 2000:174).

²⁸ Most public gatherings at the Speakers' Corner concern socioeconomic issues rather than political reform. At present, anti-PAP views are mainly confined to cyberspace.

²⁹ In 1987, the ISA was applied by the PAP during the so-called 'Marxist Conspiracy' against civil society activists and opposition party members. In October 2011, Teo Chee Hean, the Deputy Prime Minister, justified the relevance of the ISA and its powers of preventive detention in Parliament.

The unchanged authoritarian structure of the country ensured the continuation of the PAP's political control in the country. The PAP domination over society was clear when a distinctive strategy of control, which came to be known as the 'out-of-bounds (OB) markers', worked effectively to enforce self-censorship in society (Lim 2007). The only political space for freedom of expression – the Speaker's Corner at Hong Lim Park - is closely watched by the state (Rodan 2001:161; Mauzy Milne 2002:164). Anyone who is willing to take the risk of openly criticising the regime is subject to severe punishment. Such zero-tolerance policy of the PAP was demonstrated in two highly-publicised cases: In 2012, a pro-democratic Blogger was sued by Lee Hsien Loong for defamation, and in 2015, an internet personality was arrested and jailed for publicly criticising the legacy of Lee Kuan Yew. To justify the party's strict control in the country that had achieved high living standards, the PAP leaders had been keen advocates of a series of ideologies, including 'meritocracy', 'elitism', and 'Asian Value', to generate regime support and promote social consensus (Trocki 2006).

In the political sphere, the opposition community was also under the tight control of the PAP state. One authoritarian method of the PAP to impose political control since the early 1980s was the sophisticated use of defamation lawsuits to marginalise outspoken members of the opposition (Ortmann 2010). Since the election of J.B. Jeyaretnam, most opposition parties have repeatedly stated that they intend to be a constructive opposition (Ortmann 2010; Mutalib 2004).³⁰ With some more social support in more recent years, the opposition parties are now more articulate than in the past.³¹ However, they still suffer from two weaknesses. One problem is that the opposition have been extremely fragmented due to different leadership styles (Mutalib 2004; Ortmann 2010). As Da Cunha (2012:18) argues,

³⁰ The only exception has been the Singapore Democratic Party which has adopted a more aggressive approach against the ruling party.

³¹ This point was confirmed by several scholars during my visits to Singapore in July 2014 and July 2015.

‘The inability of key opposition personalities to work with each other under just one or two banners has been of great benefit to the PAP’. The fragmentation of the opposition parties is likely to continue with more small parties’ entry into the next general election (Koh 2015). Another problem for the opposition parties is the lack of party ideology.³² In the words of Professor Alan Chong, ‘Most parties are clones of the PAP, with some slight differences in terms of being more pro-welfare, pro-liberal or pro-Singaporean’ (Koh 2015). The main opposition party’s moderate approach was clearly seen in the party’s principles of political engagement: ‘The Workers’ Party’s participation in General Elections seeks to ensure that our office-holders do not simply walk into office without contest’. The very success of the party in establishing its beachhead in Parliament in 2011 was the fact that it is increasingly being seen as being very much like the PAP, only more democratic (Barr 2014:135).

The above discussion offered empirical support for my hypothesis concerning the absence of a democratic movement. Despite rapid growth, the small size of the country made it extremely easy for the KMT to control the empowered society (the middle class and the working class). As a result, neither the middle class nor the working class were willing to challenge the strong authoritarian power of the PAP regime. As I expected, without facing a democratic movement, the ruling elites in Singapore were not incentivised to change the old political legitimacy formula based on a combination of political control and economic promotion. Consequently, the core authoritarian structure of the country created in the 1960s remained intact in Singapore. These authoritarian institutions have enabled the PAP to retain its political monopoly in the politics of Singapore.

³² All opposition parties including the SDP emphasise their alternative policies to socioeconomic issues for generating social support. Political control alone certainly does not explain this phenomenon. The PAP’s strategy of co-optation also played a role in preventing opposition parties from presenting themselves as a viable political alternative. This co-optation strategy will be discussed below.

The PAP's Strategy of Authoritarian Co-optation

While the authoritarian structure of the country remained unchanged, the state institutional arrangements were enhanced with the creation of new authoritarian institutions aimed at containing opposition parties and consultative institutions aimed at co-opting the middle-class interests. As I will show, the advent of both authoritarian institutions and consultative mechanisms of the state was the result of the ruling elites' new strategy of authoritarian co-optation to consolidate political power in response to the growing assertiveness of the middle class for greater material benefits. The two sections below involve the testing of my hypothesis: *Facing middle-class discontent, ruling elites are very likely to resort to a strategy of authoritarian co-optation to consolidate political power through securing the support of the middle class.*

In the early 1980s, the middle class became increasingly antagonistic towards the PAP regime. This was first seen in 1981 when the harsh treatment of an opposition leader and lengthy public denunciations of the opposition party by the PAP leaders prompted unprecedented expression of dissent in letters to the local press. As Rodan (1992:4) writes, 'It was apparent that there was a public sympathy for the idea of an opposition as such, especially among Singapore's now sizable middle class'. The public sympathy for the idea of an opposition was accompanied by growing confidence among Singapore's educated middle class to publicly criticise government policy (Rodan 1989:183-6). 'The unpopularity of Lee Kuan Yew's thesis on eugenics is a particular example, as Rodan (1993: 58) writes, 'in the subsequent "Great Marriage Debate" ... the columns of The Strait Times were replete with letters of dissent and dismay from female graduates ...'.

The functioning of regular elections provided the voters with an outlet to express their discontent towards the ruling party by voting against them. The growing 'protest votes' soon translated into the PAP's declining electoral support (Mauzy and Milne 2002). The 1984 general election was a watershed election in which the PAP share of popular votes declined to 64.8 percent. The growing electoral threat because of the changed voter preference prompted the ruling elites to examine their political future. One key concern for the ruling party after the 1984 election was the possibility of a 'freak' election occurring when too many voters cast their protest votes for the opposition without thinking about voting the PAP out of power (Mauzy and Milne 1990, 2002). As Chua (1995:175) writes, 'Lee Kuan Yew, while appreciative of the electorate's political cleverness in pressing the PAP government without defeating it, raised a sinister scenario of a "freak" election: asking the electorate what would happen if instead of just being given a message, the PAP government were defeated ...'

Such imagined scenario of the ruling elites losing power subsequently compelled the PAP to create new electoral rules and political institutions to contain the growth of the opposition parties in response to the middle-class antagonism. The first such institutional reaction of the PAP to the appearance of the opposition parties was the introduction of the Non-constituency MP (NCMP), which weakened the sentiment for voting opposition members into Parliament and co-opted different political voices into the PAP decision-making process (Rodan 1993; Mauzy and Milne 2002). The creation of the NCMP can be labelled as co-option, because, without any constituency base, these appointed MPs were 'likely to be more moderate and to respond to the centre of the political spectrum' (Chua 1995:176).

New electoral rules aimed at manipulating the electoral process were also created by the PAP to strengthen its political dominance. In this regard, the most important institutional invention by the PAP was the group representation constituencies (GRCs). Since the introduction of the GRCs in 1988, not only did they raise the threshold of votes needed by the opposition, they also eliminated all ethnic parties from the country (Mauzy and Milne 2002; Chua 1995; Mutalib 2004). The creation of the GRCs was related to the subsequent establishment of Town Councils. As the elected MPs became the town councillors, the voters had to consider how the consequence of voting for the opposition candidates would affect their well-being. Since the early 1990s, the PAP has been threatening to withdraw government funding and services to areas where opposition members are elected (Mauzy and Milne 2002). A more recent response of the PAP was the introduction of a cooling-off day to curb the opposition parties' momentum built up during eight days of official campaigning (Da Cunha 2012).

Perhaps an even more important institutional innovation of the PAP for dealing with the middle-class antagonism was the building of consultative institutions. The creation of these institutions was the result of the PAP elites' realisation that the party would have to create a more open polity and adopt a less combative governing style that allowed for greater consultation and popular participation to meet the expectations of the increasingly demanding middle class (Rodan 1992; Vasil 2000:141-174). In its first expression of projecting a consultative image of the government, the PAP established the Feedback Unit in March 1985 to gather feedback from the public.³³ At grassroots level, in keeping with the government's intention of building a consultative government, two national campaigns were launched to try to get the views of Singaporeans into the PAP's national policy

³³ In 2006, the Feedback Unit was reconstructed into REACH (Reaching Everyone for Active Citizenry @ home).

agenda, including the National Agenda (1987), the Next Lap (1991).³⁴ In addition to the attempt to reach out to the grassroots, the Government Parliamentary Committee (GPC) and the Institute of Policy Studies (IPS) was established to promote the PAP's policy consultation with the experts and professionals outside of Parliament. Another government initiative was the creation of a new category of MP in 1989 – nominated MPs (NMPs), which brought non-partisan ideas and professional opinions from the public into the parliamentary debate process (Rodan 1992, 2006). These consultative institutions of the PAP were clearly aimed at strengthening the party's political dominance in the new political environment. As Rodan (1996:33) argues, 'The PAP's aim appeared to be to undercut the growing support for opposition political parties by demonstrating how unnecessary they were'.

To generate the support among the middle class, the creation of a consultative mechanism essentially was to facilitate the PAP's strategy of co-optation. To generate the support among the middle class, the PAP stepped up its efforts to provide material benefits through the formulation of new social policies. By the 1980s, as what the middle class wanted was not just a roof over their heads, the state provision of public housing was no longer sufficient to meet the material needs of the middle class. Between 1984 and 1990, loans for tertiary education, medisave (healthcare) and medishield (low-cost insurance against illness) were introduced by the PAP government. To improve the value and quality of the housing owned by the Singaporeans, a HDB flat upgrading programme was launched in 1984. Policies such as CPF housing grant, the building Housing and Urban Development Company (HUDC) flats and HDB executive condominiums were also formulated to meet

³⁴ Such process continued after the 1997 and 2001 elections when two national public consultation attempts were launched: Singapore 21 (S21) in 1997 and Remaking Singapore in 2002.

the new demand of Singaporeans to purchase desirable properties (Low 1995; Mauzy and Milne 2002).

The PAP's strategic adoption in the post-1984 period enabled the ruling elites to prevent further decline of their electoral support. Between the 1991 and 2006 elections, except for the landslide victory in 2001 when a vote percentage of 75 percent was achieved, the popular vote of the PAP fell somewhere in between 61 percent and 66 percent. Between 1988 and 2006, the PAP even marched through the elections without facing one single opponent in more than half of Singapore's districts due to the opposition parties' strategy to encourage 'worry-free' protest votes from people who had no intention of voting the PAP out of power (Mauzy and Milne 2002:150). In the first fully contested election in 2006, the opposition finally fielded enough candidates that year to force the PAP to wait until election day to declare victory, but captured only two seats. The inability of the opposition parties to take any GRC clearly suggests that an immediate end to the PAP's electoral domination remained a remote possibility.

The Enhanced Authoritarian Co-optation of the PAP after 2011

The PAP's adaptive strategy of authoritarian co-optation in response to the discontent of the middle class was upgraded in the aftermath of the 2011 electoral setback. By the late 2000s, there was deep unhappiness among the middle class. The sources of the Singaporeans' growing unhappiness were three socioeconomic conditions:³⁵ (1) the deep recession after the global financial crisis created more financial burden for society; (2) the

³⁵ The first two socioeconomic factors were pointed out by Tan Ern Ser in a private communication in July 2015. The third factor was raised by a number of scholars including Gillian Koh, Donald Low, and Alexius Pereira. These conversations took place in July 2014 and July 2015.

ageing population was increasingly vulnerable at the time of the economic downturn; and the unhappiness of the middle class was exacerbated by (3) the influx of foreigners whom were accused by the Singaporeans of making housing unaffordable, driving up living costs, overcrowding public transport, etc. In such context, the PAP's social welfare measures adopted in the post-1984 period became increasingly insufficient to meet the material needs of the middle class.³⁶ With an election approaching, the government responded to the nascent backlash with the rhetoric idea of 'inclusive growth' and offered some more material support to the unhappy middle class and those who need help (MOF 2010).

The 2011 election was a watershed event. The ruling elites' minor revision to welfare provisions was not enough to alleviate the unhappiness of the middle class. The diverse socioeconomic dissatisfaction among the middle class provided the opposition elites with new opportunities to mobilise social forces in the 2011 elections (see Welsh 2011; Kesavapany 2011; IPS 2011). The result of the election marked the PAP's worst performance since independence as it lost 39.9 percent of the popular vote and a record six seats out of 87. More significantly, the ruling PAP lost one entire GRC – the institutional invention of the PAP to make it impossible for the opposition to win. The awakened electorates cleverly sent a clear message to the ruling elites that they wanted policy change. To them, more opposition members in Parliament would make a difference. As Da Cunha (2012) observes, 'There is an increased desire by Singaporeans to ensure that the governing party does not hold an overwhelming dominance on power'.

Facing a renewed electoral threat, the PAP began another round of strategic adaptations to consolidate its political power. It seemed that no change to the state structure was necessary at this point as the 60.1 percentage of the popular vote suggested that the political

³⁶ For a description of the middle-class discontent, see The Economist (2010a). Also see Economist (2010b) for a government response to the situation.

institutions created in the post-1984 period were still well-functioning in order to limit the expansion of the opposition parties. For the PAP, the post-2011 period was all about reconnecting with the middle class and making them happy. An immediate effect of the electoral setback was therefore the resigning of the PAP's first- and second-generation leaders (i.e. Lee Kuan Yew and Goh Chok Tong) from the cabinet to allow the PAP to 'have a fresh clean slate' in May 2011. They explained their resignation from the government: 'After a watershed general election, we have decided to leave the cabinet and have a completely younger team of ministers to connect to and engage with this young generation' (BBC 2011).

Certainly, further co-optation of the middle class was needed to strengthen the political dominance of the PAP. To address the sources of the middle-class unhappiness, the extent and the substance of the PAP's public consultation had changed after the 2011 electoral setback.³⁷ A major product of the ruling party's heightened desire for greater connection with the public was a year-long extensive national policy consultation campaign called Our Singapore Conversation (OSC) which subsequently informed some policy changes (see Guo and Phua 2014; Tan 2016). The extensive public consultation facilitated the government's enhanced effort in offering material benefits to co-opt the middle class. From 2011 to 2015, the PAP improved the transport system, slow-down the inflow of foreigners, and formulated a series of social policies to address the most urgent concerns of the middle class and deliver more material benefits to them in areas such as transport, healthcare, immigration, and housing (Tan 2015, 2016). The extensive provision of social welfare led

³⁷ This was pointed out by Gillian Koh during a private conversation in July 2014. According to Koh, previous public consultation campaigns were largely top-down processes with little public participation. More public engagement was seen in the extensive public consultation carried out in 2015 and 2016.

political commentators to label the government budget proposals a ‘Robin Hood’ budget, ‘corrective budget’, or ‘bridging budget’ (Paltino 2013; Chua 2015).

The PAP’s extensive policy consultation to woo the middle class did effectively strengthened its political standing in the country. As Kenneth P. Tan observes (2015:112), ‘OSC might have given the electorate the impression that the PAP government was listening to them, and the policy changes suggested that their views mattered’. The result of this was a massive electoral rebound for the PAP in 2015 when the party’s popular vote increased mightily to 69.9 percent and one SMC seat was recovered from the opposition (Vasu and Cheong 2016). While the ruling party improved on its result in all constituencies, the Workers’ Party retained Aljunied GRC, but with a far slimmer vote margin than in 2011. Handing over five parliamentary seats to the opposition by losing just one GRC was perhaps an optimal result for the PAP as a parliament without a clear presence of elected opposition members would certainly make the middle class uncomfortable.

To summarise, while the previous section showed that the core authoritarian structure of the country created in the 1960s had remained intact, the second section demonstrated that the state institutional arrangements were further enhanced by the creation of both authoritarian institutions and consultative mechanisms since the early 1980s to deal with the middle-class antagonism. The PAP’s strategy of authoritarian co-optation was upgraded after the 2011 electoral setback when there was even greater middle-class discontent facing the ruling elites. This confirms my hypothesis – in the absence of a democratic movement, authoritarian rulers are likely to pursue a strategy of authoritarian co-optation to deal with an increasingly assertive middle class. In the following section, I will examine the impact of such transformation of the political foundation of the

developmental state on the formulation of the state strategic vision in the country since the late 1980s.

Formulation of State Strategic Visions in Singapore

The Global City-State and the PAP's Pro-Immigration Policy

With the foundation of the developmental state remaining intact, maintaining a good rate of economic performance continued to be the top priority of the regime. A central component of the growth-first strategic vision of the state was the PAP's vision of pushing the nation towards greater globalisation. Among the three East Asian states, Singapore is undoubtedly the most integrated with the global economy. Since 1965, with the need for international capital, integrating with the global economy has always been at the top of the policy agenda of the PAP. Even the most globally connected country began to ponder on greater globalisation and liberalisation at the end of the 1980s to move the nation towards the next stage of industrial growth. In 1991, calling for the attainment of the status of a first-league developed country by 2030, the single-minded PAP launched a Strategic Economic Plan (SEP) to push Singapore towards greater globalisation and liberalisation. The plan sets a broad vision for the country for the next 30 to 40 years: which is, to develop Singapore into a global city-state through enhancing human resources, becoming internationally oriented, developing manufacturing and service clusters, maintaining international competitiveness and reducing vulnerability (see MTI 1991; Chia 2001; Low 2006).

The vision of being a global city-state has been well-maintained since the 1990s. After the early 1980s, a significant change to the state policy process was the advent of economic

committees.³⁸ In line with the building of a consultative government, the PAP convened several economic restructuring committees for the formulation of the state strategic vision. Between 1985 and 2010, there were four such new economic planning units of the state: the Economic Committee (1985), the Committee on Singapore's Competitiveness (1997), the Economic Review Committee (2001), the Economic Strategies Committee (2009), and the Committee on the Future Economy (2016). The establishment of these committees enabled the ruling elites to review their past economic policies and come up with new ones.³⁹ To achieve longer-term growth, since the early 1990s, policy recommendations made by the economic committees have always been consistent with the PAP's strategic vision of being a global city-state. To understand how the economic solutions offered by these committees were adherent to the objectives of the performance-based ruling elites, we need to look at the organisational nature of these economic policy committees.

With the continuation of the authoritarian structure and the advent of consultative institutions the state resulted in two characteristics of these economic policy committees:⁴⁰ Firstly, the building of a consultative government had extended into the economic policy-making arena. These economic committees operated on a large scale, both with regard to its membership and the extent of the policy ground it covered. The members of the committees include top PAP elites, senior civil servants, business elites, prominent academics and representatives from government-sponsored NGOs. They functioned through a main steering committee and several subcommittees. Each subcommittee was assigned to a specific task regarding restructuring the economy. The second noticeable

³⁸ This point was confirmed during a private communication with Donald Low in July 2015.

³⁹ Studies provided some discussion on the 1984 economic committee (see Mauzy and Milne 2002; Gary 1989, 1992). Secondary sources on more recent economic committees are very limited. My discussion is based on information provided in either executive summaries or full reports produced by these committees.

⁴⁰ These two characteristics are based on my examination of the three committee reports compiled in 2001, 2009, 2016.

feature of these committees is the PAP's leadership role. The Chairman of the main committee was always a top PAP leader. The main committees of the last four economic restructuring committees were chaired by either the Minister of Trade and Industry (1985, 1997) or Minister of Finance (2001, 2009). Three top PAP elites were the chairmen of the main committees: Lee Hsien Loong (1985, 2001), Lee Yock Suan (1997), and Tharman Shanmugaratnam (2009). The PAP also took leadership at the subcommittee level. In 2001, the PAP elites chaired five of seven subcommittees. In 2010, the PAP elites or senior civil servants chaired or co-chaired all subcommittees.

Clearly, the formation of these economic committees was engineered by the PAP elites to facilitate the government to accomplish its economic and political objectives. Since the mid-1980s, the state economic policy-making process through these committees have always been soul searching events invariably coinciding with the timing of recession (Choy 2010).⁴¹ The economic hard time heightened the anxiety of the ruling elites for the continuation of the economic growth of the country. The regular state-led large-scale policy formulation exercises allowed the PAP to conduct thorough and comprehensive policy review and come up with adjustments in line with the overall national programme (Choy 2010). As long as the performance-orientated ruling elites are in charge, the deepening of globalisation through developing Singapore into a global city-state will always be the strategic vision of the state to upgrade the economy.

The second component of the state's growth-first strategic vision was the PAP's pro-immigration policy. While the pro-globalisation state strategic vision was well-preserved for stimulating long-term growth, the PAP also had to deal with a consequence of being a

⁴¹ The only exception is the 2016 economic committee which was not formed in the wake of an economic crisis. The government's justification is that Singapore was facing a crisis-like situation in 2016 as the country was moving away from an immigration-driven growth model to a productivity-driven one (such economic shift will be discussed in this section below).

global city-state: The country had to face periodical economic crises brought about by business cycles of booms and busts in the global economy (Choy 2010). Between 1985 and 2010, the country weathered four major economic crises: the 1985 global recession, Asian financial crisis of 1997, the bursting of the US Dot-com bubble, and the global financial crisis of 2008. To ensure shorter-term performance, the unavoidable business cycle that the country had to face as a global city-state required the PAP to seize growth opportunities when global economic conditions turn better (Auyong 2014). Lee Hsien Loong explained the party's philosophy of growing 'as fast as we can' in his 2006 National Day Rally speech: 'I think that when conditions are good and the sun is shining, we should go for it, as fast as we can, as much as we can. Get the growth, put it under our belt, and put it aside a little bit, so when the thunderstorm comes again, we will be ready' (Prime Minister's Office 2006).

To seize opportunities to expand the economy, the PAP elites had two policy options.⁴² The first was to augment the labour force through importation of foreign workers (given the low fertility rate of the country). The second was to maintain the size of the workforce and push for productivity growth. Clearly, boosting productivity rate was a risky option for the ruling elites, as it required a longer period and might not be successful. By comparison, the importation of foreign labour seemed to be a result-guaranteed option for the performance-orientated PAP to allow businesses to obtain the workers that they need to seize opportunities to expand when the conditions are favourable (Auyong 2014). Consequently, the urgent need for maintaining good economic performance pushed the

⁴² The discussion of the PAP's preference for the importation of foreign labour was raised in a private communication with Donald Low in 2015. Low points out that the PAP opted for an easy solution (the importation of foreign labour) to drive up growth in between crises.

ruling elites to adopt a pro-immigration policy as an important component of the PAP's strategic vision for developing Singapore into a global city-state.

The state's strategic vision in dealing with short-term economic turbulences was clearly demonstrated in the PAP's adaptive immigration policy. As a result of the PAP's strategic actions, the inflow of unskilled workers into the country was very much dictated by business cycles. Right before the 1985 recession, the government planned to completely phase out low-skilled foreign workers to put more pressure on industries to restructure (Pang and Lim 1982). However, the disastrous recession of 1985 made the PAP realise that cheap foreign workers can be used as a buffer to deal with economic fluctuations (Auyong 2014; Rohman 2010). To manage the inflow of low skilled foreign labour, since the late 1980s, the PAP has put into place a series of government measures, including the pre-existing quota system and a system of levies that businesses have to pay to hire low-skilled foreign workers (Rohman 2010; Auyong 2014). Administrative control was relaxed during periods of economic boom, that is, the first half of the 1990s, and more recently in 2007, to reduce labour shortages in various sectors. Conversely, the inflow of such migrants was discouraged during periods of economic downturn in the 1980s, the later parts of the 1990s, and the early 2000s. After a series of economic crises in the early 2000s, to further expand the economy, the government decided to attract middle-level skilled foreign talents in response to 'a changing economic landscape which generates greater demand for middle-level skilled workers' (Rohman 2010:205).

Let me now summarise my above discussion on the state's strategic vision since the late 1980s. With the continuation of the authoritarian structure of the country, maintaining economic growth remained to be at the top of the state's policy agenda. The growth-first priority essentially pushed the ruling elites to formulate two sets of state economic policies:

While one concerns the government's intention to push for greater globalisation through promoting Singapore's status as a global city-state, the other concerns managing the inevitable economic cycles – the side-effect of being a globally-connected economy – through aggressive pro-immigration policies. A revision of the second component of the state's strategic vision concerning the PAP's pro-immigration policy occurred between 2010 and 2015, which will be the centre of discussion of the rest of the section.

A State Policy Change: Reducing Foreign Labour Dependency

The shift away from the government's pro-immigration policy was not an indication of the government's compromise in maintaining its growth-first strategic vision. In fact, as I will show below, the policy shift was motivated by the ruling elites' intention to strategically modify the existing policy vision to suit the new social, economic and political context facing them. Arguing that the state policy change was not a populist policy,⁴³ I will detail the government's strategic push for a shift from an immigration-driven growth model to a productivity-driven one in the rest of the section.

Towards the late 2000s, the PAP began to face a political situation – the PAP's pro-immigration policy for sustaining the growth-first priority of the state soon ran into direct conflict with the middle-class interest. As the PAP enlarged the labour force to expand the economy, the population of Singapore increased from three million in 1990, to four million in 2000, and five million in 2010, while the citizen to non-citizen mix also changed from 86 percent to 63 percent (Lim 2011:28). Foreign workers entering the Singapore at both

⁴³ Many citizens and members of the opposition parties hold the view that the policy change was a populist policy of the PAP after the 2011 electoral setback. It was revealed to me by Gillian Koh during a private meeting in July 2014 that the PAP's strategic response in the post-election period to cut the inflow of foreign labour was considered a 'victory' for people by the public.

middle- and low-skill levels has contributed to complaints made by the middle class on a range of issues, including stealing jobs from local Singaporeans, being bad neighbours, keeping the wage level low, causing overcrowding on public transport, causing social problems in public spaces such as littering, drunkenness, drugs, etc. (see Rahman 2010; Chong 2012; Vasu 2013).

The expression of discontent from the middle class soon broke out within Singapore's limited political space. In cyberspace, the middle class established online petitions and organised their own forums to protect plans to set up a dormitory for foreign workers in nearby factories (Chong 2012:192). In 2014, a major backlash on social media against foreign workers even prompted Lee Hsien Loong to again warn against 'hateful or xenophobic comments, especially online' (Fenn 2014). At the designated space for free speech at the downtown park, a massive public gathering broke out in protest against the PAP's White Paper on population that had just been approved by Parliament to increase the population to 6.9 million by 2030 (Adam 2013; Vasu 2014). In Parliament, the middle-class discontent also transmitted through the moderate opposition party which vouched for an 'orderly growth within limits'. Arguing that the government went for a 'growing at all cost' strategy, the opposition party voiced the concerns of the middle class – 'foreign immigrants are taking away the jobs of Singaporeans or opportunities that Singaporeans could have been better served' (Mokhtar 2014).

The loud grumbling of the middle class was not enough to change the mind of the performance-orientated PAP. While the growth-first strategy could not be abandoned, the discontent of the middle class could be controlled with political propaganda and manipulation. To persuade the middle class, the PAP stressed a trade-off between maintaining economic growth and reducing foreign workers: It could reduce overcrowding

on public transport by restricting the entry of foreign workers, but this would also reduce the government's ability to deliver economic growth to them (Oon 2010; MOF 2010). To control the middle-class discontent, the PAP also employed strategies and exercised political power – while national events have been used as a platform to persuade Singaporeans to accept the economic importance of the policy, rhetoric of 'survival' and 'vulnerabilities' were constructed to appeal to Singaporeans to be understanding of the state's decision (Rahman 2010:209-210).

While arguing that the pro-immigration policy was crucial for the economy, the PAP did begin to make policy adjustments to its pro-immigration policy. The state policy adjustment came from an economic realisation of the ruling elites to sustain long-term growth prospects. The policy recommendation of the Economic Strategic Committee (MTI 2010) points out that the pro-immigration policy is not a sustainable strategy for two reasons: Firstly, the aggressive labour force augmentation reduced the incentive for employers to upgrade their operations and raise productivity. Secondly, the country will also run up against the social and physical limits that an ever-increasing proportion of foreigners in the workforce will bring. Once the downside of the immigration-driven growth model came to be known to the ruling elites, the government began to push for a shift to a productivity-driven growth model. In the 2010 Budget Statement delivered the following month, when the word 'productivity' was mentioned 72 times (Auyong 2014). Clearly, the shift to productivity growth was a strategy to reduce the country's dependence on foreign workers without sacrificing the prospect for growth.

Consequently, we saw two sets of parallel state economic policies after 2010. The first set of policies aimed at pushing for a shift toward productivity growth. The shift to a productivity-orientated growth model began with the establishment of a state development

agency – the National Productivity and Continuing Education Council in April 2010. The National Productivity Fund was also set up in 2010 and doubled in 2011 to provide funding for the state policy shift (MOF 2010, 2011). The government's effort to push for productivity growth consists of two parts: Firstly, a major wave of investment in the labour force with Continuing Education and Training (CET) and special training support for professionals, managers, executives and technicians (PMETs); and secondly, to support enterprise investments in innovation and productivity, a 'Productivity and Innovation Credit (PIC)' was introduced in 2010 and enhanced in 2011 to provide tax incentives to enterprises (MOF 2010, 2011). These efforts were accompanied by the government decision to raise foreign worker levies as a price mechanism to control the inflow of foreign workers across the economic cycle. To narrow the gap between productivity growth and labour supply, the Special Employment Credit (SEC) was also launched to raise the employment of older Singaporeans (MOF 2010, 2011).

The second set of state policies aimed at seizing growth opportunities at the end of the 2009 financial crisis to ensure the economic performance of the country. Clearly, the country's policy shift towards productivity growth in 2010 did not mean an abrupt end to its growth strategy of labour argumentation. For the performance-orientated ruling elites, while the push for productivity contributed to longer-term growth prospects, the party's pro-immigration policy remained a handy tool for boosting shorter-term economic recovery. Such logic of the ruling was seen in Prime Minister Lee Hsien Loong's National Day Rally speech on 29 August 2010 when he announced that there would be another influx of foreign workers that year. To justify his action to the middle class, he repeated the standard PAP explanation for importing foreign workers,

'This year, with the booming economy, we will definitely need more foreign workers so that we can create more jobs in Singapore. A few months ago, I

mentioned to the press that we could need more than 100,000 foreign workers more this year... Maybe, we will get by with a few less, perhaps 80,000 workers. But I said this to highlight the trade-off which we face and which we cannot avoid. You want higher growth which will benefit our workers, that also means accepting more foreign workers to come and work in Singapore. You choke off the foreign workers, the economy is stifled, growth is not there, our workers will suffer' (Prime Minister's Office 2010).

The PAP's effort to reduce the country's reliance on foreign workers was expedited in late 2011. The source of the acceleration of the government's effort in reducing the country's reliance came from the political situation faced by the ruling elites after the 2011 electoral setback. The party's poor electoral performance made the ruling elites realise that their growth-first approach to handle the immigration issue was not a politically viable strategy for power consolidation. The political realisation compelled the ruling elites to modify their policy agenda to suit the new political environment. On 14 August, at the first National Day Rally after the election, Lee Hsien Loong signified the PAP's intention to change the pro-immigration policy of the PAP,

'Last year I spoke of this at length in the Rally, so I will not repeat the explanations which I gave you, hopefully you remember what I said last year. I think Singaporeans understand the logic of the policy but the emotional impact, they still feel that and that still causes worry and concern. So I empathise with this and we are acting to relieve the pressure and to make clear that we are putting Singaporean first' (Prime Minister's Office 2011).

The PAP's shift from 'growth first' to 'putting Singaporean first' means that the possibility of importing foreign workers as an easy solution for dealing with economic fluctuation was no longer available to policy makers. To ensure economic growth performance, a search for an alternative to replace the private sector's need for workers was badly needed to maintain the party's ambition of developing Singaporean into a global city-state. Consequently, the push for productivity growth to reduce the country's reliance on foreign workers became a natural solution for the

party to balance the task of keeping the economy growing and making the middle class happy. The political urgency of the PAP to find a more-balanced approach to economic growth to meet the expectation of the middle class is clearly seen in the remarks made by Lee Hisen Loong's in an interview on August 2015:

'If we have no foreign workers, our economy suffers, our own lives suffer. (If) we have a lot of foreign workers, the economy will do well, (but) we have other social pressures, other problems with our society, which are going to be very real, and which we have to take very seriously and which we cannot accept. Somewhere in the middle, we have a mix of evils; on the other hand, we may be able to find a spot where all things considered, this is something which balances our needs as well as our identity, as well as our economic requirements, and enables us to move forward' (CAN 2015).

With the heightened need to correct the past policy mistakes, the PAP stepped up its previous measures for slowing down the inflow of foreign workers. Between 2011 and 2014, the PAP continued to use foreign worker levies as a price mechanism to control the inflow of workers. Additionally, the government introduced a numerical limit on the importation of foreign workers – a calibrated reduction on the Dependency Ratio Ceilings (DRCs) across all sectors and the Man-Year Entitlement (MYE) quotas in the construction and process sectors (MOF 2012). To minimise the impact on the economy, while reducing the inflow of cheap foreign workers, the PAP also stepped up its effort to boost the availability of the domestic labour force. Older low-wage Singaporean workers, housewives, and potential part-timer were encouraged to re-join the workforce (MOF 2012). To narrow the gap between the reduction in the number of foreign workers and the availability of domestic workers, the government accelerated its push for greater productivity growth with the enhancement PIC scheme, the introduction of PIC bonus, promotion of the CET system and the adoption of ICT solutions in the private sector (MOF 2012, 2013, 2014). In addition, to please the middle class without harming the economy, the government announced the Fair Consideration Framework (FCF) in September 2013

requiring the employers to consider local workers first before they hire foreigner workers (EY 2014).

The episode of radical state policy adjustment in the post-2011 period came to an end in 2015.⁴⁴ The foreign worker levy deferment announced in Budget 2015 was in recognition of the fact that ‘tighter foreign worker policies may be threatening the survivability’ of firms (Norton 2015). For performance-orientated PAP elites, any corrective policies that undermine the viability of the economy are not acceptable. Being constantly reminded that their political power was dependent on economic records, there was certainly a limit to how far the PAP was willing to go to please the middle class by tightening the supply of foreign workers. Anything passing that limit would hurt the economy and undermine the party’s performance-based legitimacy. With the determination to grow the economy, in the government’s budget speech delivered in that year, ‘push for innovation and internationalisation’ replaced ‘push for productivity’ as the key themes of the state policy agenda (MOF 2015; Tay 2015).

State Policy Constraints of Business Elites in Singapore

The Emergence of Non-Constraining Business Interest Groups

In Singapore, the state policy process has been mainly immune from the state policy constraints of business elites in the development process. Both the industrial structure and the democratic transition of the country have been responsible for this outcome in the country. In this section, I will first explain how the industrial structure of the country

⁴⁴ The radical approach to reduce the country’s reliance on foreign labour came to an end even prior to the general election in September 2015.

contributed to such outcome by empirically testing my hypothesis – *Both FDI and SOE negatively affect the state policy constraints of business elites in the development process.*

To demonstrate that the absence of structural constraints of business elites result in a high level of FDI and SOE, I will show that the FDI-SOE dominated industrial structure led to the incorporation of business elites into the state policy process.

The country's high percentage of foreign direct investment led to the growth of a large number of non-indigenous business interest groups in the development process. Given that non-indigenous business elites have a greater ability to transcend borders and the influence of a particular state policy should they wish, the state's collaboration with MNCs required the PAP's consistent efforts to assure foreign investors that economic profits could be realised from their participation in Singapore's economic development. As Lee Kuan Yew wrote in his memoirs, 'if I have to choose one word to explain why Singapore succeeded, it is "confidence". This was what made foreign investors site their factories and refineries here' (Lee 2000:68). Clearly, all these administrative measures, which was prevalent in South Korea, to reward or discipline the domestic industrialists, became insufficient for the political elites to tame private business interest in the Singapore case.

With the political elites' goal of building international confidence, the state policy process in Singapore is characterised by the state's provision of customer-oriented services to enhance MNCs' business operation in and from Singapore – a distinctive element that was largely absent in the state policy process in the other cases. As Schein (1996:18) notes, 'in many ways', the state policy-making agency – the EDB – 'has elements of a typical sales organisation of a large consumer-oriented corporation, only in this case what is being sold is a country and the EDB mission goes beyond marketing into entrepreneurial and venture capital activities'. In short, the functioning of the state policy process depends on the PAP's

ability to retain the cooperation and trust of non-indigenous business interest groups by providing excellent ‘customer services’ to ensure the profitability of their foreign ‘customers’ in the development process. This was clearly seen in the concept of the EDB being a ‘One-Stop’ government agency to promote industrial growth in Singapore. As Schein (1996:42) describes,

‘Operationally this meant that the EDB should locate foreign investors, sell them on coming to Singapore, help them to find land and facilities for building their factories, assist them in recruiting and training a labour pool at the required skill level, provide whatever infrastructure was needed, offer whatever financial incentives or tax breaks were necessary, even make investments if necessary, and solve all problems that might arise subsequently as the manufacturing operation expanded without, however, compromising any of its own strategies, rules, and principles’.

Clearly, the policy partnership between the PAP and the non-indigenous business elites is similar to a kind of company-client relationship, which is based entirely on the economic and commercial motivations of each partner. Staffed by the most talented bureaucrats available in the system and equipped with all sorts of advanced managerial skills and knowledge, the EDB and other state agencies approached foreign MNCs to effectively ‘ascertain what they require in order to realise the state’s transformative developmental objectives’ (Dent 2003:260; Schein 1996; EDB 2011). Through the state’s provision of customer-oriented service, the material interest of the non-indigenous business elites thus became incorporated into the overall development strategy of the country. Since the early 1990s, the policy partnership between the PAP and MNCs has been strengthened by the EDB’s development of four award programmes (including the Distinguished Partner in Progress Award launched in 1991, the Distinguished Friends of Singapore Programme and the Friends of Singapore Award launched in 1998 and 2000 respectively, and the Honorary Citizen Award introduced in 2003) to recognise the contribution of foreign investors to the country (see Yuen 2008). These awards clearly contributed to the continuation of the

harmonious relationship between the PAP state and non-indigenous business elites in the state policy process.

The creation of consultative mechanisms provided the PAP with further opportunities to incorporate the non-indigenous business elites into the state policy process. After 1985, a few project-based groups for facilitating the state's dialogue with foreign investors were set up in the process of the state policy formulation. They include the Singapore Economic Review Committee (SERC) in 1985, the Singapore Competitiveness Committee (SCC) in 1997, another Economic Review Committee in 2001, and the Economic Strategies Committee in 2011. Although a large number of foreign business elites were invited to join these committees, the chairman and deputy chairman have always been top leaders from the PAP. The incorporation of non-indigenous business elites into the state policy process was institutionalised with the establishment of the EDB's International Advisory Council (IAC). Similarly, the chairman of the IAC has always been a top PAP leader. The IAC's input into the state policy process was clearly highlighted, when Deputy Prime Minister Teo Chee Hean, also the then IAC Chairman, commented on the IAC's deliberations: 'The IAC has provided valuable inputs to help sharpen EDB's strategies as Singapore seeks to transform existing industries and to seize new growth opportunities' (EDB 2013). In addition, the consultative relationship between the non-indigenous business elites and the PAP has also been based on the state's links with executive personalities from foreign MNCs, which 'intensified after the 1997-98 regional financial crisis at the behest of the state' (Dent 2003:260).

As the material interests of non-indigenous elites were well served by the development-oriented state, they had little interest in shaping the direction of state policy-making. As a result, the PAP government managed to retain its leadership role in the strategic alliance

between the government and foreign investors. This outcome was highlighted in the study of Dent (2003:260):

‘In approaching transnational business representatives for advice, the government does not come with a “blank page” but rather with an extensively pre-planned and sophisticated policy framework. In their dealings in such matters, interviewed business representatives all confirmed that the government mainly consults with them for fine-tuning advice and ultimately endorsement of their policy strategies. Thus, Singapore’s hosted foreign TNCs “do not directly shape the government’s economic policies” but are rather invited by the state to “sit around the strategic table to supplement the government’s own thinking”. Moreover, “change is very much government-led” and “the state combines its own industrial intelligence with that of transnational firms based here”’

The country’s large number of SOEs led to the emergence of state-linked business interest groups. The nature of this type of business interest group allowed the PAP leadership to exercise direct control over them. Since the origins of the GLCs, the PAP has maintained a style of strong leadership from the top through the Directorship and Consultancy Appointments Council (DCAC) established in 1971. The DCAC, consisting of top ministers and leading civil servants of the PAP government, was in charge of making almost every appointment at board and executive levels across almost every GLC (Mauzy and Milne 2002:29). Regardless of who was running the Council on a day-to-day basis, it is certain that the ultimate say always rested within the prime minister through his chairmanship of the Coordinating Board – the top state agency that oversees the operations of the DCAC (Vennevald 1994; Worthington 2003; Barr 2014). The appointed chairmen and directors in the GLCs were no ordinary bureaucrats; all of them are veteran politicians or senior bureaucrats selected from different ministries, including brigadier-generals from the defence ministry (Haggard and Low 2002: 317). The appointment of senior state personnel played a significant role in ensuring the state the implementation of the state’s

policy guidelines at the state-controlled enterprise level. As Vennewald (1994:33) describes:

‘Chairmanships and directorships in state enterprise in Singapore are policy positions. Contrary to functional boards which consist of executives from within the company and represent operational functions (finance, administration, marketing etc.), GLC and statutory boards lay down general guidelines and concentrate on the performance of the company. The directors of the companies only rarely function as managers. Most of them are “watchdogs over the state’s Investment”. None of these technocratic “mandarins”, however, are able to exercise real political power or use their administrative powers to influence policies beyond an implementary or company level – at least not yet. The rules of the game are still set by the political leadership’.

After the mid-1990s, the power to appoint board members and non-executive directors of GLCs was transferred from the DCAC to Temasek Holdings. Significantly, it occurred at around the same time as the Lee family and a few Lee loyalists became directly involved in the PAP’s managerial control over the GLCs. Three individuals have been playing crucial roles in this regard (Barr 2014: 63; Low 2001:428). The first is S. Dhanabalan, a Lee Kuan Yew loyalist, who occupied the chairmanship of both Temasek Holdings⁴⁵ (from 1996 to 2013) and the DCAC (by 1998). The second is Lee Hsien Loong’s wife, Ho Ching, who was appointed the Executive Director and CEO of Temasek Holdings (from the early 2000s to this date). They were assisted by Lee Kuan Yew’s wife’s nephew, Kwa Chong Seng, who was appointed Deputy Chairman of Temasek Holdings (from 1997 to 2013). The appointments of these highly-trusted individuals in Temasek holdings consequently strengthened the PAP elites’ ability to impose managerial control over the GLCs. Thus, despite an increasing number of individuals from the private sector having been appointed to GLCs, the investment decisions of the GLCs were still under close supervision of the PAP elites. In the words of Low (2001:428), ‘this perpetuation of the developmental state

⁴⁵ In 2013, S. Dhanabalan was replaced by Lim Boon Heng who is a retired senior PAP leader.

through managerial control ensured consensus in corporate policy in line with state macroeconomic direction’.

I now summarise the emergence of two types of non-constraining business interest groups resulting from the country’s FDI-SOE dominated industrial structure. The high level of FDI led to the emergence of non-indigenous business interest groups. Given the fact that foreign investors can withdraw their investment from the host countries, the state-business cooperation for policy formulation in Singapore was fundamentally different from that of South Korea and Taiwan. From the beginning, the PAP had put efforts into ensuring that economic interests were incorporated into the government policies. Consequently, few changes occurred to the close collaboration between the PAP state and foreign investors in the development process. The high level of SOE also cultivated a number of state-linked business interest groups in Singapore. As these business elites were mainly close associates, royalists or even relatives of the PAP, they basically were acting as the watchdog for state policies rather than challenging the state policy process.

Weak Domestic Business Elites and the Continuation of the GLC-MNC growth strategy

Explaining the continuation of the GLC-MNC growth strategy, the rest of the section aims to achieve two goals: Firstly, to complete the testing of my hypothesis that SOE and FDI negatively affect the level of structural constraints of business elites, I will examine the linkage between the domination of SOE and FDI and the squeezed policy status of domestic business elites. To achieve this, I will detail the lack of the relationship between the PAP state and the Chinese Chamber of Commerce and Industry (SCCCI) – the supposed counterpart of Korean FKI – from the beginning of the state-led industrialisation process. Secondly, I will then examine how the lack of democratic transition (my second

variable) led to the absence of institutional constraints of business elites in the development process. I argue that the lack institutional constraints of business elites set Singapore's financial liberalisation and privatisation apart from the experiences of South Korea and Taiwan.

Inevitably, the presence of foreign investors and state-linked business elites diminished the policy status and structural power of the indigenous business elites in the state policy process. For the PAP, the majority of local business owners were traders who were not interested in long-term development projects and could hardly play any role in the country's industrialisation (Visscher 2007; Chalmers 1992). Although a few local business elites were willing to take part in the PAP's industrialisation project, they had to represent the interests of the majority of the SME owners if they wanted to remain in the leadership roles in the Singapore Chinese Chamber of Commerce (SCCC). Thus, as Visscher (2007:178) argues, 'The relative importance of the Chamber in Singapore continued to decline because the Chamber continued to act upon its traders' worldview, based on trade, regional networks and small and medium-size family firms, that fundamentally different from that of the state'. Consequently, the fundamental difference between the state's development strategy and the view of the majority of the local business owners resulted in the exclusion of the indigenous business interest groups from the state policy process from 1961 to 1984. In the period, the high degree of trust and close relationship between the government and the private sector was basically achieved through attracting MNCs (Huff 1995).

As the state had turned to foreign investors from the outset, the subordinate position of the indigenous business interest groups was clear from the beginning the state-led development process. In 1969, at the occasion of the swearing-in ceremony of the SCCC,

the new Chamber leadership stressed ‘the need to follow the lead of the government and to adhere to the modern orientation of the PAP party-state’ (Visscher 2007:191). During the EOI from 1966 to 1984, the SCCC transformed itself into the Singapore Chinese Chamber of Commerce and Industry (SCCCI) and put great efforts into ‘modernising’ the Chamber to bring it more closely in line with the expectations of the political elites (Visscher 2007: 177-241). It is not to say that the SCCCI had ceased to function as an indigenous business interest group – the primary objective of the indigenous business interest group was to win a degree of state support for local private businesses. Squeezed in between international capital and state capital, the local business chamber felt that ‘local private business deserved to be treated better than, or at least equal to, foreign private business’ (Visscher 2007:210). However, it was easy for the political elites to ignore this only demand of the indigenous business interest groups in the policy process after they had formed a close partnership with the international capital. As Visscher (2007:210) observes, ‘Protests of the SCCC were vocal and almost continuous, but had little effect. The government was convinced of its economic development strategy to which the contribution of the local trading sector was far from crucial’.

After the mid-1980s, the difference between the PAP’s development strategy and that of the local capital narrowed. The increased political status of the indigenous interest groups was the result of two important developments. Firstly, the consultative mode of economic decision-making empowered the local business owners by offering them new channels to win political protection for their interests. In the mid-1980s, with the establishment of the Association of Small and Medium Enterprises (ASME), the demand of the majority of local SME owners for greater state assistance had turned into criticism that ‘the government had simply taken the easy option by relying on foreign capital’ (Chalmers 1992:70). Secondly, the policy consultation with the private sector through the

establishment of the Economic Committee (EC) made the PAP elites realise that the contribution of the local businesses, particularly that of the SMEs, was important to the economy of Singapore (Visscher 2007; Chalmers 1992). The PAP's re-evaluation of its economic strategy thus gave new opportunity to the indigenous business interest groups to demand more state supports for local capital.

However, as long as Singapore's economy was dominated by MNCs and GLCs, leaders of local business associations could not achieve anything more than defending their newly acquired position in the development strategy of the PAP. Thus, the result of the empowerment of the SME owners after 1984 was the incorporation of indigenous business groups into the state policy process. Such incorporation of local SMEs was institutionalised with the establishment of the Enterprise Development Centre (later expanded into the SME Centre), which was supported by the state's SME promotion agency – SPRING. Since the mid-2000s, the emergence of these services centres in all five local business associations has provided institutionalised channels for the PAP to incorporate the policy opinions of SME owners into the formulation of the state's SME policy. The continuation of the subservient role of indigenous business interest groups during the state policy process were clear in the statement of Thomas Chua, President of the SCCC: ⁴⁶

‘SCCCI can serve as an effective bridge between government and business to facilitate consultation and communication. We welcome the government consulting businesses ahead of introducing and implementing new government regulations that impact the business community, so that their views and suggestions can be incorporated (SCCCI 2014).’

⁴⁶ A further indication of local business elites' low policy status is that the issue for communication between the government and the private sector that Thomas Chua referred to here was a trivial issue. This remark was made by him at a session organised by the SCCC to give members a briefing on the government's decision to stop issuing permits for the placement of freezer/storage containers at factories due to fire safety concerns.

While the emergence of structural constraints of business elites was hindered by the FDI-SOE-dominated industrial structure, the lack of meaningful democratic transition of the country also prevented the emergence of institutional constraints of business elites. The continuation of the state developmentalism differentiated Singapore from South Korea and Taiwan during the economic liberalisation process of the 1980s and 1990s. In both cases of Taiwan and South Korea, the processes of financial liberalisation and privatisation were not free from business interests. As a result, domestic business elites were able to strengthen their economic power through obtaining newly-released economic resources from the state. However, this did not occur in Singapore.

Without any structural and institutional constraints produced by business elites in the state policy process, the state-led state-business cooperation remained largely unchanged. A clear indication of the state's strategic role in the economy is the fact that the economic liberalisation of the 1980s and 1990s followed entirely the PAP elites' logic of generating growth. The privatisation process initiated around the mid-1980s was to achieve two objectives: one was to broaden and deepen the Singaporean stock market, and the other was to allow the private sector to be the engine of growth (Low 1998, 2006). The PAP has chosen listing on the local stock market as IPOs as the mode of privatisation, which subsequently avoided strengthening the economic power of the private capital. At the same time, the PAP has also practised rolling privatisation, which allowed the state to withdraw from areas that deterred private initiatives and make new investment as a part of continual industrial restructuring (Low 1998, 2001, 2006).

Similarly, Singapore's financial liberalisation process also proceeded gradually under the direction of the PAP elites. It was only after the test of the Asian financial crisis that the PAP was confident enough to open up the domestic banking sector (Lee 2000:101). The subsequent two rounds of financial reform in 1999 and in 2001 accomplished not only the political elites' goal of creating strong PAP-linked local banks – the DBS, the OCBC and the UOB – but also the creation of a more conducive environment for the impending FDI (see Lee 2000; Yeung 2005; Chong 2007; Hamilton-Hart 2000). As a result of the state's strategic actions, the PAP clearly succeeded in improving the international competitiveness of the country while still retaining control over financial resources in the banking system. In contrast with the Korea and Taiwan cases, the above PAP-directed liberalisation reform processes provided the independent local business elites with no opportunity to strengthen their financial muscles, and instead they enhanced the market efficiency of the country and renewed the state's strategic role in the economy.

Since the mid-1980s, with the continuation of the political elites' development orientation, the Singapore developmental state did not deviate from its MNCs-GLCs growth strategy. While working closely with the MNCs and GLCs in R&D and innovation activities, the PAP also pushed these enterprises to aggressively expand into overseas markets (see Wong 2011; Tsui-Auch 2004; Tsui-Auch et al. 2014; Pereira 2000,2008; Chong 2007; Low 2006). As the political elites had realised the importance of SMEs to the economy, the resilience of the developmental state also led to the state's SME growth-strategies. In 1986, the Local Industry Upgrading Programme (LIUP) was the first project of the PAP to forge closer ties between MNCs and SMEs (see Chalmers 1991; Coe and Perry 2004). Through the 1993 Regionalisation Strategy, the LIUP was externalised by providing opportunities for

local SMEs to expand overseas as associates of MNCs and GLCs (Low 2001; 2006). Ever since the first SME Master Plan in 1989, the productivity and capabilities of SMEs have also been boosted by a series of SME policy packages to ‘achieve quality growth’ (see Low et al 1993; Tan 2007; Chalmers 1992; MTI 2013).

State Policy Constraints of Organised Labour in Singapore

PAP’s Controlling of Organised Labour

The state policy constraints of organised labour are also absent in Singapore. The organised labour was tightly controlled by the PAP from the very beginning of the development process. The factor that explains the outcome was the country’s great need to attract foreign investment. In this section, I will test my hypothesis – *FDI negatively affects the structural constraints of organised labour*. I expect to find that the high level of FDI motivated the ruling elites to develop a distinctive pattern of industrial relations – state-controlled labour unions – to manage labour interests during the development process. Such idea of the PAP leader was first shaped by the 1961 report of the UN Mission. The report clearly highlighted the importance of labour incorporation for Singapore’s FDI-dominated economy:

‘In our opinion Singapore has the basic assets for industrialisation. With the resourcefulness of her people, an active industrial promotion programme by the government, and – this is the main point – close cooperation between employers and labour, Singapore can successfully carry out the expansion programmes proposed in this report to achieve their basic objectives...The cooperation between employers and labour must come about...If not, labour will suffer for it. Capital can go to other countries. Enterprise can quiet down or escape. Labour has no escape possibilities. It needs employment here and has no time to wait. (Cited in Schein 1996:37)’

As the country stepped up its project of inducing FDI after its independence, the need to create a stable pattern of industrial relations became even more urgent. In the first move towards this goal, in 1965, the National Trade Union Congress (NTUC) was called on to commit itself to a tripartite 'Charter for Industrial Progress' between the government, the NTUC, and the Singapore Employer's Federation (SEF). Therefore, '...all partners in the industrialisation programme ... must pool their efforts and strive for a continuing increase in productivity and output in all enterprises' (Cited in Rodan 1989:91). The ratification of the Charter essentially denied the traditional role of labour unions as legitimate interest groups and paved the way for incorporating organised labour into the state policy process.

The full cooperation of the organised workers in the state policy process required the state's control over labour. As Lee moved to win over the union, a few 'irrational' and 'ignorant' union leaders were soon arrested (Lee 2000). What followed was the legislating of new labour laws aimed at disciplining the labour unions. In the late 1960s, the PAP first disciplined the labour unions with the Trade Union Bill in 1966, the Employment Act and the Industrial Relations Act in 1968, which limited labour costs, expanded managerial autonomy and increased the cost of industrial actions (Rosa 1990; Coe and Kelly 2002; Rodon 1989; Leggett 2007). With the new labour laws, the labour unions ceased to engage in collective bargaining in the development process. As a result, the number of work stoppages reduced from a high of 161 in 1961 to none in 1969 (Haggard 1990:111). The pro-business new labour law coupled with the fear of an economic crisis led to the declining of trade union movements in terms of membership, revenue and morale from 1965 to 1970 (Lee B-H 1995). The 1969 NTUC seminar was a turning point. As the unions ceased to represent the interests of workers, the PAP also allowed the NTUC to attract the loyalty of the union members by delivering a range of services to its members – in the 1970s, consumer cooperatives were established to offer essential commodities at low

prices; taxi cooperatives were operated to offer jobs to unlicensed taxi drivers; an insurance scheme was set up to offer insurance coverage to workers. The union's strategy indeed worked as the decline of membership halted (Lee B-H 1995).

To a considerable extent, the PAP's successful incorporation of organised labour into the state policy process was a result of the development of a close relationship between the party and the union. At the 1969 NTUC seminar, the development of a 'symbiotic' relationship between the PAP and the NTUC was first spelt out. The heart of the PAP-NTUC relationship was the formal and informal connections between the PAP and NTUC leaders. The first secretary-general of the NTUC, Devan Nair, an old unionist friend of Lee Kuan Yew, was urged by him to return to Singapore to lead the union. As Lee (2000) wrote, 'It was an enormous advantage for me to have Devan as secretary-general of the NTUC. He coordinated and fine-tuned my policies and inculcated positive work attitudes in the unions'. As a result of this, the NTUC 'entered into the ultimate collective agreement – compliance with, and subservience to, the state, in exchange for a seat at the table of government and the promise of continued rapid development' (Coe and Kelly 2002:352). After 1969, one thing was clear: not only were the labour unions denied their traditional role as legitimate interest groups, they also became a strategic policy partner of the ruling party. As Rodan (1989:93) observes, 'Trade unionism was finished in Singapore. Labour was now part of the corporate structure of the Singapore state'.

Another significant part of Singapore's success in incorporating organised labour in the state policy process was the establishment of the National Wages Council (NWC), an organisation that works closely with the EDB. The background of its establishment was the growth of industrial workers' material interests in the development process. Until 1971, with the wage of workers frozen by the government, the rapid industrial growth inevitably

resulted in considerable economic inequality between the waged labour and non-wage section of Singapore society (Rodan 1989:106). Even the NTUC found it difficult to justify the government policy and campaigned for a more equitable share of profits. Workers' discontent also coincided with a growing labour shortage and, therefore, 'a continually improving bargaining position' (Rodan 1989:106). As a result, there was an unusual increase of industrial disputes essentially all centred on greater material gains for workers. By then, 'the government had come to share the genuine fears of employers that a wage explosion was a real possibility but had also concluded that a total clamp on wages was not only impossible but counterproductive to wage control' (Rodan 1989:106). The NWC was subsequently formed to 'introduce a formalised institutional control over the process by which wage rises were arrive at' (Rodan 1989:106).

The formation of the NWC entirely transferred the responsibility of the unions in advancing the material interests of the members to the PAP. The material gains of organised labour now had to be regulated by the PAP in line with the overall economic development programme formulated by the development alliance between the PAP state and international capital. As Lee Kuan Yew wrote with some satisfaction in describing the outcome, 'Strict laws and tough talk alone could not have achieved this. It was our overall policy that convinced our workers and union leaders to support our key objective: to establish international confidence in Singapore and attract investments and create jobs'. Garry Rodan (1989:106) explains the how the NWC incorporated the NTUC into the state policy process,

'In February 1972 the National Wage Council (NWC) was formed. This ten-member tripartite body was comprised of equal representation of capital, labour and government and included an independent chairman, who in 1972 was Professor Lim Chong Yah, an academic economist. Representatives of capital were drawn from the Singapore Employers' Federation (SEF), the National Employers' Council (NEC) and the Singapore Manufacturers'

Association (SMA). Representation of capital thus tended to favour larger employers and, particularly, international companies which dominated these bodies. Labour representatives were drawn from the NTUC, and the government's representatives from its own departments. Under this structure the government's influence was quite pervasive since, apart from its own direct representation, the PAP's cross-fertilisation with the NTUC, and the absence of any independent union representation ensure that in practice the NWC would reflect government policy.'

Strengthening the control mechanism

The task of ensuring industrial peace became even more crucial with the preparation of the country's industrial upgrade in the late 1970s. By then, the PAP's labour control mechanism displayed signs of uncertainty. The uncertainty came from three sources: Firstly, the special relationship between the party and the union had rapidly consolidated in the past due to the personal ties between Lee Kuan Yew and C.V. Devan Nair. Thus, it was feared that it might be more difficult to sustain and enhance the special PAP-NTUC relationship because the second generation of the PAP lacked contact with the unionist leaders. Secondly, the NTUC had acquired a huge amount of assets through its business operations in the 1970s. Certainly, with the growing economic power, the labour unions became more capable of questioning the PAP's control over them and challenging the PAP's policy-making. Thirdly, within the NTUC, a grassroots leader, Phey Yew Kok had developed strong personal support and even vowed to challenge the newly appointed secretary-general at the NTUC conference in 1979 (Rodan 1989:156; Vasil 1989). Whilst there was no indication that organised labour might turn the growing power against the PAP, the remote possibility of labour's defection motivated the PAP elites to take the necessary steps to ensure that the PAP's controlling over organised labour to remained firm as the country moved up the economic stages.

An even closer integration between the PAP and NTUC was consequently witnessed after the 1979 NTUC seminar on 'Progress into the 80s'. Soon afterwards, an NTUC-PAP Liaison Committee comprising top leaders of both the party and union was established in 1980. To strengthen the special relationship between the PAP and NTUC, the PAP initiated a strategy of bringing technocrats into the union leadership (Leggett 2007; Rodan 1989; Vasil 1989; Mauzy and Milne 2002). Beginning with Lim Chee Onn, NTUC secretary-general, who had no previous solid part or trade union experience, was brought in to lead the labour union. In 1980, he was also appointed Minister without Portfolio. Such practice of bringing technocrats into the NTUC and combining the offices of secretary-general and government minister continued to today.⁴⁷ Consequently, after 1980, the NTUC began to function as a de facto governmental organisation, as it became closely affiliated with the PAP and is led by a team of technocratic elites co-opted from the government. Union leaders who run for elections as opposition candidates will be sacked by the NTUC (Leggett 1993:124). With the NTUC now being led by technocratic elites co-opted by the PAP with cabinet posts, in the words of Cho-oon Khong (1995:122), 'The NTUC's purpose appears to be to explain government policy to union members and mobilise their support behind government initiatives'.

Not only did the PAP bring technocrats into the NTUC leadership, it also tightened its control over the rank-and-file workers. In the 1980s, during the reconstruction of the NTUC's omnibus unions to industry-wide and house unions, partly to enhance the NTUC's effectiveness, a few strong unions strongly opposed the state's decision and resisted the construction (Rodan 1989; Lee B-H 1995; Leggett 2007). However, it was clear that 'any attempt to obstruct the reconstruction of unions would meet the full force

⁴⁷ The secretary-general Chan Chun Sing who assumed office in April 2015 is also the Minister in Prime Minister's Office and formerly Major General in the Singapore Army. His predecessor Lim Swee Say was appointed the Minister for Manpower.

of the PAP state apparatus' (Rodan 1989:159). In another effort to reinvigorate its effectiveness, the NTUC restructured again after 1997, and the former preference for house unions gave way to merger (Lee 2000:113). As a result, the power base of these large unions was mostly removed. In 1982, a legal redefinition of trade unions substituted the purpose of promotion of good industrial relations and achievement of productivity for the confrontational objective of the original legislation, and made breakaway unions unacceptable (Leggett 2007). In the 2000s, organised labour's position as a subservient partner to the PAP state was further clarified by the government's harsh treatment of the Airline Pilots' Association of Singapore to attempt to replace pro-business union leaders (Rodan 2006:157). Since 1985, the PAP has also paid much attention to developing strategy to strengthen its membership base in society. Against a global decline in labour union movements, the NTUC's membership base saw a two-fold increase between 1995 and 2005. The unionisation rate also grew by 4 percent from 23 percent to 27 percent from 2009 to 2013 (Lee B-H1995).

In sum, the high level of FDI of the country resulted in the emergence of state-controlled labour interest groups. To facilitate the creation of a suitable investment environment for foreign investors, the PAP incorporated organised labour – NTUC – into the PAP state through developing close NTUC-PAP relations from the beginning of the industrialisation process. Such dedicated efforts of the PAP state in developing a sophisticated labour control mechanism were not seen in the two other comparative cases. The logics of the PAP in controlling organised labour to ensure industrial peace was once again demonstrated in the period of industrial upgrading. As the task of attracting FDI stepped up, the government also upgraded its labour control mechanism through even greater integration of the NTUC and PAP as well as coercive measures over the rank-and-file workers. In the remainder of the section, I will now turn to examine the impact of the

emergence of state-controlled labour interest groups on the level of structural constraints of organised labour in the state policy process.

The PAP's Management of Labour Interests

The purpose of the PAP's controlling of organised labour was to incorporate labour interests into the state-business development alliance as a junior partner to achieve economic growth. Consequently, the NTUC as a devoted partner of the state development alliance was mobilised by the PAP to offer support to the state's economic strategies throughout the development process. The incorporation of organised labour into the state's development alliance cannot be any clearer than in the NTUC's advocacy of a 'Cheaper, Better, Faster' economy in the aftermath of the global financial crisis in 2009. Instead of pushing for greater material advancement for workers, the then NTUC labour chief, Lim Swee Say, stated that 'The labour movement, NTUC, will be working towards helping put on track a "Cheaper, Better, Faster (CBF)" economy in the next two years. The CBF strategy will help drive Singapore into the next phase of growth' (UNPAN 2009).⁴⁸ In order to achieve overall growth for the nation, 'the union must pro-business'.⁴⁹ With the commitment of organised labour to long-term economic development, the material interests of organised labour had to be advanced in line with the national development agenda of the state.

As the PAP successfully incorporated organised labour into the state development alliance between the PAP and its business partners, there has been largely an absence of structural

⁴⁸ A 'Cheaper, better, faster' economy refers to a strategy of promoting cheaper cost, better quality and faster adaptation to maintain Singapore's competitiveness in the global economy.

⁴⁹ Lim Swee Say made the 'labour must be pro-business' remark when he was talking about Singapore's tripartism at one event hosted by INSEAD on 6 November 2009.

constraints of organised labour in the development process in Singapore. Consequently, as I will show, as organised labour in South Korea and Taiwan have both begun to produce policy influence on the state policy process since the 1980s, the material interests of organised labour in Singapore have been carefully managed by the PAP state to achieve economic growth.

Since the 1980s, the task of the government to promote high value-added production has allowed the advancement of labour interests in Singapore. There have been three forms of labour gains: that is, wage increases, social security provision, and labour's skill formation. Ever since the 'corrective' wage policy of the state, with the recommendation of the NWC, the wage level has rapidly increased in Singapore. In the late 1980s, the significant labour gains were a result of the state's industrial upgrading plan to raise labour costs to discourage low-skill, labour-intensive investments (Rodan 1989). In addition to wages, the cost of labour also included employers' contribution to the compulsory national superannuation scheme, the Central Provident Fund (CPF), and another payroll levy to the Skill Development Fund (SDF) established in 1984 for the training of low-skilled workers. The establishment of the SDF was clearly a strategy of the PAP state to upgrade the human capital of the workforce for higher value-added production (Rodan 1989).

While labour was awarded with a share of the country's economic growth, they had to bear the financial burden at times of economic hardship. To tackle periodical economic fluctuations which began in the 1980s, the PAP state developed a mechanism to adjust the material gains of the labour in line with the economic performance of the country through the preservation of a high degree of wage flexibility. In the mid-1980s, the seniority-based wage system was replaced by the flexible wage system. To ensure wage increases were commensurate with productivity gains, the NWC recommended that the companies use

variable payments, including an annual variable component (AVC) and monthly variable component (MVC) to reward workers for their contribution to corporate performance. During difficult economic times, the state played a strategic role in adjusting the material gains of labour in order to reduce job losses. In response to the first four economic crises: 1973-1974, 1985, 1998, 2001-2003, the NWC implemented wage cuts and CPF cuts to reduce costs for businesses to save jobs. (Lim C-Y 2014; Tan 2004; Chew and Chew 2005; Leggett 2011).

Although the pro-business ‘cutting cost’ strategy was not seen in the post-2009 crisis period, the government implemented a temporary Job Credit Scheme to financially help companies avoid retrenchments.⁵⁰ Clearly, the interest of businesses cannot be compromised in any situation as they are the key partners of the state in economic recovery. The pro-business principle of the state was seen in another case after the 2011 election. The greater desire to please the middle class did incentivise the party to offer more economic benefits to the middle-class labour after the 2011 election. Similarly, the gain of labour still did not result in the loss of businesses. To satisfy the desire of the middle-class workers for a wage increase without incurring additional costs for businesses, the government launched the Wage Credit Scheme (WCS) through which the state provided financial credits to the private sector to increase the wage levels of low-income workers (The Straits Times 2015).⁵¹

In addition to wage issues, the strategic management of labour interests was also expanded to other aspects of labour welfare provision. Since the early 2000s, as the country was transforming itself from a manufacturing-based economy to a service-orientated one, it

⁵⁰ Lim Swee Say, the Secretary-General of the NTUC at that time, noted that the government had to step in to do more than just ‘cutting costs’ to rescue the country from the 2009 financial crisis.

⁵¹ The economic logic behind the policy is that the state’s financial assistance will help businesses cope with rising wage costs so that they can free resources to invest in productivity

became increasingly crucial for the government to ensure job security for Singaporeans while maintaining industrial peace for businesses (Pereira 2008). To achieve this, the government's efforts to ensure the job security of workers consequently went hand in hand with its projects to upgrade labour productivity. This began with the strategic decision in 2003 to heavily invest in a policy known as the 'Work Restructuring Scheme' to shift workers from the declining manufacturing sector toward the growing service sector (Pereira 2008). With the provision of comprehensive government-sponsored retraining programmes, the job security of workers could be secured only through upgrading their skills in line with the development agenda of the state-business alliance. Such project of the government was upgraded in 2015. In line with the formation of the Committee on the Future Economy, the SkillsFuture initiative was launched to offer training programmes to the entire workforce to ensure job security for Singaporeans in the future economy (Saad 2015).

For development-orientated PAP elites, labour gains also had to be consistent with their contributions to the economy. The establishment of a workfare model by the government in 2007 was a clear indication that greater material interests of workers could only be achieved through hard work in the development process. With the introduction of a one-off Workfare Bonus and a permanent Workfare Income Supplement (WIS), the government incentivised low-income and older workers to remain in the labour force to receive the government's financial assistances (Ng 2011). The workfare system was expanded to allow workers to be more self-dependent in 2010 when the Workfare Training Scheme (WTS) was introduced to provide government-funded training opportunities to workers (MOF 2010). Self-reliance was still the principle of the party in offering labour welfare after the 2011 election. This was seen in the introduction of the Progressive Wage Model (PWM) which links the material interests of low-paid workers to their skills

upgrading and productivity improvements. The PWM ruled out the possibility of a pro-labour Minimum Wage Model which, in the government's view, is ineffective and populist (MOF 2014).

Clearly, the above discussion confirms my hypothesis that the level of FDI negatively affects the structural constraints of organised labour. In Singapore, the high level of FDI motivated the government to ensure industrial peace through controlling labour interests to create a favourable investment environment. The creation of such labour control mechanism began in the 1960s and 1970s with the development of a 'symbiotic' relationship between the PAP and the NTUC and the establishment of the National Wages Council (NWC). In the 1980s, as the state stepped up its efforts to attract foreign investment, the state control mechanism was upgraded with an even closer integration between the PAP and NTUC. With the presence of such state control mechanism, organised labour was effectively incorporated into the state-business development alliance as a subordinate actor in the state policy process. For this reason, the structural constraints of organised labour have been largely absent from the development process in Singapore.

Summary of the Chapter

In the case of Singapore, we have seen how the non-transformation of the developmental state has been shaped by the FDI-SOE-dominated industrial structure and the absence of a democratic transition of the country. This chapter shows that the two variables were both products of the strategic choices of the ruling elites in the process of economic and political development. The formation of the industrial structure of the country was shaped by the strategic choices of the PAP to urgently kick off the industrialisation process to prevent the revival of the leftist movement. The nation's move towards a consultative-authoritarian

system since the mid-1980s was also an adaptive choice of the ruling elites to co-opt the growing middle class interests for greater material benefits to consolidate their political power in the new socioeconomic environment.

The FDI-SOE-dominated industrial structure of Singapore prevented the emergence of the structural constraints of both business elites and organised labour in the development process. This industrial structure of the country led to the emergence of two types of non-constraining business interest groups: First, the country's high level of FDI led to the emergence of non-indigenous business interest groups. As I showed in the chapter, the PAP maintained a more cooperative and less confrontational relationship with these foreign entrepreneurs and investors throughout the development process. Second, the country's high level of SOE produced a group of state-linked business interest groups. I showed that these state-linked business elites had no intention of challenging the state policy process, as many of them were close associates and royalists of the PAP. Subsequently, the large presence of FDI and SOE in the economy inevitably reduced the policy status of the domestic business elites. I showed that the SCCCI – the supposed counterpart of KFI – was firstly excluded and later incorporated into the development agendas of the PAP state. In the Singapore case, it is also clear that there was a direct connection between the high level of FDI of the country and the absence of the structural constraints of organised labour. To create an attractive business environment, the PAP made great efforts in ensuring the industrial peace of the country by controlling organised labour from the very beginning of the industrialisation process. In the 1960s and 1970s, we saw the development of a close relationship between the PAP and the NTUC. The PAP-NTUC relationship was further strengthened in the 1980s as the country moved onto a new stage of economic development.

The FDI – SOE-dominated industrial structure of the country was just one side of the story. The Singapore case also demonstrated how the absence of a democratic transition prevented the emergence of the institutional constraints of the middle class and business elites. With the continuation of the authoritarian structure of the country, the PAP state continued to place economic growth as a top priority of the regime. As I detailed in the chapter, the growth-first strategic vision of the PAP state since the late 1980s consists of two essential components: The first is the PAP's consistent vision of developing Singapore into a global city-state to achieve long-term growth prospect. The second is the PAP's pro-immigration policy aimed at dealing with short-term economic fluctuations. I also documented the PAP's attempt to modify the second component of the state strategic vision by shifting to a productivity-driven growth model in order to adjust to the new economic and political environment. Another result of the lack of a democratic transition was the absence of the institutional constraints of business elites in the development process. As I showed, because of the absence of the institutional constraints of business elites, both the financial liberalisation and the privatisation that occurred in the 1990s followed an economic logic of the ruling elites associated with the enhancement of economic efficiency rather than the political rationale of satisfying the material needs of business elites in exchange for political funding.

Chapter Five

The Two-Phase Transformation of the Developmental State in Taiwan

Introduction

This chapter explains how the industrial structure and democratic transition of the country shaped a two-phase transformation outcome of the developmental state in Taiwan. I argue that, in the first phase, the state was largely protected from the state policy constraints for two reasons: Firstly, the initial industrial structure of the country (low DPCC and high SOE) limited the structural constraints of both business elites and organised labour by producing weak economic interest groups. Secondly, a slow democratic transition protected the state from the institutional constraints of business elites. I argue that significant policy constraints were observed in the second phase as a result of three developments: Firstly, the changes to the industrial structure of the country gave rise to more powerful business interest groups. Secondly, the institutional constraints of business elites were normalised after 2000. Thirdly, the partisan competition in the post-2000 period also led to the formulation of politicised state strategic visions.

This chapter contains five sections. The first two sections analyse the sources of the transformation outcome in Taiwan. In the first section, I first examine the manner in which the logics of the state-led development in Taiwan gave rise to the developmental state. I then show how the specific objectives of the ruling elites led to the formation of a SME-SOE development strategy of the state, which subsequently shaped the initial industrial structure of the country. The second section first examines how the adaptive choice of a

slow democratic transition was made by the ruling KMT elites when they were challenged by the democratic movement led by the middle class and were still able to retain a high level of electoral support in the 1980s. Subsequently, I will discuss how the decline of electoral support eventually pushed the KMT to complete the democratic transition in order to maximise their political representation in the 1990s.

The third, fourth, and fifth sections show the transformation of the state policy mechanism as a result of the emergence of state policy constraints in the development process. In the third section, I examine the emergence of the institutional constraints of the middle class over the formulation of the state strategic visions of four democratically-elected governments after the political opening in 1986. The fourth section examines the emergence of the state policy constraints of business elites. I explain how the combination of the low level of DPCC and the slow democratic transition led to a limited level of state policy constraints of business elites in the 1990s. I also show how both the structural and institutional constraints of business elites emerged in the post-2000 period. In the fifth section, I examine how the low level of DPCC and a high level of SOE gave rise to a divided national labour union movement by producing both dispersed labour interest groups and state-sector labour interest groups. I argue that the divided national labour union movement has resulted in a limited level of the structural constraints of organised labour in Taiwan since the 1980s.

Political Origins of the State Policy Choices in Taiwan

The Survival of an Émigré Regime

The logics of Taiwan's state-led development can be traced back to the KMT's relocation to Taiwan. After the Second World War, although it was never thought that the small island would be so important to their future political survival, the KMT led by Chiang Kai-shek used Taiwan as a warehouse for the warfare with the communists during the civil war (Gold 1986). The combination of the mismanagement and brutality of the troops dispatched by the KMT regime to Taiwan managed to dissipate most of the pro-Chinese sentiments of the ethnic Taiwanese in a single year (Gold 1986; White 2009:64). Ethnic tension escalated with the '2-28 Incident', in which the KMT troops responded to an anti-KMT protest by slaughtering thousands of ethnic Taiwanese residents. As Gold (1986:51) writes on the hostility of the Taiwanese towards the KMT regime,

‘The “2-28 Incident”...had a profound effect on the Taiwanese people. They had already seen the mainlanders plunder and wreck their economy and lower their material and cultural standard of living, which under the Japanese surpassed that of nearly all of the rest of China. Now, they saw the government headed by Chiang Kai-shek break a pledge and send troops to Taiwan to support the rotten administration it had plagued them with in the first place. In the popular view, then, Chiang and all mainlanders were associated inextricably with Chen Yi and company. The masses lost faith in the regime’.

When Chiang Kai-shek led the KMT retreat to the island of Taiwan in 1949 after being defeated on the mainland, we saw the emergence of the desire of the KMT elites for regime survival. As the KMT government in Taiwan were similar to an émigré regime, the only legitimate reason for its rule over Taiwan at the time seemed to be the claim that it was the rightful government of all China (Gold 1989; Wade 1990). Such claim also implied the need to maintain its mainland nature of the regime by excluding the majority of the islanders from the politics of the Republic of China (Gold 1986). Consequently, the KMT's

arrival created a clear ethnic-political dual inequality in Taiwan. The KMT's arrival reinforced the impression that Taiwan was being put under the control of a barbarous outside power: Mainlanders, who accounted for only 12 to 15 percent of the population, had taken up most of the government appointments, while few native Taiwanese was incorporated into the government (Wade 1990:233).

The relocation to Taiwan in 1949 motivated the KMT regime to rebuild its political control mechanism of the state. After the relocation to Taiwan, Chiang was clear that the old KMT plagued by factional struggle, corruption and low morale could not last long before falling apart, and therefore, he must establish a new, solid, organisational system for his own survival (Myers and Lin 2007). The KMT party reform began in 1950 with the purpose of enforcing organisational and ideological disciplines, and establishing a control mechanism revolving around Chiang Kai-shek. In July 1950, the KMT Central Reform Committee (CRC) was established with Chiang as its head. With Chiang Kai-shek becoming the unchallenged leader of the KMT, the power within the party was handed over a younger generation, which had a close relationship to him (Gold 1986). With the formation of the CRC, the KMT also established a hierarchy of party organisation in order to oversee government at each level. Consequently, all state policy decisions, appointments and legislation had to be approved by the central decision-making of the party. 'The institutionalisation of the paramount leader in the party power structure laid the foundation for the autonomy and coherence of the party-state (Chu 1994:115).' A party cadres' school was established to carry out an ideological and disciplinary instruction to its party members (Myers and Lin 2007).

The reform programme also aimed to enhance the KMT's social base in the society, something that the regime lacked on the mainland (Dickson 1993). Therefore, in addition

to organising a cohesive, loyal party, the reform work also focused on attracting young talents, including intellectuals, students, farmers and workers, in order to extend the KMT's influence deep into the society of Taiwan (Dickson 1997; Myers and Lin 2007). By 1952, the KMT membership had reached nearly 282,000, compared to the 50,000 members who had fled to Taiwan. By the late 1960s, this number had risen to nearly one million (Myers and Lin 2007: 10). By attracting new party members, the KMT began to establish a concrete set of social ties that bind the state to society, which led to the embedded nature of the KMT party-state.

The reform of the KMT was Chiang's greatest achievement. 'The result was a renewal of its Leninist origins from the previous reorganisation in 1924. During 1950-52, the KMT created a network of party cells throughout the government, military and society to which each Party authority over the government bureaucracy and the military were reasserted', writes Dickson (1993:56). The political reform of the 1950s transformed the KMT from a weak and ineffective entity brought from the mainland to a 'single, elite, disciplined party' that was capable of governing the market (Wade 1990: 236). Its ability to impose corporate goals to enrich the whole nation and to apply sanctions against the pursuit of individual interests reached levels that had never been achieved on the mainland (Evans 1995).

With the reformed political arrangements of the KMT, the party-state quickly imposed political control over the society of Taiwan. As an émigré regime, the KMT did not have to respond to vested interests in the society and was thus able to control them (Wu 2005). The emergence of an autonomous state in Taiwan was clear from the fact that Taiwan was under Martial Law for about forty years until 1987. During this period, almost all civil liberties were under tight restriction, and a huge security and intelligence system was in place to monitor the whole political system as well as the entire society (Gold 1986; Wu

2005). In order to create a strong ideology in support of such statist control, the KMT state also used its unique history, the teaching of Sun Yat-sen, international diplomatic recognition, and the confrontation between the two sides of the Taiwan Strait (Wu 2005: 37).

The KMT's imposition of political control was accompanied by the emergence of the regime's commitment to economic development. After the February 28 incident, it was clear that preventing dissent alone was not a viable strategy of rule for an émigré regime that hardly had any legitimacy on the new location (Gold 1986; White 2009). The KMT regime's regime survival was essentially dependent on the success of the regime to manage the ethnic divide between the mainlanders and islanders. In short, to generate social support for their hold on power, there was an urgent need for the KMT to generate performance legitimacy to smooth the ethnic tension on the island and retain the loyalty of both the mainlanders and islanders (Gold 1986; Wong 2003; Wade 1990; White 2009). As Wade (1990:246) writes, 'The party leaders came to the realisation that economic development would soften the islanders' resentment of their exclusion from real power, and would allow the mainlanders to prosper on Taiwan without having to reclaim their position and assets on the mainland.'

The emergence of the state's commitment to long-term economic development led to the creation of economic planning and policy-making agencies. These economic planning agencies have played important roles in directing Taiwan's post-war development (Gold 1986; Wade 1990; Wu 2005). In Taiwan, the economic planning agencies were created to complete various economic priorities of the regime at different stages of the economy. In the early period of the KMT's relocation to Taiwan, the priority of the KMT was stabilisation and military development. To revive production, the Taiwan Production

Board (TPB), chaired by the governor of Taiwan, was established as the most powerful economic organ. With the economic priority shifted to tackling inflation, the TPB was absorbed into the Economic Stabilisation Board (ESB). The ESB played an important role in formulating an early industrial policy and establishing relations with the private sector in Taiwan. As the economy had been stabilised by the late-1950s, the functions of economic planning and the utilisation of aid, as well as the task of industrial development, were shifted into the Council for United States Aid (CUSA), which became the new core economic planning agency in 1958.

Since the early 1960s, a number of economic policy agencies were created to lead the export-led development process. In 1963, CUSA was reorganised to prepare for the US aid termination. Its name was changed to the Council for International Economic Cooperation and Development (CIECD). In 1973, the CIECD was downgraded and renamed the Economic Planning Council (EPC), and in 1978 it was once more upgraded to the ministerial rank and further reorganised into the Council for Economic Planning and Development (CEPD). The establishment of the CEPD marked the first institutionalised economic planning organ coming into being. It is argued that one reason for the formation of the CEPD was that there was ‘a growing concern about the need to steer the process of industrial upgrading and an interest on the part of some technocrats in emulating the Japanese and Korean models of more centralised industrial planning (Cheng, Haggard and Kang 1998:95)’. The CEPD was an important government agency for directing Taiwan’s development process from the early 1970s onwards (Wade 1990).⁵²

⁵² The CEPD was restructured into the National Development Council (NDC) in January 2014 to include the socioeconomic dimension of national planning.

The above discussion concerns the emergence of the logics of the state-led development in Taiwan after the KMT's relocation to the island. Not only did an examination of the KMT relocation to Taiwan reveal to us that the goal of the ruling elites to achieve the survival of the KMT regime led to the KMT's political centralisation process and the creation of a series of pilot agencies for directing economic development, it also indicated the other key component of the logics of the state-led development associated with the need for the KMT government as an émigré regime to generate political legitimacy on Taiwan. In the rest of the section, I will show how the émigré nature of the KMT regime led to the formulation of state policy agendas aimed at preventing domestic capital concentration which had subsequently shaped the initial industrial structure of the country. I will aim to show that the state policy choices were linked to the logics of the KMT elites in generating political legitimacy for the émigré regime.

Limiting Private Capital Concentration in the Market

The objectives of the KMT ruling elites for achieving political legitimacy also emerged after the KMT's relocation to Taiwan. *My hypothesis is that the preference of the state for the proposition of DPCC, FDI and SOE are closely linked with the specific political objectives of the ruling elites to achieve political legitimacy.* In Taiwan's case, I expect to see that the émigré nature of the KMT state resulted in the formulation of the KMT state's preference for the prevention of private capital concentration in the economy. In the 1950s and 1960s, three sets of KMT's state policies – a massive land reform, the promotion of SOEs and limited financial support to the private sector – were linked with the émigré nature of the KMT state.

The objective of the land reform was closely linked to the domestic situation faced by the KMT regime. Firstly, as a mainland regime, the KMT needed to prevent peasant upheaval and remove the economic and political base of the indigenous elite on Taiwan (Ho 1978; Dickson 1993; Gold 1986). A second imperative for the land reform was to generate social support. Clearly, as the majority of the Taiwanese were peasants, a land reform would not only promote agricultural development but would also build support and promote development (Gold 1986). Additionally, the KMT learned the lesson from its mainland experience: the Chinese Communist Party (CCP)'s political and economic policies, especially those of land reform, gave it the base of social support that the KMT lacked (Dickson 1993:57). Motivated by the objectives of the KMT regime, the scale of the land reform was unprecedented. In the period of 1949 to 1953, a massive land reform including three stages – the compulsory reduction of land rent; the sale of public land to farmers, the 'land to the tiller' programme – was carried out in Taiwan (Chen 1961; Ho 1987). In all, about one quarter of Taiwan's cultivated land was affected (Ho 1978:163).

The massive land reform indeed accomplished what the KMT intended to achieve for consolidating its political power on Taiwan. Politically, the land reform satisfied the majority of the population, thus stabilising the KMT's rule on Taiwan. More importantly, it removed the base of all the existing significant indigenous groups in Taiwan. As a direct consequence, the landed class has never since been a significant political force in Taiwan's political economy (Gold 1986). Economically, the success of the reform not only helped the KMT push the economy of Taiwan onto the path of rapid industrialisation (Ho 1987). The land reform was supplemented by huge investments in agriculture and a variety of agricultural programmes to stimulate innovation in farming, which led to a very rapid agricultural growth which in turn created a major source of capital for the initial spurt of

industrialisation (Clark and Roy 1997:54). The reform also laid the foundation for the development of an SME-driven economy (Wong 2003).

While the land reform was crucial for the KMT regime, the development of state-owned enterprises (SOEs) was equally important for the political legitimacy of the émigré regime. The objective of the émigré nature of the KMT to prevent the growth of local capital was first seen in the post-war period when the KMT regime nationalised most of the enterprises previously owned by the Japanese (Gold 1986; Wu 2005). The establishment of a large state sector was linked to an immediate political urgency of the émigré regime for providing employment for their mainlander support base (Minns 2006:206). Fields (2002:129) writes on the function of SOEs for maintaining the regime's support from the mainlanders: 'Faced with the task of employing and appeasing these effectively banished and potentially restive soldiers, a number of firms within KMT, Inc. were reserved exclusively for retired military personnel'. In order to ensure the viability of these state-owned enterprises, during the US aid period, around 90% of all US capital assistance went to government projects and the public sectors. As a result of the government's deliberate promotion in the early 1950s, SOEs accounted for nearly 57 percent of the industrial production and 43 percent of the domestic capital formation, (Hsiao 1993:151).

The third set of state policies for shaping the industrial structure of the country was the state's limited support to the private sector. In the 1950s, in order to solidify its social base on the island, the KMT regime fostered a small number of private enterprises by providing government protection and access to government-controlled resources (Wu 2005; Gold 1986). These enterprises, including the four privatised public enterprises, some mainlander and native Taiwanese textile enterprises, some newly established cement enterprises, and a few others in the steel and iron sectors, received economic rents from the state and

assisted the SOEs in targeting the domestic market (Gold 1986; Wu 2005). In the 1960s and 1970s, they grew quickly and eventually became conglomerates, or in Chinese terms, *guanxiqiye* (Fields 1995). Fields (1995:64) notes on the rise of business groups in Taiwan: ‘Of Taiwan’s fifty largest private enterprises in 1981, forty were affiliated with *guanxiqiye*. Seventeen of these largest firms were related to seven groups, while the other twenty-three were each controlled by a separate business group. Of the ten non-affiliated firms in the top fifty, six were joint ventures with foreign firms, leaving only four of Taiwan’s fifty largest private firms independent.’

In the rest of the private sector, the KMT adopted a more hands-off approach toward the private sector. During the US aid period, only about one-third of the US capital assistance went to mixed public-private enterprises, and of this, only one in five dollars went to purely private businesses (McBeath 1998:35). For most of the private industry, there was no government protection and assistance available to them. As the export promotion policy of the KMT was universalistic rather than particularistic, these local SMEs were granted the equal opportunity to manufacture and export in the 1960s. However, tax laws, labour laws, and other state policies provided strong incentives to limit firm size. Particularly, as Taiwan’s bank directed the lion’s share of their funds to SOEs and a few privileged large firms, the SMEs had to turn to the curb market for loans (Field 1995; Wu 2005). Consequently, as the private sector diverged into two directions, an industrial structure characterised by a low level of domestic private capital concentration (DPCC) began to take shape by the early 1970s. As Wu (2005:224) indicates, ‘a few large enterprises continued to grow and became business groups based on their domestic trade, whereas a large number of SMEs emerged and prospered through their activities in producing for the export market.’

After the mid-1970s, we saw a minor revision of the KMT's policy choices for preventing private capital concentration. The background of such change was the evolving political objectives of the émigré regime. The oil shock-induced world recession significantly slowed down Taiwan's economy causing widespread discontent over the inability of the government to cope with the economic slump. The legitimacy of the regime was further undermined by the diplomatic setbacks, first with the loss of the UN seat to the PRC and then with the de-recognition of the international relations with most parts of the world. By that time, the SMEs mainly run by the Taiwanese had proved their economic competitiveness as export champions (Wu 2005). In the wake of these economic and political crises, a policy preference for nurturing the SMEs to maintain their political legitimacy began to emerge in Taiwan. To the KMT, the shift of the policy focus to promote the SMEs thus would not only win the political support of the majority of the Taiwanese people but also promote the export-led growth without sacrificing the egalitarian quality of Taiwan's economic development (Wu 2005).

In the context of this political calculation, the KMT state began to turn its attention to the development of SMEs. As the development of this segment of the economy became crucial for maintaining the political legitimacy of the émigré regime, new SME-specified policies were formulated by the regime. In 1974, the Credit Guarantee Fund for Small and Medium Businesses was established to help SMEs to receive bank loans. Then, starting with the year 1976, the state also began to form banks for SMEs. In 1982, the state established the Department of Small and Medium Business (DSMB) and the United Service Centre in order to further promote SMEs (Wu 2005). However, the KMT state was clearly not ready to compromise its goal in restricting the scale, concentration and influence of indigenous private business in Taiwan. Despite a wide range of measures to promote SMEs, from 1983 to 1990, loans from ordinary domestic banks to SMEs never exceeded 38% of their total

amount of loans. The number was still below 42% when the loans from SME banks are added in (Wu 2005:295).

With the government's conscious policy intervention, Taiwan's industrial structure characterised by a low level of domestic private concentration (DPCC) and a high level of SOE was maintained in the second half of the 1970s and 1980s. The formation of an SME-SOE driven development strategy played an important role in maintaining the industrial structure of the country after the mid-1970s. During the late 1970s and 1980s, while strengthening the SOEs in heavy industries, the KMT launched a 'joint project' with the SMEs to upgrade Taiwan's economy towards high-tech industries in order to maintain Taiwan's competitiveness (Clark 1989; Gold 1986). As a result, the country's industrial structure was dominated by numerous SMEs. In 1981, 98 percent of the enterprises in Taiwan were privately-owned enterprises that each employed fewer than 50 employees (Chen 1995:86). In 1985, SMEs produced 65 percent of Taiwan's manufactured exports (Chou 1992). SOEs also retained their important position in the industrial structure of the country prior to the privatisation of the 1990s. As Fields (2002:120) describes it, 'In 1990, the three largest firms measured in terms of sales were all SOEs and six of the top were SOEs when measured in terms of assets'. Located in between numerous SMEs and giant SOEs, the business groups only represented just over 10 percent of the total GNP (Fields 1995:7).

My above discussion confirms my expectation that the émigré nature of the KMT regime shaped the policy preference of the state for preventing domestic private capital concentration. In the 1950s and 1960s, three sets of state policies illustrated the theoretical linkage between state policy and the political objectives of the ruling elites: Firstly, a massive land reform was implemented to generate political legitimacy for the mainland

regime. Secondly, SOEs were promoted to gain the support of KMT followers from the mainland. Thirdly, restrictions on the financial support to the private sector were placed to prevent the development of powerful local economic interests. The political motivation of the KMT regime to prevent private capital concentration evolved in the 1970s. As the émigré regime was desperate for generating political legitimacy, the promotion of SME policies sought to achieve the dual task of export-led growth and regime legitimacy. Consequently, the SME-SOE strategy was formulated by the KMT to lead the growth process in the 1970s and 1980s.

Transformation of the Political Foundation of the State in Taiwan

KMT Controlled Political Liberalisation

The rapid development process eventually led to the transformation of the political system of the country. However, this process took place in a much gradual fashion in Taiwan. The long period of Taiwan's democratic transition from 1986 to 1996 provides empirical ground for the theoretical testing of my three hypotheses: *Firstly, the state-led development can give rise to a democratic movement led by the middle class in the absence of the working class as a coalition partner; Secondly, the democratic movement pushed by the middle class can force the ruling elites to initiate democratic transition; Thirdly, when the ruling elites face a low level of electoral threat, they have no incentive to allow a full democratic transition to maximise their political power.*

The democratisation movement in Taiwan was mobilised along the issue of national identity. In the 1970s, the ROC's loss of the UN seat cut to the core legitimacy of the KMT regime. To the majority of the population on the island, with the ROC's de-recognition

from the international community, maintaining the authoritarian rule could no longer be justified by the KMT's historical mission to re-take the mainland (Rigger 1996; Chu 1992; Wu 1989). The loss of political status of the ROC awakened the political awareness of the emerging middle class who 'began to evaluate from their own perspective Taiwan's international and political environment and contemplate possible reform' (Chu 1992:34). The saliency of the ethnic identity provided the opposition liberal elites with an opportunity to break the KMT's power monopoly by linking together the diplomatic fate of Taiwan with the fate of the democratic reform on the island. As Rigger (1996:310) observes, 'for many ROC citizens, loosening the ruling party's political control meant self-determination for the majority ethnic group ... ethnic justice and political reform were inextricably connected, and together they formed the opposition party's ideological foundation'.

Despite the rapid economic development, the rise of the working class as a political interest group were largely absent from Taiwan's democratisation movement. It is because that Taiwan's decentralised economic development deterred the growth of class-consciousness (Minns and Tierney 2003; Y-W Chu 1996; Yu 1993). Prior to 1987, the labour's discontent towards the regime was largely motivated by ethnic injustice concerning the mainlanders' control over Taiwanese workers in the SOEs rather than the desire of labour for economic redistribution (Ho 2012). The rise of the middle class was clear in the 1970s. Specifically, there are two segments of the middle class, which emerged as a political interest group: The first one is represented by urban professionals, particularly lawyers, physicians, and intellectuals, who provided the leadership role in challenging the KMT party-state; and the second is the numerous SME owners, who offered 'political funds and a fall-back career to leaders of the political opposition' (Rigger 1996; Chen 1989; Chao and Myers 1998; Hsiao and Koo 1997). The empowered middle class 'made common cause with a handful of opposition-leaning politicians who had carved out niches for themselves within the

realm of electoral politics' (Rigger 2001:945). This soon gave rise to the Tangwai movement.

With the rise of the Tangwai movement, the political authority of the KMT regime was increasingly challenged by the burgeoning bottom-up pressure. In the absence of the working class as an alliance, the mobilisation strategy of the Tangwai movement had to be pursued in the electoral arena (Rigger 1996). In the late 1970s, the willingness of the middle class to demand greater political rights from the state was demonstrated in two electoral campaigns which turned into the Chungli incident in 1977 and the Kaohsiung incident in 1979 (Tien 1989; Tien and Shiau 1992; Rigger 1999). KMT's subsequent crackdown generated even greater social support for the Tangwai movement among the middle class (Hsiao and Koo 1997). By the mid-1980s, with several large pro-democracy mass rallies breaking out in Taipei from May 1986 to September 1986, the balance of power between the state and society had been shifted more towards the society. As Chao and Myers (1998: 131) observe, 'For the first time in Taipei, there was a new pattern of political confrontation – Tangwai politicians eagerly took to the streets to demonstrate their cause and challenged the authorities to stop them. It would be repeated many times in late 1986 and continued through 1987 and 1988'. Finally, the Tangwai movement reached its climax in September 1986 when the Democratic Progressive Party (DPP) was founded by Tangwai candidates in defiance of the martial law.

The intensified Tangwai movement supported by a significant segment of the middle class around the mid-1980s increasingly indicated that the KMT's legitimacy formula had run its course. Chiang Ching-kuo began to contemplate the idea of creating a new form of political legitimacy through democratic transition for renewing KMT's power as early as 1983 when he assembled a team to put together a blueprint and strategy for democratic

reform (Myers and Chao 1998). With the formation of the DPP in defiance of the martial law, it became even clearer that the old legitimacy pact between the state and society had run its course. If the KMT were to maintain power, the ruling elites needed a new form of legitimacy. In the words of Dickson (1997:213), ‘The KMT would be better off allowing an organised opposition to participate within the political arena than risking continued chaos outside it’. In this light, it is not difficult to understand why Chiang allowed the formation of the DPP in September 1986 – democratic transition was the only option left for the KMT to remain its presence in the politics of Taiwan. This adaptive choice of the ruling elites was clearly demonstrated in Chiang’s speech on a Central Standing Committee meeting in October 1986:

‘The times are changing, circumstances are changing, and the tide is changing. To meet these changes, the ruling party must push reforms according to new ideas, new methods, and based on constitutional democracy. Only then will our party be able to move with the tide and to be with the people all the time (cited in Jacobs 2012:65).’

In the last sixteen months of his life, Chiang either allowed or promulgated four major liberalisation reforms which paved the way for the KMT’s democratic transition, including the acceptance of the formation of the DPP, the abolition of the martial law, allowing ROC residents to go to Communist China, and ending the restrictions on newspapers (Jacobs 2012). With the liberalisation direction set by Chiang, the KMT pushed for the removal of a series of authoritarian institutions that restrict the political rights of the people, such as loosening restrictions on the press, freedom of speech, and public demonstrations and the termination of temporary provisions effective during the period of the Communist rebellion in the late 1980s (Chu 1992; Tien 1989; Myer and Chao 1998).

Clearly, the above discussion confirms my two hypotheses. Firstly, the state-led development process can give rise to a democratic movement led by the middle class.

Taiwan's decentralised economic development clearly deterred the growth of class-consciousness. As a result, the working class as a coalition partner for the democratic movement was not available for the opposition liberal elites. Secondly, the democratic movement led by the middle class can force ruling elites to pursue a strategy of democratic concession. The rise of the Tangwai movement supported by the middle class compelled the KMT to rethink its legitimacy formula. With the opposition elites now ready to compete for power, the democratic transition became an adaptive choice of the ruling elites to transform the old legitimacy formula to adjust to the new political situation. However, compared to the case of Korea, what remains a puzzle is that there is a span of ten years from the point of KMT's democratic concession in 1986 to the first direct presidential election held in 1996. In the rest of the section, I expect to see that such significantly slower democratic transition process was the result of the high electoral support enjoyed by the KMT at the time of the decision for democratic concession was made by the party.

Despite the rise of the political interest groups, the KMT maintained its electoral dominance by containing the expansion of the opposition community throughout the 1980s. One important factor contributing to the KMT's electoral resilience in the period is the Taiwanisation programme of the party through the recruitment of ethnic Taiwanese into the party's upper posts. The key imperative for carrying out a full-scale Taiwanisation programme was the urgency of the mainland regime to make some political concessions to the Taiwanese after the ROC's loss of diplomatic status (Tien 1975).⁵³ The proactive recruitment of the Taiwanese into the upper ranks of the KMT represented the party's major departure from its mainland image (Winckler 1984; Tien 1975). In 1984, 12 out of the 31 members of the Central Standing Committee and seven of the cabinet members

⁵³Another motivation behind the Taiwanisation programme was Chiang Ching-kuo's intention to replace the old KMT leaders with young Taiwanese politicians for achieve power consolidation when he took power in 1972.

were Taiwanese. At the local levels, by 1985, the majority of the KMT cadres staffed in the party's local branches had been born in Taiwan (Dickson 1996:55). The proactive recruitment of Taiwanese undercut the ability of the opposition elites to mobilise the middle class along ethnic identity at elections. As Hung-Mao Tien and Tun-Jen Cheng (1997:18) write, 'Before the DPP was able to fully exploit the ethnic cleavage, the KMT had substantially indigenised itself and had thrown off its image as an externally imposed mainlander party'.

Another effective strategy of the KMT to retain electoral domination was the expansion of the elections at the central level of the government. In the 1970s, the Tangwai movement combined two loosely organised camps with different strategic approaches – while the moderate camp believed the best way to increase the opposition's influence and bring about democratisation was to stand for election and use their power as elected officials to reform the system, other Tangwai activists believed direct action to be the most efficient route to democratisation (Rigger 2001). In the early 1980s, the gradual liberalisation of the central level elections by the KMT was a strategic move aimed at exploiting the growing fissures within the Tangwai opposition (Winckler 1984). The sudden liberalisation of central-level elections intensified the difference between the two camps of the Tangwai movement, which further ensured that the KMT's hegemonic position was not threatened electorally. The KMT's strategy to contain electoral threat of the opposition movement paid off at least in the early 1980s. As Edwin Winckler (1984:498) notes, 'The principal reason the opposition did worse in 1983 than it did in 1980 was that evidently the radicals thought it more important to defeat the incumbent moderate than to defeat the Kuomintang'.

With the effectiveness of the above strategies in undercutting the expansion of the opposition, the KMT was able to retain its electoral dominance in the 1980s. The KMT achieved 81 percent of the votes in the legislative election of 1980. This number increased to 87 percent in 1983. The KMT's electoral dominance was further reinforced in the first true two-party contest in Taiwan's history in 1986 when the party won 81 percent of the seats in both the Legislative Yuan and National Assembly. By dominating the two decision-making bodies of the state, the KMT now could now influence the passage of laws governing the pace and degree of democratic change to the political system of Taiwan (Chao and Myers 1998). With the KMT's ability to secure electoral victories, the ruling elite clearly had no incentive to change the institutional arrangements that still served their ambition of maintaining political domination well. As J. Bruce Jacobs (2012: 67) observes, 'These final reforms of Chiang Chiang-kuo did contribute to Taiwan's ultimate democratisation, but in themselves they were not democratic. Chiang was never prepared to allow an opposition political party to defeat the Kuomintang'. Consequently, in contrast with the Korea case, the removal of authoritarian institutions was not accompanied by the installation of democratic ones.

In the above discussion, I saw that the two strategic moves (Taiwanisation of the party and the opening of central-level elections) made by the KMT elites in the 1970s allowed the ruling party to retain its electoral dominance in the 1980s despite the growing momentum for the opposition elites. Therefore, the situation facing the KMT elites in the late 1980s was one in which the ruling elites faced a limited level of electoral threat at the time of the democratic concession. As I hypothesised, in such a situation, the ruling elites have no incentives to introduce democratic electoral rules which allow the possibility of losing power. Indeed, what happened in Taiwan in the late 1980s confirms my hypothesis. As the party still enjoyed a dominant position in domestic politics, the strategic calculation of the

KMT was to maintain the political status quo in which they could clearly hold the maximum political power.

Taiwan's Delayed Democratic Transition and the End of Elite Consensus

The KMT's electoral dominance did not last very long. The growing electoral threat faced by the KMT provided the driving force for the KMT elites to push forward the second stage of democratic transition in the early 1990s – the installation of democratic electoral rules. In the remainder of the section, my first goal is to examine the second stage of Taiwan's democratic transition pushed by the ruling elites in response to the decline electoral dominance of the KMT in the early 1990s. subsequently, I will also examine a major consequence of the transformation of the political foundation of the developmental state in Taiwan – elite division over the state policy process.

By the late 1980s, the Taiwanisation of the party had resulted in a fierce internal strife between Taiwanese soft-liners and more conservative hard-liners within the party. Following the death of Chiang, the struggle was as much about the redistribution of power between the mainlander hardliners and the native Taiwanese elites as about the control of the steering wheel of the democratic reform and mainland policy (Chu and Lin 1995). The formation of two competing power blocs seriously eroded the KMT's vote coordination mechanism to contain the expansion of the DPP. As Chu (1999:70) observes, during the 1992 election, 'A large number of mavericks, mostly from the non-mainstream faction, entered the race in defiance of the party central directives'. The vote coordination mechanism of the KMT was further weakened by a party split in 1993 when a group of young KMT members left the party and formed the New Party. The formation of the New Party greatly threatened the electoral viability of the KMT. As Tien and Cheng (1997:18)

write, 'Before the formation of the New Party, the KMT had appeared to be invincible, initially blunting and later decelerating the DPP's advance. The advent of the New Party threatened the KMT with political hemorrhage'. In 1991, it became even more difficult for the KMT to achieve electoral dominance when the factional dispute within the DPP 'took a turn for better', when the moderate and radical factions decided to cooperate for electoral battles (Tien and Cheng 1997:17).

The early 1990s saw a rapid decline of the KMT's electoral dominance. In the 1989 and 1992 elections, the KMT's winning margin was cut from 55 percent to 30 percent. When the New Party split off from the KMT in 1993, the ruling party's electoral edge eroded further and, by the mid-1990s, each party had carved out a fairly stable share of the electorate (Clark and Tan 2012). The ruling elite were already aware of the changed electoral arena facing them by the end of the 1980s. After the watershed election of 1989, on December 6, KMT party chairman Lee Teng-hui 'lamented the election outcome, declaring that "we must say it was a defeat; because of the decisions made by all the voters, we cannot say the election outcome was unexpected or an accident". He urged that party to reform even more' (Chao and Myers 1998:173). However, further party reform was unlikely to be a viable strategy for restoring the KMT's electoral dominance for two reasons: Firstly, a further Taiwanisation of the KMT could only intensify the internal conflict within the party; Secondly, no matter how hard the KMT try to change its image from a mainland party to a native Taiwanese one, the ruling party could never compete with the opposition party on the issue of Taiwanese identity. At that point, the possibility of the KMT losing power to the opposition became a serious concern for the ruling elites. Thus, it became necessary for the ruling elites to pursue a strategy of democratic concession to change the rules of the game in order to ensure that they will continue to hold a maximum amount of political power in the increasing competitive electoral arena.

Such strategic consideration pushed Lee to initiate the second round of democratic transition. After gaining the presidency in 1990, Lee Teng-Hui called for a National Affairs Conference (NAC) wherein political elites began the process of negotiating a blue print for constitutional reform (Chao and Myers 1998; Jacobs 2012). Although the issue of direct presidential elections was not resolved during the NAC, the ruling elites and opposition parties forge a consensus on the direction of the political reform in Taiwan (Chao and Myers 1998; Chu 1992; Jacobs 2012). New electoral rules were established for competitive elections to the two central parliamentary organs – the National Assembly and the Legislative Yuan. Thanks to its victory in the 1991 National Assembly election, the KMT was in position to pursue these constitutional amendments without being vetoed by the DPP (Tien and Cheng 1997). Finally, with an alliance between the KMT mainstream and the DPP moderate, the National Assembly finally reached a consensus on the institutionalisation of the direct presidential election during several rounds of constitutional amendments in 1992 and 1994 (Jacob 2012; Tien and Cheng 1997). The result of the strategic actions of the ruling elite in the first half of the 1990s was the second stage of Taiwan's democratic transition – the expansion of regular competitive elections as the first direct elections were held for the National Assembly in 1991, the Legislative Yuan in 1992, and the presidency in 1996.

After the last piece of major democratic electoral rule – the direct presidential elections – were installed in 1994, there was no longer a dominant party in Taiwan. Both the 1995 elections for the Legislative Yuan and the 1996 elections for the National Assembly produced a KMT majority that was too small to give the party effective control of these state decision-making bodies (Tien and Cheng 1997; Clark and Tan 2012). Although the KMT claimed Taiwan's first presidential election in 1996 with 54 percent of the votes, it could no longer lead the rest of the democratisation process in Taiwan. The electoral

strength of the KMT and the DPP has become increasingly more balanced in the 2000s and 2010s. When it lost the presidency to the DPP in the wake of another party split in 2000, the existence of democratic institutions allowed the party not only to maintain its status as the largest party in the parliament between 2000 and 2008 but also to regain the presidency later in 2008. A disorientated KMT with even greater internal strife suffered the biggest electoral setback in 2016, but it at least remained a major opposition political party in Taiwan's politics and will have the chance to compete for political power in 2020 (Rigger 2016).

The democratic transition eventually led to a division of the political elite on the state decision-making process.⁵⁴ With the formation of a new legitimacy formula, the political elites began to rally the support of their electorates along the issue of national identity and cross-strait relations. In the 1990s, the need for acquiring the electoral support of the voters pushed the political elites to moderate their position on the salient issue, as a strong association with either unification or independence resulted in losers at the polls because most citizens feared that both would threaten Taiwan's social, economic, and political stability and achievement (Clark and Tan 2012:64). Lee Teng-Hui coined the concept of a 'new Taiwanese' identity, which incorporates both the mainlander and islander identity proved to be popular in the country. As the 1990s progressed, we witnessed the growing consensus among major parties on maintaining Taiwan's status quo in terms of maintaining its political autonomy and avoiding provoking China at the National Development Conference of 1996 and the presidential election of 2000 (Clark 2002; Clark and Tan 2010, 2012).

⁵⁴ A similar elite division did not occur in South Korea as the socioeconomic issues lost their saliency among the middle class after the authoritarian government was removed (I noted this in Chapter 3).

Such elite consensus did not last long. In the early 2000s, in order to maximise votes, the two major political parties changed their political strategies to put more emphasis on appealing to base constituencies rather than to the median voter (Clark and Tan 2010;2012). As a result of the political elites' change of electoral strategies, by the mid-2000s, a deep partisan divide over cross-strait relations and national identity had come to dominate Taiwanese politics – a pro-China Pan-Blue led by the KMT and a pro-Taiwan Pan-Green led by the DPP. As Clark and Tan (2010:114) write, 'The Greens argued that they must "stand up for Taiwan" and accused the Blues of selling Taiwan out to China. In stark contrast, the Blues contended that the Greens were needlessly provocative and that a more accommodating policy could defuse the threat from China'. Given the saliency of national identity and cross-strait relations, the new parties emerged in the 2000s allied either in the pan-blue or pan-green coalitions to mobilise voters, which further promoted the polarisation of identity politics (Clark and Tan 2010).

The formation of two competing power blocs in the parliament turned the state policy process into an endless partisan competition. Political elites who sit at the end of the state decision-making could no longer work together to formulate national development programmes for enhancing the competitiveness of Taiwan's economy. Since the early 2000s, many economic initiatives of the government have been blocked as a result of the partisan divide during the legalisation process⁵⁵. This was particularly the case between 2000 and 2008 when the DPP-led Executive Yuan had to face a KMT-led Legislative Yuan

⁵⁵ This assertion was informed by a private conversation in February 2015 with former top bureaucrats and academics including Chen Tain-jy, Jenn-hwan Wang and Yu-Shan Wu. A more recent case of economic strategic plan being blocked during parliamentary sessions was the Taiwan Free Economic Pilot Zone (FEPZ) which was formulated by the cabinet in March 2013 to boost Taiwan's economic prospect through deepening Taiwan's global integration and economic liberalisation. Despite the government's promotion, the plan did not pass the legalisation process for various socioeconomic concerns and was aborted when the new government came to power. In the same period, similar forward-looking economic projects were quickly formulated and launched in other East Asian economies. These include China's Shanghai (Pudong) Free-Trade Zone and South Korea's Chung Buk Free Economic Zone and East Coast Free Economic Zone.

(Wu 2002). As the Pan-Blue chose to boycott the policies of the DPP government, the state policy process became greatly constrained by a diversity of societal interests transmitted through the opposition parties in the parliament. As Wu (2007:984) writes, ‘Constraints on bureaucrats became even greater because they did not enjoy the support of the Legislative Yuan. It became commonplace that government agencies found their entire budgets frozen by the Parliament for not meeting the demands of the legislators ... most government proposals find great difficulty in getting through the legislative process.’

Formulation of State Strategic Visions in Taiwan

A Short-Lived State Strategic Plan

In Taiwan, the state’s capacity to formulate state strategic vision began to gradually reduce after the democratic transition initiated in the late 1980s. The background of this is two concurrent economic trends since the early 1990s: The first is the economic integration between Taiwan and China; and the second is the rising economic prominence of China in the regional and global economy. As the economic future of Taiwan had become increasingly tied to mainland China, cross-strait economic relations had become particularly important for the formulation of state strategic visions in Taiwan.⁵⁶

A noticeable inconsistency was observed in the formulation of a state strategic vision under the Lee Teng-hui administration in the 1990s. The institutional constraints generated by the middle class produced two contradictory policies of the state in the period. The period did witness the formulation of a strategic plan to further integrate Taiwan in the regional

⁵⁶ In almost all the interviews I conducted with academics, former politicians and former top bureaucrats, Taiwan’s economic relations with China were central to the discussion on the transformation of the state policy-making in recent years. These sessions of discussion took place in March 2014 and February 2015.

economy. Recognising the increasingly regional importance for MNCs, the programme sought to transform Taiwan into an Asia-Pacific Regional Operations Centre (APROC). The idea was variously credited to Hsu Li-teh, mainlander vice premier, as one means to pre-empt pro-independence forces, and to premier Lien Chan, as a symbolic vision for his disjointed administration, among others (McBeath 1998:201). Based largely on the assumption that mainland China will serve Taiwan's economic hinterland, the strategic thinking of the Taiwanese policy makers was to replace Hong Kong as a regional economic hub for the business operations of MNCs in the Asia-Pacific regions, which became the most daunting task for economic policy makers for decades starting with 1995 (see McBeath 1998:198-206; Ma 2001; Chou 2001).

Although Taiwan was eager to emulate Hong Kong economically, the public were certainly keen to avoid Hong Kong's political fate. As I noted above, the 1987 democratic transition resulted in a clear elite consensus among major political parties that maintaining the economic and political autonomy of Taiwan was the top priority for the country in the 1990s. Such preference of the middle class consequently pushed the ruling elites to formulate a set of economic policies to deter Taiwan's economic integration with China. In the early 1990s, facing the surging flow of money to the mainland, Lee Teng-Hui and other leaders were worried that this increasing dependency of the Taiwanese economy on the mainland was creating both economic and political risks for the country (Chao 2002). Lee Teng-hui's solution to diversify risks and lessen the overdependence of the mainland market was the 'southward policy' which attempted to slow down the economic trend between the two sides by reorienting Taiwan's outflowing capital to Southeast Asia (see Ku 1995; Chao 2002:193; Liaw and Wang 2009).

The contradiction between promoting industrial upgrading and maintaining national security soon escalated by the worsening cross-straits relations after the 1995-1996 missile crisis. In mid-August 1996, Lee Teng-Hui voiced concern about Taiwan's overdependence on the mainland market and suggested that the APROC plan was overly oriented toward the mainland and should be redesigned (Cheng 1997). The heightened need for ensuring Taiwan's political sovereignty compelled the KMT leader to step up the measures to deter the rapid economic integration between China and Taiwan. The APROC was more or less suspended as a result of this political calculation of the KMT leader (Wang and So 2002). Following the missile crisis, Lee Teng-Hui announced his No Haste Policy which was followed by administrative measures to monitor business investment and disallow those that exceeded US\$50 million (Myers, Chao and Kuo 2002:78). Lee then called for the National Development Conference in 1996 to seek partisan endorsement for his 'No haste, go slow' policy (Lin 2016). By then, the APROC plan became just a wishful thinking among economic policy makers.

Nevertheless, aware of the economic significance of attracting MNCs, the ruling elites endorsed the APROC by arguing that 'Taiwan has the skills and services necessary for exploitation of the mainland market' (McBeath 1998:199). At the meeting with a delegation of the USA-ROC Economic Council in December 1996, Lee Teng-hui expressed his commitment to the success of the programme (US-Taiwan Business Council 1996). Clearly, as a major economic vision of the first democratically-elected KMT government, the half-suspended programme still had great significance for retaining the KMT's political power.⁵⁷ At the electoral arena, the APROC plan consequently became a symbolic vision of the KMT ruling elites who were eager to show off their economic

⁵⁷ The government's promotion website for the APROC plan is still accessible to the public in June 2017.

strategies during the electoral campaigns. The Economist (1997) reports on the electoral significance of the KMT's economic plan:

‘Although it is over two years away, President Lee Teng-hui's anointed successor, Lien Chan, the vice-president, has begun his campaign in all but name. After four years as prime minister, Mr Lien stepped down in August. During his term of office his only achievements were to launch a medical-care programme, now on the verge of bankruptcy, and APROC. Criticising APROC, therefore, amounts to weakening the ruling party's chances in an election that could be the hardest it has faced.’

A rapid erosion of the state's capacity in the formulation of strategic visions was observed in the eight years of Chen Shui-bian administration. The implementation of the APROC plan that would allow closer economic integration between mainland China and Taiwan came to a complete halt after the DPP took power.⁵⁸ While the APROC plan was put aside, the government under the leadership of Chen Shui-bian could not come up with a viable alternative economic plan to replace it. As a result, the state lacked a clear economic vision to move the nation forward in the global economy. As journalists N. Hajari and M. Liu (2002) report, ‘He (Chen) drops the usual buzzwords – research-and-development centre, regional hub – without providing any specifics of how the island will reach those goals. His economic advisers have come up with ideas for dozens of reforms, but most have not been implemented’. What happened to the process of formulating a state strategic vision under the Chen administration? As I will show in the next two paragraphs, such lack of a viable economic vision of the state was the result of the ruling elites' short-term political goals for winning democratic elections in the face of strong partisan competition after 2000. During Chen's first term, with his deep political insecurity for being a minority president, Chen began to map out his political strategy to secure his political power during the 2001

⁵⁸ The APROC plan was replaced by a blueprint for building Taiwan into a ‘Green Silicon Island’.

parliamentary election and the 2004 presidential election. The economic performance of country was extremely important for the long-time opposition leader to boost his political standing in the country. In order to demonstrate his determination in reviving Taiwan's economy, Chen called for the Economic Development advisory conference in 2001 to manufacture partisan consensus to endorse his new cross-straits economic policy – 'Active Opening, Effective Management' (Lin 2016). Chen's short-term economic vision was again demonstrated in 2003 when he made KMT's Vincent Siew – the key architect of the APROC plan – the head of his economic advisory panel in 2003 as another apparent gesture to show his efforts at boosting the economy (C-Y Lin 2003). Even to observers on the mainland, Chen's intention behind his clamour for 'three-links' was crystal clear – to dominate the campaign for the 2004 president election and gain an advantage over the Pan-Blue camp (Wang 2003). At the same time, the DPP's partisan identity influenced the policy vision of the state. To deter economic integration with China, Chen rekindled Lee Teng-hui's Southward Policy, which was largely suspended after economic and political instability of the late 1990s (Li 2002).

During Chen's second term in office, the formulation of an economic development program took the backseat, as the DPP ruler changed his strategy for achieving short-term political survival. By then, Chen's political power became entirely dependent on the support of the Deep Greens rather than on the performance-orientated middle class. For the extreme nationalists, Taiwan's closer economic ties with China were clearly unacceptable. Consequently, we saw a series of moves on behalf of the state to slow down the economic integration with the mainland and Taiwan, as Chen moved to please core DPP supporters. This first began with Chen's announcement that his new policy aimed at restricting Taiwan's outward investment to China – 'Active Management, Effective Opening' will be the new guiding principle for governing cross-straits economic

interaction (Lin 2016). In line with his anti-China stand, he also decided to cancel the second Economic Development Advisory conference (Epoch Times 2016).⁵⁹ In the following year, Chen reiterated the government's cautious approach to China ties, contradicting calls by the presidential candidates from both parties to fast-track the opening of three links across the Taiwan Strait (China Post 2007).

Two Competing State Visions

The politicisation of the formulation of state strategic visions continued after 2008. Partisan competition between the two partisan blocs pushed the ruling elites to adopt two competing state strategic visions. The formulation of the two highly-politicised policy visions under the two administrations in line with their respective partisan identities indicates the continuation of the erosion of the state strategic vision in formulating a national economic programme for facilitating the industrial upgrading of the country. As I will show, neither of these two politicised strategic visions were viable strategies for enhancing the economic competitiveness of the nation in the global economy.

The late 2000s saw the emergence of a controversial economic plan aimed at deepening the economic integration with China when the KMT came back to power. In order to revive the economy after a long period of economic downturn under eight years of DPP administration⁶⁰, Ma Ying-jeou, the newly elected KMT president linked the party's pro-China political formula to the government's economic strategy for reviving the economy

⁵⁹ By then, the Economic Development Advisory conference had become a synonym for a closer economic integration with China.

⁶⁰ The rate of growth was significantly slow between 2000 and 2007. During his 2008 presidential election campaign, Ma ran under the slogan of '633' representing a six per cent GDP growth rate, US\$30,000 per capita GDP and an unemployment rate of three percent or less, as his administration's goals for Taiwan during his term. Affected by the global financial crisis, Taiwan's growth prospect further dipped in 2009.

(Wu 2013). Seeing gaining access to the mainland market as the key to overcome economic difficulties, Ma Ying-jeou took a series of initiatives to deepen Taiwan's economic ties with China, including allowing direct flights across the Taiwan Straits, permitting Chinese students to study in Taiwan, launching institutionalised trade talks, and – above all – the signing and implementing of the Economic Cooperation Framework Agreement (ECFA). The purpose of the ECFA was clearly to deepen globalisation and liberalisation. The government set three objectives: (1) promote cross strait trade and economic relations; (2) prevent Taiwan's economic isolation in East Asia; (3) enhance Taiwan's status as a regional investment hub. The ECFA has two follow-up trade agreements: The Cross-Straits Service Trade Agreement (CSSTA) and the Cross-Strait Goods Trade Agreement (CSGTA).

In order to execute the highly politicised and controversial state strategic plan, the government had to influence the policy preference of the middle class for creating a policy consensus among the public.⁶¹ The response of the KMT government to the concerns of the middle class was a massive public persuasion. To shape public opinions and generate public support over the ECFA, a major government propaganda effort was launched in 2009. Syaru Shirley Lin (2013) writes on the ruling elites' efforts to influence the policy preference of the middle class:

‘From April 2009, when the chairwoman of the government's Mainland Affairs Council (MAC) began campaigning for the ECFA, until President Ma's televised debate with DPP Chairwoman Tsai on April 25, 2010, the government spent considerable resources to increase public support to counter the impression that the ECFA was a “top-down” policy adopted without public consultation and that it would harm Taiwan's economic interests’.

The government downplayed the security concerns of the public and emphasised the

⁶¹ This point was acquired during a discussion with Yi-Ren Dzeng in February 2014.

economic benefits of the trade deal in order to shape the policy preference of the middle class. The key lines of the arguments of the government include: Firstly, focusing entirely on economic issues, the ECFA will not affect Taiwan's national sovereignty and political future; Secondly, the ECFA will generate growth and bring tremendous economic benefits to the country; Thirdly, without signing the ECFA, Taiwan would be excluded, not unlike the North Korea, from the process of economic integration in East Asia (Lin 2016; Chow 2012; Tien and Tung 2011) All these justifications on behalf of the government coupled with a good recovery in 2010 was successful in convincing the performance-orientated middle class as survey data suggested that there was widespread and unambiguous support for the ECFA (see Lin 2013; Clark and Tan 2012:106-7).

However, Ma's politicalised economic vision for deepening economic integration with China was clearly not a politically viable strategy. The main deterrence of the vision came from the policy preference of the middle class.⁶² Although there was consistent support at the grassroots level to have trade talks with Beijing, many people were greatly concerned about the negative economic impact of deepening the economic integration with China and China's political motivation behind it (Lin 2013; 2016). These concerns consequently led to the collective actions of members of the middle class against Ma's intention to pursue economic integration with China throughout the government's promotion of the ECFA. Successfully mobilised by the opposition party, the discontent of the middle-class towards the proposed ECFA soon led to an eruption of social protests throughout the ECFA negotiations period, culminating in a large public demonstration with the theme 'oppose a

⁶² By the time Ma came to power, Taiwanese identity had become prominent in Taiwan. In 2008, citizens associated themselves with Taiwanese identity, for the first time, accounted for over half of the population in Taiwan.

one-China market; hold a referendum' (Lin 2016; Gold 2010). Gold (2010:69) describes the policy preference of the middle class at a massive demonstration in Taitung in 2009,

'While Taiwan business groups and the political elite were pushing ECFA, many people at the societal level pushed back. They argue that Ma was selling out Taiwan's sovereignty and turning the economy over to the mainland, just as they had feared from the start. They predicted an influx of cheap (and possibly tainted) Chinese goods as well as labour, all to the detriment of the island's economy and society...Although the Taichung talks produced a statement of intent to negotiate an ECFA, the actual content of such a pact has yet to be clarified, provoking more uneasiness and mistrust'.

The concerns of the middle class towards the government's policy agenda were also transmitted through the opposition party into the parliament. The precondition of establishing a common market with China was Taiwan's commitment to the '1992 Consensus' – a compromise that the DPP obviously had no room for. During the promotion of the ECFA although the KMT had sufficient votes to pass the ECFA, the DPP threatened to stall the legislative process to prevent the trade deal with China from being passed (Lin 2016). In a July 2010 session, the clash between the two major parties in the parliament turned chaotic, with fist fighting among legislators.

The government's politicised state strategic vision eventually ran into a direct clash with the interests of the middle class. During Ma's second term in office, it was soon shown that the social support of the middle class for the government's economic agenda was largely contingent. When Ma's mainland strategy failed to stimulate the economy as he promised, the state strategic vision became unacceptable to the middle class who were increasingly concerned about the negative effects of the rapid economic integration with China pushed by the KMT. The burst of middle class interest soon turned into an unprecedented civil disobedience movement – the Sunflower Movement. On 19 March 2014, Ma's decision to force through the

controversial Cross-Strait Service Trade Agreement (CSSTA) in the Parliament incentivised disgruntled Taiwanese students to occupy the parliament (Hsieh 2015). The Sunflower Movement ended with a consensus between the government and the protesters on the legislation of an oversight mechanism for cross-strait agreements before a further review of the CSSTA. Without question, the Sunflower Movement supported and populated by the members of the middle class put a full stop to further cross-strait economic integration. With a clear threat from China, the middle class in Taiwan acquired the exceptional strength and courage to challenge the neoliberal agenda of the state. As Shelley Rigger explains,

‘The existence of a clear political threat allows them to be less blinded than people in other countries by a neoliberal ideology that says these pathologies are inevitable and that there’s nothing governments can do about them. Because China looms so large for them, both economically and politically, they have been able to brush aside the obfuscations and learned helplessness that are immobilising their counterparts in other countries and demand that their government protect them (Wasserstrom 2014)’

The return of the DPP government brought a completely different state strategic vision to Taiwan. Given the DPP’s partisan identity, the strategic plan for deepening the economic integration with China had to be scrapped in order to maintain Taiwan’s political autonomy and promote Taiwan’s national identity as a priority.⁶³ Such political need for the ruling elites led to the formulation of a new economic visionary plan under the new government. In 2016, the new government launched a New Southward Policy promotion plan that aims to ‘strengthen Taiwan’s trade and economic ties with members of the Association of Southeast Asian Nations (ASEAN), South Asian countries, as well as New Zealand and Australia’ (Executive

⁶³ It is thus unlikely that Tsai or the current DPP-majority legislature, already unsettled by Taiwan’s overreliance on the mainland, would ever approve these ECFA follow-up agreements leftover by the Ma administration.

Yuan 2016). The new plan will clearly, as Tsai said in her inauguration speech on 20 May 2016, ‘elevate the scope and diversity of our external economy, and bid farewell to our past over-reliance on a single market’ (CNA 2016).

Different from the previous Southward Policy plans, the New Southward Policy is more than just a political calculation of the ruling elites to shed Taiwan from the economic and political influence of China through diverting investments towards Southeast Asia. Facing domestic challenges to stimulate the economy, the primary goal of Tsai Ing-wen is to simulate the economy through participating in the regional economic integration. To participate in regionalism, the New Southward Policy promotion plan sets four clear tasks, including promoting economic collaboration; conducting talent exchange; sharing resources; forging regional links (Executive Yuan 2016). The economic ambition of the ruling elites led to the creation of a state policy agency within the government to accomplish the goal of the ruling elite. In June 2016, a New Southward Policy Office was established under the Presidential Office to coordinate the government’s effort to re-join the regional economic integration, which has been delayed for more than two decades (Taiwan News 2016).

Despite the explicit economic outlook for regional integration, it is not difficult to spot the internal inconsistency within the state’s economic agenda. The prerequisite for Tsai’s government to implement the plan is a stable cross-strait relations, as Taiwan can only make possible the deepening of the economic integration with ASEAN members and India if China does not interfere. This point is clearly acknowledged by the government, and in order to promote the interconnection between Taiwan and the Southeast and South Asian neighbouring economies, the new plan also stresses the importance of pursuing a ‘well-intentioned interaction and

cooperation' with China (CNA 2016). But one question prevails: How will the DPP build a good relationship with the mainland without accepting China's bottom-line for developing cross-strait relations – the 1992 consensus? Clearly, the political need for maintaining Taiwan's political autonomy and new national identity are a major hurdle for the DPP in achieving the economic dimensions of the state strategic plan in the years to come.⁶⁴

State Policy Constraints of Business Elites in Taiwan

Continuation of State Developmentalism: Weak Businesses vs. Strong State

In Taiwan, the state policy constraints of business elites on the state policy process were minor prior to 2000. Both industrial structure and democratic transition played important roles in shaping the level of the structural constraints of business elites in the period. In this section, I will first discuss how the industrial structure of the country shaped the structural constraints of business elites prior to 2000. My hypothesis is that: *The degree of DPCC corresponds with the structural constraints of business elites and organised labour on the state policy process.* In Taiwan's case, I expect to see that the low percentage of DPCC resulted in a low level of structural constraints of business elites by producing dispersed business interest groups in the development process.

In Taiwan, the low percentage of DPCC of the country gave rise to dispersed business interest groups. Throughout the development process, Taiwan's private sector is dominated by a large number of SME owners. In the early period, located in low-skilled

⁶⁴ The infeasibility of the New Southward Policy is noted in many media commentaries both in English and Chinese languages. Given Taiwan's highly polarised domestic politics, these commentaries might not be subjective. But they do point to the question: Does the government really have a feasible economic agenda?

labour intensive industries, these key economic players in the economy are sometimes called “black-hand bosses,” who were once machinists and apprentices but eventually became successful employers (Wu and Huang 2003). With the lack of capacity and incentives to shape the state policy process, the SME owners were largely operating outside of the state policy process. These innovative and flexible small entrepreneurs, who responded promptly to market trends, were labelled by some analysts as ‘guerrilla capitalists’ (Lam and Lee 1992). Between the 1960s and 1980s, these guerrilla capitalists pursued a highly flexible strategy to search for market niches themselves, which eventually enabled them to upgrade to the production of advanced electronics goods without gaining the state’s deliberate nurturing (Lam and Clark 1994; Fields 1998; Wu and Huang 2003).

The ‘guerrilla capitalists’ faced a major challenge in the 1990s. With growing trade competition for markets from other Asian NICs, particularly from mainland China, the SME owners found themselves struggling to survive on the small profit margins of the export products (McBeath 1998:121; Kuo 1998). There was an urgent need from the SME owners to put pressure on the state to assist with the expensive R&D needed to help them move into new market niches (McBeath 1998:121). However, since they were not well-organised and not powerful politically, they had little influence over the state policy process (Chu 1994; Clark and Tan 2012). Consequently, instead of confronting the government policies, a large number of SME owners adopted an exit strategy – They either closed down their operation or moved abroad, especially to China. Because of their small size and flexible production, SMEs soon found their second home in the mainland (Kuo 1998). As a result of their relocation to the mainland, these SME owners became even more distant from the state policy process on their homeland (Lam and Clark 1994).

A number of business elites were found in the rest of the private sector. Compared with Korean chaebol owners, Taiwanese business elites lacked the structural power to challenge the state policy process in the 1980s. This was most vividly demonstrated in two strategic sectors that had enjoyed rapid wealth accumulation as a result of a rapid export-led growth. In the petrochemical industry, Taiwanese business elites managed to shape the state policy direction in 1984 when they lobbied the government to regain its strategic designation it had lost four years earlier (Wang 1996; Wu 2005). However, the reversal of the government policy decision was not a demonstration of the structural power of private business elites in Taiwan. In fact, with limited economic and political resources, the powerful business elites had to launch a joint effort with SOEs to lobby for the reinstatement of petrochemicals. It was in fact the SOE's connection with the new premier that helped the private business elites to reshape the state policy in their favour (Wu 2005:160; Wang 1996). Clearly, with the weak structural capacity, the private business enterprises had to rely on economically and politically more powerful SOEs in order to achieve their perceived interest. When the business elites did have the courage to launch a collective action against the state, the state applied punishments to penalise challengers. In the financial sector, a powerful alliance formed by business elites involving in the financial industry – the 'Thirteen Brothers' – was broken up by Chiang Ching-Kuo in 1985 (Wu 2005:260-62; Kuo 1998).

The weakness of the Taiwanese business elites continued after the 1986 democratic transition. Given their weak structural power to challenge the state, the business elites had to find their parliamentary representatives to directly participate in the state policy process. While the desire for greater influencing the state policy process compelled the business elites to turn to politicians, the growing demand for funding for running the parliamentary elections also pushed politicians to establish a connection with the business community.

Consequently, as Chu (1994:126) observes, ‘Large corporations suddenly became the most sought-after patron of politicians and the local support factions’. The expansion of the business influence and representation in the parliament was significant in the late 1980s and in the 1990s.⁶⁵ Another indication of the weakness of the business elites was that the achievement of their financial independence was facilitated by the pro-business outlook of the government in the early 1990s. The power struggle within the KMT over political succession compelled the ruling elites to form closer alliance with the business elites (Chu 1994; 1999). Only then did the business elites have the opportunity to acquire new financial sources. After the opening the banking sector in 1991, many of Taiwan’s business groups became full owners or part owners of new banks in Taiwan (Clark and Tan 2010:117). In 1998, the passage of the Trust Enterprise Law with the aim of diversifying the banking and trust industry further broaden the financial sources for the business elites (Clark and Tan 2010:117).

The above analysis on the effect of low level of DPCC on the structural power of business elites confirms my hypothesis. The emergence of dispersed business interest groups as a result of low level of DPCC is largely responsible for limited structural constraints of business elites. In Taiwan’s private sector, numerous SME owners dubbed as ‘guerrilla capitalists’ had neither incentive nor capacity to shape the state policy and opted for the option of relocating to China. The remaining business elites had limited structural power to directly confront the state policy-making. A clear sign of the weakness of Taiwanese business elites in challenging the state was that they had to look for representatives in the parliament for influencing the state policy process. The weak structural capacity of the business elites in shaping the state policy process set Taiwan apart from South Korea in

⁶⁵ In the 1989, 54 out of 289 elected candidates received financial contributions from the business elites. With the increasing economic independence of the business elites, this number rose to 78 of out of 101 in 1992 and 92 out of 225 in 1998 (Shiau 1996:223; Huang 2004:55).

regard to how business elites achieved financial independence. While the chaebol owners achieved their financial independence in the 1980s by directly shaping the financial liberalisation process initiated by the state, the financial independence of Taiwanese business was primarily facilitated by the ruling elites' intention to form a closer alliance with the business elites.

Now I turn to discuss the effect of Taiwan's slow democratic transition on the institutional constraints of business elites. In the 1990s, not only did the business elites lack structural constraints, they also failed to produce institutional constraints. This outcome was largely the result of the incomplete democratic transition of the country in the early 1990s, which allowed the KMT to develop the party's own fund-generating strength for competing in democratic elections. In the 1990s, the KMT had an incredible funding creation mechanism – the party-owned enterprises (POEs). During the period of economic liberalisation of the 1990s, the transformation of SOEs to party-owned enterprises (POEs) became an important task for the KMT's political survival (Chu 1994; Matsumoto 2002).

The creation of POEs was strategically important for the electoral viability of the party. To the KMT, not only could the POEs provide an ample money supply to fund the party's expensive electoral campaigns, but the POEs as a whole could also serve as a vote-gathering machine (Fields 2002; Matsumoto 2002). In the late 1980s and early 1990s, the POEs entered the construction sector, taking advantage of the real estate boom during the bubble economy and the Six-Year Development Plan and set up new securities firms and banks in line with Taiwan's economic liberalisation (Chu 1994; Matsumoto 2002). In September 1992, the centre piece of the KMT's fund creation mechanism was upgraded with the creation of seven holding companies after an integration and reorganisation of the KMT's businesses. There was a clear division of labour between the seven holding

companies with each one engaged in specific areas and sectors (Matsumoto 2002). To maintain control over the POEs, Lee Teng-hui set up a Business Management Committee (BMC) with his confidant – Liu Taiying – as the head in 1993. The significance of the BMC was that it put the POEs under the direct control of the KMT ruling elite. As Matsumoto (2002:365) points out that ‘The Lee-Liu system became the institutional basis that enabled the political use of the POEs’.

With the increasing demand for profits, the ruling elite launched an aggressive expansion plan to increase both the size and the efficiency of the fund generation capacity. To enhance the profit-making capacity of the POEs, under the Lee-Liu system, the POEs changed from being management-centred to being investment-centred with the investment focused on the high-tech industry and financial business, which were the driving force of the Taiwan’s economy (Matsumoto 2002). To increase its profit generation capacity, the BMC also increased its reliance on stock trading which pushed the net profits of the seven holding companies (Matsumoto 2002). To further improve business efficiency, the POEs formed joint ventures with private firms because of the economic need to acquire management resources from the private sector and to reduce economic risks (Matsumoto 2002; Chu 1994; Fields 2002). The fund creation capacity of the KMT was clear in 1998, when the party invested in 216 companies and increased its total assets to NT\$147 billion and its annual after-tax profit to NT\$12.1 billion, making the KMT business empire the fifth largest diversified business group in Taiwan (Cheng and Chu 2002:47). Such profits-generation capability of the KMT subsequently enabled the ruling elites’ immunity from the institutional constraints of business elites in the 1990s. As Chu (1999: 195) observes, ‘Unlike the Liberal Democratic Party in Japan or the ruling parties in South Korea, the KMT, which owns a huge array of business interests itself, relies little on political donations by the business community’.

As Taiwanese business elites lacked both structural and institutional constraints, the nature of the state-led state-business cooperation remained largely unchanged in Taiwan in the 1990s. As Chu (1994:132) observes in the early 1990s, 'To date, the political ascent of the business elites has not reached the point of meaningful leverage over the top party leadership. While their financial leverage does now enable the business elites to capture individual lawmakers or even an entire local faction, the party leadership remains beyond their reach'. Consequently, the ruling elites continued to provide protection to the economic bureaucrats who are given the authority to operate on a long-term economic perspective. Chu (1999:195) describes the coherent nature of the state policy process in the 1990s:

'Most vital economic measures, measures that have economy-wide ramifications, are still within the purview of the cabinet. As a last resort, economic officials can take their cases to the premier or the president and ask those figures to throw their weight behind key economic proposal that are deemed crucial to achieving priority development objectives. After all, under the existing institutional arrangements, the KMT's leadership still has a final say over nomination decisions, and no individual legislators is politically indispensable or electorally invincible.'

As the KMT government retained its leadership role vis-à-vis business elites, few changes occurred to the state policy process. As I already noted, in the 1990s, the support of the business elites was particularly important to Lee Teng-hui who was struggling to maintain his leadership as an islander within the party, which provided business elites with opportunity to advance their interests. This point was already demonstrated by how the business elites were able to achieve their financial independence in the period of financial liberalisation. In exchange for political support, during the privatisation process of the 1990s, the business elites further succeeded in acquiring lucrative business profits by taking over the SOEs, which were mainly located in inward-looking sectors (Chang 2008). However, there was a clear limitation on what the business elites could achieve in

advancing their economic interests. In the same period, the government maintained an absolute control over the financial system reform due to the mainland regime's historical experiences with financial instability during the civil war (Clark and Tan 2010; Tan 2001; Heo and Tan 2003; Chu 1999).

Keeping the business elites in check, the government continued its developmentalism in the export sector. In line with the past development strategy of developing SMEs as the main agent for industrial upgrading and technological innovation, the government formulated various policies to stimulate the R&D of the SMEs (Lui and Qiu 2001:83-86). According to Vincent Wang (1995), Taiwan's high-tech development in the 1990s was 'shaped by a dynamic trio of entrepreneurial state, guerrilla capitalism, and accommodative technologies'. In the midst of the 1997 Asian Financial Crisis, the KMT government adopted measures to help the SMEs through the very tough export and economic environment by a series of measures including providing export guarantees, tax incentives, and assistance in financing (Clark and Tan 2010). In short, as Lee and Chu (2008) write, 'In the 1990s, the KMT government maintained a precarious balance between taking into account distributional considerations and committing to developmental goals'.

The Rise of Financial Conglomerates and the End of the SME strategy

A rapid increase in the state policy constraints of business elites was observed in Taiwan after 2000. This sudden transformation occurring to the state policy mechanism began with a massive increase in the institutional constraints of the business elites faced by the DPP administration in the 2000s. The source of such change was the lack of political funds within the political party. Unlike the KMT, who established a business empire for funding

expensive electoral campaigns, the DPP emerged as a grassroots political party that was largely dependent on SME owners for political donations. The KMT's huge financial advantage created a major factor obstructing the DPP's progress (Rigger 2001). Shelley Rigger (2001:950) writes on the huge gap between the KMT and the DPP in terms of their financial strength:

‘According to the KMT's own estimates, its assets total about US\$2.6 billion at the beginning of 2001. A Taipei Times report dated 1 March 2000 put the figure much higher, at US\$6.7billion. The DPP, by contrast, has long suffered extreme economic straits. Until 1997, the party relied on individual donations for most of its income; it laboured under a burden of chronic debt and financial shortfall. In 1997 the situation improved when the government began paying subsidies to political parties. Nevertheless, in early 2001 the DPP reported assets of US\$900,000, a tiny fraction of the KMT war chest.’

Facing such a financial advantage of the KMT, Chen Shui-bian had a deep sense of political insecurity for consolidating his political power in the next elections. The financial contribution from business elites was certainly a quick solution to the DPP's extreme economic straits. However, different from the KMT, the DPP had barely any institutionalised connections with the business community other than personal ties between the DPP politicians and a few business donors and like-minded business elites (Lee and Chu 2008:146). To build personal relationship with the business elites, the presidential palace, in the words of Lee and Chu (2008:146), ‘became the major agent in cementing intimate business-state relations’. Consequently, the ruling elite who sits at the central of the state decision-making mechanism provided the business elites with an easy access point to the state policy process. Given that the business elites mainly came from inward-looking non-tradable sectors, it was hardly surprising that the crucial policy suggestions made by the Economic Development Advisory Conference sponsored by Chen in 2001 were

for the review of the tax-incentive systems to bolster the property market and the construction industry (Lee and Chu 2008:156).

With the rise of the institutional constraints of business elites, the state policy process began to be penetrated by business interests. Clearly, the most lucrative opportunities and economic rents for the business elites were to gain a share of the state assets during the financial reform of the 2000s, as the expected result of the reform was the rapid conglomeration of Taiwan's banking industry as well as the privatisation of government-controlled financial institutions (Clark and Tan 2010). With the ruling elites being captured by business influence, the capacity of the business elites to influence the state policy process drastically increased. Although it was the government's strategic goal to merge the existing banks and lending agencies in order to create financial institutions capable of international competition, the economic technocrats could not resist the pressure from the business groups during the implementation of the reform process (Clark and Tan 2010). In order to gain a position in the privatisation and acquisition battle, the business elites mobilised to lobby legislators and high-ranking officials, including the first family. As Wu Yushan (2007:991) describes,

'The major financial holding companies were at one another's throat for the grab. They mobilised legislators and used connections to high officials in the presidential office, even to the first family, to gain the upper hand. As one after another scandal was exposed, the public for the first time got a glimpse of the inner working of the business-government nexus. It appears that the bureaucrats were beholden to the politicians, who were in turn beholden to the top political leaders and private financial interests.'

While the state could not accomplish their development goals, large businesses succeed in expanding their financial strength. The Financial Holding Company Law resulted in the rapid conglomeration of Taiwan's banking industry and the privatisation of government-

controlled financial institutions (Clark and Tan 2010). Most of these financial mergers and acquisitions had featured private financial holdings companies acquiring larger public financial holding companies or banks. The result was the emergence of powerful private financial conglomerates in Taiwan.

Both the structural and institutional constraints of business elites became present in the state policy process in Taiwan by the late 2000s. Having had acquired substantial economic power, these business entities were certainly capable of asserting their particular interests. The KMT's need for the financial support of business elites also grew after the 2000 regime turnover.⁶⁶ The profitability of the POEs of the KMT which enabled the KMT's financial independence in the 1990s went downhill after the regime turnover in 2000 (Huang 2005). The transformation of the state-led state-business cooperation was demonstrated by the fact that the taxation policy of the state eased to become an effective government policy tool. Since the mid-2000s, the government began to remedy the fiscal deficit through a fairer taxation system (Ash, Lin and Wu 2006). With both structural and institutional constraints of business elites, raising taxes and withdrawing tax incentives could not be easily achieved as such goals could be undone by political lobbying. This was clear in the government's Tax System Reform. Although the government's intention was to improve the health of fiscal policy, the Tax Reform Committee set up in 2008 was dominated by the business elites rather than economic technocrats (C.Y.C. Chu 2015). Two controversial tax cuts indicate the erosion of the state policy process by big business interests: the corporate income tax cut and the inheritance and gift tax cut.

⁶⁶ In the 2000s, the KMT already ran into trouble extracting dividends from its businesses in order to pay the salaries and pension obligations of its employees. The party's financial trouble continued throughout the DPP rule with the administration seeking ways to force the KMT to disentangle the party from the business empire (see Mattlin 2011:88).

The demise of the state-led state-business cooperation marked the decline of the state strategic role in directing the development process. The direct result of that was the end of Taiwan's SME strategy.⁶⁷ Constrained by large business interests, the ruling elites could no longer insulate the economic policy-making of the state. The SME owners now had to compete with strong economic and political actors to obtain their favourable policies. Given their lack of political influence, these long-time drivers of Taiwan's export-led growth consequently became increasingly marginalised in the state policy arena. As Clark and Tan (2012:125) write on the failure of the government's promotion of the innovation-oriented industrial policy in advanced industries in line with the past economic strategy of promoting the SMEs, 'While the official government position is to assist the SMEs toward these high-value added industries, the reality is that SMEs (by their structure and resources) are simply not equipped to take advantage of these plans'.

State Policy Constraints of Organised Labour in Taiwan

The Rise of Labour Interest Groups: Private-Sector Workers and SOE Workers

In Taiwan, the state policy constraints of organised labour have been limited since the late 1980s. The initial industrial structure of the country (low DPCC and high SOE) played an important role in shaping such an outcome. This argument involves my two hypotheses, which are: *In the development process, (1) the level of DPCC corresponds with the level of structural constraints of organised labour; (2) the presence of SOE negatively affects*

⁶⁷ The SME sector has been the driver of Taiwan's economy and is crucial for its future industrial upgrading. I thank Dzung Yi-Ren for pointing this out to me during a private communication in February 2014.

the structural constraints of organised labour. This section provides an empirical testing of these two hypotheses.

The low DPCC rate of the country gave rise to dispersed labour interest groups. In Taiwan, the private sector is dominated a large number of SME workers. During the KMT's one-party rule, this segment of industrial workers was controlled and organised by the authoritarian government along occupational lines. Occupational unions, in the words of Ho (2006:112), 'functioned as a residual category available to those who could not join industrial unions'. The primary reason for the enthusiasm of industrial work to gain membership from the occupational unions was that joining an occupational union was the prerequisite for SME workers to contribute to and receive various social insurance benefits (Ho 2006).

Given the range of social status and economic conditions among members, occupational unions did not function as a channel for launching the collective actions of their members. As Ming-sho Ho (2006:112) observes, 'Occupational unions in Taiwan functioned as officially licensed insurance agents and did not engage in activism on workers' behalf. It was not uncommon for the leadership of occupational unions to be in the hands of small-business owners who saw an opportunity to profit from the scheme'. Ho's observation clearly points out that occupational unions were not capable of standing for workers, and represent members with more homogenous interests. Even after the political opening, the large number of occupational unions remained under the leadership of the conservative Chinese Federation of Labour (CFL) that was 'less a representative of labour interests than an agent of the authoritarian party-state' (Ho 2006:123).

The changed political environment in the late 1980s did give rise to a burst of labour interest in the rest of the private sector. Within a year after 1987, either organising non-

union workers or seizing control of the KMT-sponsored unions, labour activists established 100 independent labour unions in a few large-sized private enterprises. Efforts were also made to establish inter-union organisations to overcome the fragmented nature of newly emerged labour unions (S-Y Ho 1990; Y-W Chu 1996; M-S Ho 2006; J.W.Y Wang 2010). The episode of labour unionisation was impressive, but, unlike their Korean counterparts, the labour unionists in Taiwan had barely any experience in organising labour unions. As Shuet Ying Ho (1990) observes, ‘After the setting up of new unions, or after capturing union leadership, unionists found it difficult to develop their unions further’.

The weak organisational advantage of the private-sector workers resulting from the low level of the DPCC soon began to show by 1990. After a series of state crackdowns on labour activism in collaboration with businesses, the pro-union drive stirred by the political reform in 1987 was nearly exhausted. A clear sign of the end of the Taiwanese unionisation movement was seen in the conclusive defeat of the labour at the Far Eastern Chemical Fiber Company and Keelung Bus Company. Labour activists involved in these incidents were arrested and brought to the court where most were convicted (M-S Ho 2006; Wang 2010). The defeat of the Keelung Bus Drivers’ Union – one of the vanguards of the labour movement – marked the onset of the decline of the independent labour union movement (Gray 2014:100). The number of workers involved in labour disputes reached a record high of 62,391 in 1989 and fell to 12,696 in 1991 and never rose again until the period of the Asian Financial Crisis in 1997 and 1998 (Gray 2014:100). Starting with the mid-1990s, another protest wave surfaced among the laid-off workers, who were victimised by factory relocation to lower-cost China and Southeast Asia (Ho 2012). However, these nonunionised workers are unlikely to pose a constant pressure on the state-business alliance. As Ming-sho Ho (2012) writes, ‘Although their protests tended to be highly disruptive, they failed to expand the organisational basis of Taiwan’s labour movement

since their activism usually came to an end when they were able to secure some compensation’.

The weak organisational advantage of industrial workers forced them to shift the focus of its action from a grassroots mobilisation to a partisan alignment in order to advance their economic interests. In the 1990s, organised labour chose to establish a strategic partnership with the mainstream broad-based political party – the DPP. According to Ming-sho Ho (2006), the strategic partnership between the DPP and organised labour was seemingly inevitable for two reasons: Firstly, the DPP was an attractive outlet for discontented workers because of the workers’ disillusionment with the KMT. Secondly, an alliance with organised labour provided the main opposition party with the possibility to develop their voter mobilisation system in order to undermine the KMT’s electoral dominance. With the alignment between the labour and the DPP, a number of local federations of labour unions were established in DPP-controlled localities in the 1990s, which later formed the foundation for the TCTU to challenge the KMT sponsored CFL. After the DPP came into power, the TCTU was granted its legal status in 2000 (Ho 2006; Wang 2010; Lee 2011).

The political alignment with the DPP further weakened the organisational basis of Taiwanese organised labour. In the early 2000s, both the number of unions and labour membership declined significantly (Ho 2006). Ming-sho Ho (2006a:126) points out two primary reasons for this outcome: Firstly, as the organised workers shifted their actions from the grassroots to the legislature, they found it ‘increasingly difficult to mobilise lukewarm constituencies’. Secondly, as organised labour became associated with the DPP, they found it ‘hard to attract other existing industrial unions as well as to build more local federations of industrial unions when Taiwan’s politics polarised after 2000’. Although the new leadership who stressed their political independence took over in 2006 (Chiu 2011),

the damage to the organisational strength of organised labour had already been done. By the mid-2000s, organised labour had lost its mobilisation strength to challenge the state policy process. As a labour activist says, 'When the DPP failed to deliver what they promised, organised labour in Taiwan had no mobilisation strength to make their demand heard by the government' (Lee 2011:85).

The organisational strength of Taiwanese organised labour was also affected by the presence of SOEs in the economy. During the authoritarian period, the economic interests of the SOE workers were carefully managed by the KMT party-state. Labour unions were set up by the KMT to co-opt labour interest. As Ming-sho Ho (2012:1026) stipulates, 'Labour unions were fashioned to generate maximal benefits and welfare without at the same time stimulating class consciousness among workers'. Thus, according to him, 'Labour unions in essence functioned as the human face of the KMT party-state'. To curb labour discontent, specific political arrangements were also put in place by the authoritarian regime to keep the labour unions firmly under the party's control, including the installation of party branches to ensure the party and labour unions were integrated at the basic level, the manipulation of union elections, monitoring of union meetings, as well as the dispatchment of permanent union staff (M-S Ho 2012b). With a combination of the above co-optation and coercion, the KMT succeeded in achieving 'the seemingly self-contradictory mission of organising workers without empowering them' (M-S Ho 2012b:1026).

Despite the KMT's former efforts, there was clear evidence to suggest that labour interests among the SOE workers were not absent in the authoritarian period. With the political relaxation of the 1970s, the growing labour interest brought about by the development process began to emerge through the existing labour organisations in the state-owned

sector. As Ming-sho Ho (2012a:139) writes, ‘Prior to the mid-1980s, the labour unions of Taiwan’s SOEs had become de facto complaint centres that unfailingly processed and forwarded a plethora of demands to the company...Thanks to the incessant pressure from below, labour unions had burst out of the highly restrictive straightjacket designed during the repressive authoritarianism of the 1950s.’ However, it is not to exaggerate the subtle change occurred to the nature of labour unions. There were still great limitations on what the SOE workers could achieve, as the unions were still controlled by the staff dispatched by the management. In short, as Ho (2012a:139) puts it, ‘The shifting of union functions took place incrementally and was not always detectable because the KMT cadres appeared to have unions under their firm control’.

The democratic transition of the 1990s finally provided the SOE workers with the necessary political environment to pursue their material interests. However, the labour interests emerged in the state-owned sector were fundamentally different from those of the private sector. Since the 1990s, the division of labour interest advancement between the state-sector labour interest groups and the private sector labour interest groups has been demonstrated in two aspects. The first concerns the institutionalised channels created by the state for wage increase in the SOE sector. Given the nature of public enterprises, the government agencies – the Ministry of Economic Affairs (MOEA) – oversaw the wage level of Taiwanese SOE workers.⁶⁸ As the SOE workers had their own institutionalised channel to achieve their perceived interests, the wage negotiation process was largely non-confrontational and did not require labour mobilisation. As Lee (2011) writes,

⁶⁸ It is perhaps worth mentioning a very interesting fact pointed out to me by Yi-Ren Dzung during a discussion in February 2014. According to Dzung, Taiwanese SOE workers tend to consider themselves as public servants and socially superior to private sector workers. This socioeconomic superiority of the state-sector labour interest groups is perhaps a by-product of the channel institutionalised for them to advance material interests directly with the state.

‘They try to coordinate wage negotiations within the SOE unions with a common proposal drafted by the TCTU or the CFL. Yet their bargaining strategy has been indirect but politicised by taking advantage of their linkage to elected politicians. In wage negotiations, unions contact their partisan allies, who are usually national legislators serving on the budget and economic committees of the Legislative Yuan. Unionists request that these legislators put pressure on MOEA officials in charge of SOE wage settlements’.

The policy concerns of the SOE workers were also fundamentally different those of the private-sector workers. A major focus of the SOE workers in defending their interests has been the SOE restructuring and privatisation. In response to the threat of privatisation which first emerged in the late 1980s, the SOE workers quickly gained their mobilisation strength by becoming organised (M-S Ho 2012). Their desire to push for greater interests culminated in 1999 when these SOE unions formed the Alliance of SOE Labour Unions. In addition to the organisational strength, they also had political leverage over the ruling elites to shape the state’s privatisation policy. Both the KMT and the DPP saw the support of the SOE unions was of greater importance to their power consolidation in Taiwan’s increasingly democratising politics (Lee 2011:236). With both the organisational strength and political leverage, the demands of the SOE unions consequently produced strong constraints on the state policy process with reference to privatisation throughout the 1990s and 2000s (see McBeath 1997; Lee 2011: 233-236).

In summary, due to the low level of DPCC and the high level of SOE, the 1990s saw the emergence of two types of labour interest groups – the dispersed labour interest groups in the private sector and the state-sector labour interest groups in the SOE sector. The dispersed labour interest groups dominated by numerous SME workers lacked the membership base from the inception of Taiwan’s labour union movement. Their subsequent strategy of political alignment further weakened their structural power by undermining their membership base and made them dependent on political parties.

Although the state-sector labour interest groups had a strong membership base, large SOE unions did not contribute to the structural constraints of organised labour. This is because the economic interests of state-sector labour were often achieved through direct institutional channels with the state and were fundamentally different from those of the private-sector labour interest groups. In Taiwan, as the privatisation was underway, state-sector labour interest groups quickly emerged to protect their own narrowly-focused material interests of the SOE workers. The ultimate effect of the combination of both high level of SOE and low level of DPCC in shaping the level of structural constraints of organised labour will be evaluated in the rest of the remainder below.

The Weakness of the TCTU

Both the presence of the SOE workers and SME workers resulted in a significant division within the national labour union movement in Taiwan. By the end of the 1990s, two groups of labour actors had emerged in Taiwan: the local federation of labour unions and the SOE unions. Given the dispersed nature of the former, the latter – the SOE unions - took the leadership of Taiwan's independent union movement (Ho 2012). The formation of the TCTU as a national centre magnified the internal conflicts within the two groups of industrial labourers. As the SOE unions stepped up their efforts to defend their material interests in response to the even greater threat of privatisation, growing discontent among the workers in the private sector quickly emerged in the early 2000s. As Yubin Chiu (2011:68) writes, 'Local CTUs, whose affiliated unions were mainly in the private sector, soon began to complain that the TCTU was too focused on SOE issues and was neglecting the disastrous trend of casualization'. In 2007, after two consecutive walkouts, a few local

federations of labour unions formed a loose alliance with other smaller, unaffiliated union federations – the Solidarity of Labour Unions (SLU).⁶⁹

Now I turn to discuss the weak policy influence of the TCTU in Taiwan. With a weak organisational base, organised labour hardly produced any policy influence on the state policy process in regard to the minimum wage increase. Since 1988, with the establishment of the Council for Labour Affairs to adjust the base wage level every year, Taiwan's wage negotiation is an orderly process. By then, Taiwan's contract manufacturing had the option to relocate to the Mainland or Southeast Asia which would leave many local workers behind. Without the possibility of making an immediate transition to higher value-added production, both the government and businesses certainly prefer lower minimum wage to sustain the traditional developmental model of the country. As journalists Eva Dou and Jenny W. Hsu (2012) write on the motivation of the government to sustain a lower minimum wage, 'Taiwan has found itself in a Catch-22 as it tries to shift away from contract manufacturing toward building its own brands: By traditionally working as contractors for slim profits, Taiwanese campaniles discovered they lacked the cash to make large research investments or to attract talent through high salary'.

Organised labour has neither interest nor bargain power to challenge the government's strategic decisions. Consequently, the adjustment of minimum wage followed economic rationales. In response to the unfavourable economic situation in the late 1990s and early 2000s, the government made the decision to maintain the minimum wage from 1997 to 2007 and again in 2009 (CLA 2010; Hsieh 2001; Huang 2009). In 2010, the establishment of the Basic Wage Deliberation Committee brought labour, government and management to the negotiation table. Given the labour's lack of organisational strength, the annual Basic

⁶⁹ The SLU focused their unionisation efforts on organising irregular workers whose economic interests was yet to be represented by the TCTU. However, their efforts were largely unsuccessful.

Wage Deliberation committee meeting constituted a new occasion for the government to adjust the minimum wage level in line with the socioeconomic factors including price indexes, economic growth data and the unemployment rate (CLA 2010). In 2012, even after the labour convinced the committee to suggest a wage increase, the government decided not to adopt the CLA's recommendation to increase the minimum monthly wage until the economy showed a further sign of recovery (Zeldin 2012). In 2013, the government's intent to adjust the minimum wage in line with the economic rationale reached a new level when the CLA decided to scrap the rule of holding an annual review on minimum wages and to hold future a meeting only when the consumer price index (CPI) increased by 3 percent or more annually (Taipei Time 2013).

The structural weakness of organised labour is also clear when we turn our attention to the labour law reform since the early 1990s. With the rising role of the parliament in the state policy process, labour could directly participate in the state policy process by utilising the existing institutionalised channels. In the early 1990s, organised labour successfully prevented a downward revision of labour laws and forced the state to revise the proposed adjustment that would increase the financial burden on the part of the labour during the reform of the national health insurance system (Ho 2006). Clearly, with the democratisation of the state decision-making process, organised labour could defend their economic interests from being taken away by the pro-business state. However, given their limited economic and political resources, labour activists cannot compete with business owners when it comes to political lobbying. Consequently, organised labour's gain against the business could only be achieved under three circumstances: Firstly, the partisan divide since the early 2000s allowed organised labour to cooperate with the opposition parties to advance their economic interests. In the early 2000s, organised labour took the advantage of the partisan conflict between the DPP-led Executive Yuan and the KMT-dominated

Legislative Yuan. With the help of the KMT who attempted to block all government policies initiated by the DPP, the organised workers succeeded in shaping the policy of the DPP government with respect to the regulation of working hours in 2000 (M-S Ho 2006)

Secondly, when the opposition parties were no available, they had to compromise with the state-business alliance in exchange for new labour gains. In the mid-1990s and early 2000s, the weak organised labour had to accept the state-business alliance's proposal for greater labour market flexibility to grant the management more leeway to keep the business afloat on two occasions: the revision of the Labour Standard Law in the late 1996 and the Economic Development Advisory Conference in 2001. As a result of the labour compromise, businesses were given the right to calculate working hours with more flexibility in 1996 and labour market measures for greater flexibility, such as legalising night shifts for female workers and calculating the working hours with different methods in 2001. In return, organised labour also achieved great labour gains: In the first instance, more than two million white collar workers were included in the protection of the Labour Standard Law. In the second instance, organised labour acquired the greatest labour gains including the legalisation of the Protective Act for Mass Redundancy of Employees and the Employment Insurance Law (Ho 2006, 2008; Wang 2010).

Thirdly, when the state-business was ready to allow more labour interest advancement, organised labour had to accept the terms and conditions set by the state-business alliance. In 2015, the government made the decision to shorten the working hours from 84 hours per two weeks to 40 hours per week, while, at the same time, increased the legal cap for overtime from 46 hours to 54 hours, and reduced the labour's public holidays by 7 days. Without mobilisation strength, while organised labour had to agree to the calculation of the state-business to achieve new labour gains. Non-TCTU labour activists stormed the

Ministry of Labour, claiming that the ‘TCTU does not represent workers’ (CNA 2015). Although most public holidays were restored in 2016, the new government quickly came up with another amendment to the Labour Standard Act – known as ‘one flexible day off’ to offset the negative effects of a wage hike in that year (CAN 2016). It seemed the weak organised labour had little choice other than accepting the terms and conditions set by the state-business alliance in exchange for a much-delayed minimum wage hike.

The above analysis confirms my hypotheses put forward in the beginning of the section – *While the level of the DPCC corresponds with the level of structural constraints of organised labour, the presence of SOE negatively affects the structural constraints of organised labour.* The Taiwan case clearly demonstrated that the structural constraints of organised labour – the TCTU – have been affected by the low level of DPCC and high level of SOE in the country. Consequently, despite the democratic transition, the structural weakness of organised labour was clear in the process of minimum wage adjustment and labour law reform. Certainly, after 1987, Taiwanese organised labour was no longer a subordinate actor in the development process. However, it still had to reach compromises with the state-business alliance in order to achieve some limited interest advancement.

Summary of the Chapter

This chapter shows how industrial structure and democratic transition shaped a two-phase transformation outcome of the developmental state. In the first sections, I traced the sources of the industrial structure of the country to the strategic choices made by the ruling elites in Taiwan. The ruling elites’ political objectives for preventing private capital

concentration in the market resulted in a low level of DPCC and a high level of SOE in the initial industrial structure of the country. The slow democratic transition was also a strategic choice of the KMT to prolong its electoral dominance in response to the intensified Tangwai movement supported by the middle class.

These two factors played important roles in shaping a minor transformation outcome of the developmental state between 1986 and 2000. The low level of DPCC and high level of SOE limited the structural constraints of business elites and organised labour by producing dispersed business interest groups, dispersed labour interest groups and state-sector labour interest groups. The delayed democratic transition also enabled the KMT to be protected from the institutional constraints of business elites by developing the profit-making POEs. In the period, the institutional constraints of the middle class emerged over the formulation of the state strategic vision. This was demonstrated in the contradictory state strategic visions between maintaining Taiwanese autonomy and promoting economic integration with the mainland market.

More significant changes occurred to the developmental state after 2000. The rise of state policy constraints from the business elites was the most significant due to two developments: Firstly, the changes to the industrial structure as a result of the privatisation of SOEs led to the emergence of more concentrated business interest groups in the country. Secondly, as the ruling elites turned to the private sector for funding, the normalisation of the institutional constraints of business elites finally occurred in the 2000s. Concurrently, a rapid erosion of the state policy vision commenced after 2000 as partisan competition pushed the ruling elites to formulate highly-politicised state strategic visions to consolidate their political power. Furthermore, in Taiwan, the deep ethnic division between two groups of political elites also seriously undermined the elite consensus over the promotion of

national development agendas and resulted in serious stalemates in the decision-making process at an economic level.

Chapter Six

Conclusion

Brief Synopsis of the Research Question, Main Arguments, and Research Design

The state-led developmental experiences of several East Asian countries between the 1960s and the 1980s once provided a fertile ground for the creation of the theories of the developmental state. Since the early 1980s, the developmental experiences of several successfully industrialised economies have exhibited significant divergence in the transformation of the developmental state. In Chapter 1, I started with two puzzles concerning the transformation of the developmental state in the region: Firstly, across the region, why did some developmental states experience a rapid reduction in their capacity to direct the development process, some others head towards a more gradual declining path, and still others appear to be more resilient to these negative changes? Secondly, within a nation-state, why did changes to the developmental state occur more rapidly in some specific time periods despite the country's consistent performance in socioeconomic development? Although there is an existing literature that points to the various socioeconomic actors emerging from the development process for explaining the decline of the developmental state, accounting for variations in the transformation of the developmental state is an issue that has largely been set aside in past studies.

This study argues that two factors – industrial structure and democratic transition – had played important roles in producing the variations in the transformation of the developmental state. Providing an answer to the puzzles, I argue that the divergent levels of the policy constraints emerging from the development processes have been primarily

responsible for the divergence in the transformation of the developmental state. To account for the divergent policy constraints, I turned to the two variables, i.e. industrial structure and regime transition, both of which are shaped by the strategic considerations of the ruling elites in securing political power. The former determines the specific types of economic interest groups emerging from the development process, which in turn generate different levels of structural constraints of business elites and organised labour in the state policy process. The latter produces a new set of state policy constraints, i.e. institutional constraints, generated by the middle class and business elites by modifying the political and institutional context in which the policy-making of the state occurs.

In Chapter 2, I developed a theory of the dynamics of the developmental state. Utilising existing insights on elite survival and state development institutions, trade and interest groups, socioeconomic development and regime transition, I conceptualised that the state policy process is a dynamic process that is constantly shaped by the policy constraints and the political situations faced by ruling elites who run the developmental state. From the outset, the developmental state was created by authoritarian ruling elites to generate performance-based legitimacy (Doner et al. 2005). In this sense, state policy was a useful tool of the ruling elites to achieve political legitimacy. The developmental state is not static but transitional in the development process. The very successes and processes that their policies had brought about led to two political processes: Firstly, international trade gave rise to assertive business and labour interest groups (Rogowski 1989; Gourevitch 1986). Secondly, the socioeconomic development led to a democratic transition by the pro-democratic political interest groups (Lipset 1959; Moore 1966; Rueschemeyer 1992). While the former process produced societal actors, who were capable of shaping state policy process, the latter process transformed the political foundation of the developmental state.

I formulated several theoretical hypotheses which are crucial for explaining the divergence in the transformation of the developmental state. The first hypothesis involves the political motivations behind the state policy preference for the proportion of domestic private capital concentration (DPCC), state-owned enterprises (SOE) and foreign direct investment (FDI) in their development strategies. I hypothesised that state policy choices are closely linked with the political goals and motivation of the ruling elites to generate popular legitimacy for securing political power. The second hypothesis concerns the transformation of the political foundation of the state policy process. I hypothesised that different patterns of democratic coalitions between two types of social classes (the middle class and the working class) emerging from the development process could result in different strategic decisions of the ruling elites in terms of initiating regime transitions. In this chapter, I identified four possible patterns of democratic mobilisation, which would lead to three possible strategic decisions of the ruling elites: i.e. democratic transition, authoritarian repression and authoritarian co-optation. Furthermore, at the time of democratic transition, the pace of democratic transition allowed by the ruling elites is determined by the level of electoral threats faced by them. The third hypothesis concerns the emergence of different types of economic interest groups. I hypothesised that the industrial structure of a country (in terms of the degrees of DPCC, SOE, FDI) shapes the nature and types of economic interest groups emerging from the development process. While DPCC affects the structural power of two types of constraining economic interest groups in shaping the state policy process, both FDI and SOE facilitate the emergence of four types of non-constraining economic interest groups.

To test the validity of my theory, I combined both comparative and within-case methods to facilitate my theory-building process. I selected three most similar East Asian countries (i.e. Taiwan, Singapore, and South Korea), whose past economic successes had been

central to the concept of the developmental state. My cases are thus similar with respect to a range of conditions that can generate internal and external pressure for reshaping the developmental state. The three selected case countries also exhibit significant variations in both the two variables (industrial structure and democratic transition) and the transformation outcomes of the developmental state. Such a most similar system design was employed to test my theory that the industrial structure and democratic transition of a country have played important roles in producing the variations in the transformation of the developmental state. In order to eliminate the possible left-out variable, I also conducted rigorous process-tracing within each comparative case. Furthermore, the Taiwan case also contains internal variations on my two variables (industrial structure and democratic transition), which helped me to improve the validity of my theory by alleviating the problems associated with selection bias.

Summary of the Empirical Analysis: Industrial Structure, Democratic Transition and the Changing State

Political Origins of the State Policy Choices

Chapter 3, 4, 5 provide an empirical analysis of the theory of the dynamics of the developmental state. The first independent variable of the study is the industrial structure of a country which is shaped by the policy choices of the state. I traced the source of the divergent state policy choices to the three distinctive goals of the ruling elites to achieve political legitimacy in the three case countries selected for this study. The testing provided strong support for my first hypotheses concerning the political origin of the state policy choices in the beginning of the state-led development process. In the 1950s and 1960s, the political regimes in the three East Asian countries were all struggling with political

survival. In Taiwan, the mainland-originated KMT had little legitimacy to rule the majority of the hostile islander population. In Singapore, the PAP was almost annihilated by the leftist movement that had gained strong support from the majority of the Chinese-speaking population. In South Korea, the political situation was equally dangerous for Park Chung-Hee and his junior coup associates who had basically no pre-existing political standing in the country. The political survival of the ruling elites motivated them to create both authoritarian institutions and state economic policy-making agencies in order to pursue a strategy of political control and economic promotion in order to secure power monopoly in these countries. Consequently, what we saw was the rise of the three developmental states in East Asia.

The specific objectives of the ruling elites for achieving political legitimacy shaped their policy choices in the 1960s. In Taiwan, as the KMT were concerned about the survival of the émigré regime, the ruling elites preferred an SME-led development model to trade economic opportunities for political peace and complemented the SME strategy with the establishment of SOEs. In Singapore, the urgency to kick off the rapid industrialisation process in order to create employment for the local population prompted the PAP to replace the backward domestic business community with more advanced foreign partners in commercial sectors and with state-owned enterprises in strategic sectors. In South Korea, the promotion of the chaebol, who were the only viable economic actors at the time, became the centre of the state's economic programmes. Clearly, the distinctive logics of the ruling elites led to the formation of three distinctive economic strategies of the East Asian states: preventing domestic private capital concentration in Taiwan, substituting domestic private capital in Singapore, and promoting domestic private capital concentration in South Korea. Consequently, three divergent types of industrial structure were developed in these countries in the 1960s and 1970s. In Taiwan, the industrial

structure was characterised by a low level of DPCC and FDI and a high level of SOE. In Singapore, while the level of DPCC was relatively low, both the levels of FDI and SOE were significantly high in each case. In South Korea, both the levels of FDI and SOE remained low, whereas the level of DPCC reached a relatively high level.

Patterns of Democratic Mobilisation and Outcomes of Democratic Transition

The second independent variable of the study is the democratic transition of a country, which is clearly instrumental in transforming the political foundation of the state policy process. The three cases provided empirical evidence for the possibilities of different democratic transition outcomes in response to different patterns of democratic mobilisation emerging from the state-led development process.

The three empirical cases demonstrated the emergence of four patterns of democratisation coalitions between the middle class and the working class. In Taiwan, as a decentralised economic growth model hindered the mobilisation of the working class on redistributive issues, the Taiwanese opposition elites successfully formed a strong democratic coalition with the middle class on the issue of ethnic justice. In Singapore, despite the alienation of the society from the state, a democratisation movement failed to emerge because of the strong presence of the authoritarian state in almost all social and political aspects of the country. The experiences of South Korea illustrated two patterns of democratic coalitions: In 1980, when the opposition elites failed to present themselves as a united liberal community, the working class were highly mobilised along their own class identity while the middle class chose to side with the old authoritarian system in order to protect their socioeconomic status against radicalised labour. In 1987, the emergence of a unified opposition liberal community finally convinced both the middle class and the working

class to form a cross-class democratic coalition on the issue of socioeconomic justice against the authoritarian government.

The different patterns of democratic coalitions were decisive in producing different democratic transition outcomes in these countries by shaping the strategic calculations of the ruling elites. In Taiwan, the formation of a democratic coalition between the opposition elites and the middle class successfully forced the KMT to transform the old legitimacy by pursuing a strategy of democratic transition. In Singapore, in the absence of a democratic movement, the ruling PAP had no incentive to change its old legitimacy formula of imposing political control and promoting economic development. Subsequently, while the core authoritarian structure of the state remained intact, a new type of consultative institutions has been put into place since the early 1980s in order to co-opt the increasingly assertive middle class. In South Korea, facing only a radical labour mobilisation for democracy, the ruling elites easily resorted to authoritarian repression to suppress labour unrest in order to retain the authoritarian control in the country in 1980. The continuation of the authoritarian rule eventually came to an end in 1987. Similar to the case of Taiwan in 1986, facing the emergence of a powerful cross-class alliance, the ruling elites decided to pursue the strategy of democratic transition in order to transform their legitimacy formula.

Furthermore, the cases of South Korea and Taiwan also supported my hypothesis that, at the time of democratic concession, the ruling elites will opt for a rapid democratic transition, if they face a high level of electoral threat from the opposition elites. The logic here is that, when the possibility of losing democratic elections is high, the ruling elites will benefit from the decision to introduce democratic electoral institutions to ensure their maximum political representation in the democratic politics of the country. On the basis

of the same logic, if they expect to retain electoral dominance, the ruling elites will not have sufficient incentives to push for the introduction of democratic electoral rules which could invite the possibility of losing political power. Consequently, they are likely to initiate a slow democratic transition. Historical evidence presented in my analysis of the two cases confirms my theoretical propositions. In the case of Taiwan, the KMT successfully retained their electoral dominance through its Taiwanisation project and other tactics to undermine the electoral strength of the DPP. In 1986, with no urgency to maximise its political representation, the KMT implemented political liberalisation but delayed the introduction of democratic elections. Only when the electoral domination of the KMT showed signs of decline did the ruling party push for the second stage of democratic transition in the first half of the 1990s. In contrast, in 1987, with their electoral strength seriously undermined by the rise of the middle-class voters, the ruling elites in South Korea opted for an immediate transition to democracy in order to ensure their maximum political presence in democratic Korea.

The Varieties of Economic Interest Groups

The industrial structure of the country influenced the emergence of the varieties of economic interest groups in the development process. The Taiwan case showed us the emergence of three types of economic interest groups. The country's low level of DPCC led to the creation of dispersed business groups consisting of a large number of SME owners that lacked both incentive and capacity to influence state policies and a number of business elites who were incapable of challenging the state in the economic policy process. This was evidenced by the fact that, while SME owners resorted to private adjustment rather than collective action to advance their material interests, the business elites had to

utilise the new institutional channels created by the democratic transition to influence the state policy decisions. With an increase in the level of DPCC as a result of the privatisation process in the 1990s and 2000s, the dispersed business interest groups did eventually become relatively more concentrated business interest groups that are more capable of challenging the state. Taiwan's low level of DPCC and high level of SOE prior to the early 1990s also created dispersed labour interest groups in the private sector and state-sector labour interest groups in the SOE sector. While the private sector labour unions lacked a membership base due to the difficulty to organise numerous dispersed SME workers, the SOE labour unions had their own communication channels with the state for advancing their material gains and were concerned about issues (e.g. privatisation) that were fundamentally different from those of the private-sector workers.

The analysis of the Singapore case demonstrated the emergence of three types of economic interest groups. The high levels of FDI and SOE of the country led to the emergence of non-indigenous business interest groups and state-affiliated business interest groups, both of which had little interest in shaping the state policy process. As the empirical case revealed, while the state policy agency – EDB – had closely integrated the economic interests of major MNCs closely with the economic projects of the PAP state, the GLCs was placed under the supervision of close associates and highly-trusted former bureaucrats of the PAP state, who predominantly acted mainly as watchdogs of the state economic policies. The high level of FDI also led to the emergence of state-controlled labour interest groups. At the outset of the industrialisation process, the national labour union movement – NTUC – was put under the direct control of the PAP state, and the NWC was also created to manage the interests of organised labour in line with government policies. Such a labour control mechanism was subsequently upgraded in the 1980s by bringing bureaucrats into

the NTUC leadership as well as through other authoritarian means when the PAP embarked on its industrial upgrading projects.

The Korea case demonstrated the emergence of two other types of economic interest groups in the state-led development process – concentrated business interest groups and concentrated labour interest groups – as a result of the high level of DPCC of the country. The structural power of the concentrated business interest groups was clearly shown by the fact that the chaebols were able to constrain the state policy process in the process of financial liberalisation even prior to the 1987 democratic transition. The democratic transition of the country coupled with the financial independence of the chaebols subsequently further escalated the structural constraints of the business elites over the state policy process. The result was the rise of a ‘Chaebol Republic’ in South Korea in the post-1987 period. The concentrated labour interest groups in South Korea were also located in the chaebol sector. Similar with chaebol owners, chaebol-based labour unions also possessed strong structural power to achieve their perceived material interests in the development process. Due to the organisational advantage resulting from the concentration of industrial workers, a number of large chaebol-based labour unions quickly emerged after the 1987 political opening. With their capacity to advance their material interests in the development process, the members of the chaebol-based labour unions collectively elevated their economic status and became ‘labour aristocrats’.

(Non-)Transformation of the State Policy Mechanism

The effect of the two variables – industrial structure and democratic transition – on producing the variations in the transformation of the developmental state was manifested in the process of the transformation of the state policy mechanism. This process occurred

as a result of the emergence of both structural constraints and institutional constraints over the state policy process. With the process of democratic transition, the emergence of structural constraints of business elites and organised labour occurs as a result of a complete entry of economic interest groups into the state policy process. The advent of democratic elections following a democratic transition also transforms the logics of the ruling elites in pursuing a state-led development process. As the ruling elites who had become election-orientated had to turn to the middle class and business elites in order to secure their political power, the institutional constraints of business elites and the middle class subsequently emerge over the state policy process. In this study, I distinguished three outcomes of the transformation of the developmental state in East Asia: rapid transformation of the developmental state, non-transformation of the developmental state, and two-phase transformation of the developmental state.

The Korea case clearly demonstrated how the combination of a high level of DPCC and a rapid democratic transition can result in a rapid transformation of the developmental state. To a large extent, the transformation of the Korean developmental state has been a result of the strong structural constraints of business elites and organised labour. Even before the democratisation of the state decision-making, the chaebols were already capable of constraining the state policy process. Since the early 1990s, producing both institutional and structural constraints, the chaebol owners have been able to dominate the economic policy formulation of the state for structural reform and industrial upgrading. At the same time, with the presence of strong chaebol unions, Korean organised labour also foiled the plan of the state-business alliance to bring organised labour to the negotiation table through the establishment of a series of tripartite organs. Such strong state policy constraints only seemed to be feeble in the immediate period after the 1997 Asian Financial crisis when both Korean business elites and organised labour had to temporarily reduce their

constraints over the government to allow an immediate economic rebound for the nation. The emergence of institutional constraints of the middle class after 1987 also affected the state strategic visions of the country. A clear inconsistency in the state strategic visions between generating growth through the old chaebol strategy and the more politically popular strategy of structural reform was observed in the 1980s and for most of the 1990s. Only after the 1997 financial crisis did the Korean state regain coherent state strategic visions after the structural reform became a priority for the governments from 1998 to 2007 and a more balanced growth model subsequently emerged as the key for the political consolidation of the ruling elites after 2008. I showed that such change was largely due to the changed policy preference of the middle class in the post-crisis period.

The Singapore case provided us with a clear picture on how both the industrial structure and democratic transition of a country can function to produce an outcome of the non-transformation of the developmental state. Both the creation of non-constraining economic interest groups and the absence of a democratic transition has enabled the state policy process to be free from the policy constraints of business elites and organised labour in the development process. Subsequently, the PAP state continued to pursue their global expansion and industrial upgrading projects in close alliance with both the MNCs and GLCs, while carefully managing the material interests of organised labour in line with their economic objectives. The formulation of the strategic vision of the state remained a coherent process despite the advent of consultative institutions since the early 1980s. With the single-minded PAP for prioritising growth, we saw the emergence of a state strategic vision consisting of two components: (1) promoting the long-term growth prospects of Singapore by building a global city-state; (2) maintaining economic performance in the short-term by means of an aggressive foreign labour policy. The second component of the state strategic vision was subsequently modified between 2010 and 2015, as the country

moved from its immigration-driven growth model to a productivity-based one. As I documented, the modification of the labour-driven growth model was motivated by the strategic consideration of the PAP elites to adjust to the new economic and political situations.

The Taiwan case showed us a two-phase transformation of the developmental state. In the first stage, a limited transformation outcome of the Taiwanese developmental state was observed prior to 2000. The country's low level of DPCC coupled with a delayed democratic transition allowed a financially independent KMT to dissociate the state policy process from the policy constraints of business elites. Consequently, the government was able to continue its SME strategy for generating export-led growth. In the same period, the state strategic vision was impaired as a result of the growing contradiction between its economic goal of pursuing regional integration with the mainland market and satisfying the middle-class desire for maintaining Taiwan's political autonomy. In the second stage, a more rapid transformation of the developmental state was observed when the increase in the level of DPCC and the completion of the democratic transition finally generated greater policy constraints over the state policy process. As a result, the state was no longer able to strategically promote the SME sector due to both the institutional and structural constraints of business elites.

The state development vision was also greatly eroded in the post-2000 period, as the formulation of the state strategic vision became highly politicised under the three administrations between 2000 and 2016. Throughout the two stages, the state policy constraints of organised labour remained limited largely due to the initial industrial structure of the country characterised by a low level of DPCC and a high level of SOE. Subsequently, a deep division was developed between the weak private-sector labour

unions and the self-interested state-sector labour unions. The two-stage transformation process resulting from the change of value in the two independent variables further strengthened the validity of my claim that the two factors (i.e. industrial structure and democratic transition) play important roles in shaping the variations in the transformation of the developmental state.

Theoretical Contributions and Future Research

The study has made broad theoretical contributions to both the developmental state literature and the literature on social forces and the transformation of the developmental state. For the developmental state literature, I broadened our understanding of the political motivations behind the formulation of state developmental policies in the developmental state. Scholars have long called for bringing politics back into the study of the developmental state (Moon and Prasad 1998; Leftwich 1995). As I noted in Chapter 2, although the developmental state theory has proved to be effective in explaining the 'East Asian Miracle' by establishing the theoretical linkage between state policy and economic performance, it paid little attention to the domestic politics behind the formulation of the growth-promoting policies of the state. Recognising the 'thin politics' that characterised most of the work of the developmental states, Doner, Ritchie and Slater (2005) have argued that the state institutional arrangements for ensuring an effective state policy process were an effective tool of the East Asian ruling elites who sought to achieve political legitimacy in the context of extreme internal and external threats. But the question is: Why were divergent development strategies formulated within the same kind of statist institutional arrangements? In the case of the three developmental states, why did the Taiwanese state

nurture SMEs, while the Korean state promote the Chabeol, and the Singaporean state pursue a partnership with MNCs and established their own GLCs?

Building on the work of Doner, Ritchie and Slater, I showed that there were clearly more 'politics' behind the state policy process that had led to divergent development strategies of the East Asian newly industrialised countries. To unravel these political rationales behind the state development policies, we need to pay more attention to the logics of the state-led development in the post-war period. Such logics of the state-led development include the ruling elites' need to maintain 'broad coalitional commitments' (Doner et al. 2005), as well as the specific goals of the ruling elites in order to achieve political legitimacy. I showed that the state policy preferences (for the percentage of DPCC, FDI, and SOE) were closely linked with the specific goals of the ruling elites who sought to achieve political legitimacy. My three empirical cases uncovered the manner in which these specific goals and objectives of the ruling elites had resulted in a set of divergent development strategies adopted by the East Asian developmental states.

This study also advanced the literature on social forces and the transformation of the developmental state. As suggested in the beginning of this study, one key weakness of the current literature is that most studies have focused on one single case and overlooked the variations in the transformation of the developmental state between cases. Explaining the divergent performance of the state developmental state in South Korea with Taiwan during the 1997 Asian Financial crisis, Heo and Tan (2003) developed a model to trace the divergence in the transformation outcomes of the developmental state to the policy choices made by the state. They argue that these divergent policy choices have resulted in the concentrated or dispersed industrial structure of the two countries, which in turn, produced either concentrated or dispersed economic interest groups. To them, the divergence in the

strength of the two types of economic interest groups is the key to unravelling the puzzle concerning the divergent transformation outcomes of the two states. There are certainly limitations to Heo and Tan's model, as it was created to account for the divergent transformation outcomes of the developmental states in South Korea and Taiwan around the mid-1990s.

My thesis further advanced Heo and Tan's model in the following two aspects. Firstly, I created a new catalogue of economic interest groups, i.e. non-constraining economic interest groups, in order to differentiate groups that have little impact on the state policy process from constraining economic interest groups. The creation of the new catalogue of economic interest groups was particularly useful for us to explain the low policy constraints on the state policy process in cases such as Singapore where the economy is dominated by large-sized MNCs and GLCs. It also explained why the structural power of organised labour was so weak despite the presence of large SOE unions in Taiwan. Secondly, to further develop Heo and Tan's model, I also added the role of political interest groups into my theoretical framework. Studies on the transformation of the developmental state have mostly overlooked the role of the two types of political interest groups (the middle class and the working class) in the transformation of the developmental state. Minns (2001) notes the significant roles played by the middle class and the working class in transforming the political foundation of the developmental state in South Korea. However, as my thesis has suggested, both political interest groups do not always adopt consistent attitudes in terms of pushing for state institutional changes. In order to gain a better understanding of political interest groups and democratic transition, the study has highlighted four patterns of coalition formation between the middle class and the working class during the process of the state-led development, which have resulted in different regime transition outcomes in the developmental state. By doing that, I overcame the

weakness of the current studies on the transformation of the developmental state that largely consider regime transition outcomes as a given fact in the development process. I showed that these regime outcomes were all products of the strategic calculations of the ruling elites.

Can my theory be applied to explain the transformation outcomes of other cases of the developmental state? Yes. Due to space limits, this study only looks at three cases of the developmental state in detail. Outside of the three early East Asian developmental states, China is a powerful example and perhaps the only laboratory left for us to study the transformation of the developmental state.⁷⁰ In the aftermath of the Tiananmen Square protests of 1989, the Chinese Communist Party (CCP) clearly faced extreme levels of internal and external pressure. The CCP's complete shift to an economic development coupled with a swift rebuilding of the existing political-economic institutions gave rise to the developmental state in the early 1990s. After more than two decades of rapid economic development, the time for a transformation of the developmental state has certainly arrived in China. As I noted, I decided to exclude China from this study due to the consideration of keeping my three cases as similar as possible.⁷¹ The unfolding transformation of the Chinese developmental state is certainly an important subject for my future research.

With the creation of the new theory, we now have some theoretical power to make some predictions over the further of the Chinese developmental state. At this point, my initial assessment seems to suggest the emergence of another resilient developmental state in the

⁷⁰ Apart from China, there is not another country whose economic and political experiences resemble those of the three Asian tigers. See Ezra Vogel (2011) for a historical description of the elite politics behind China's impetus to emulate the East Asian developmental state model. Several Southeast Asian countries (e.g. Thailand, Malaysia and Indonesia) came close to being the developmental states. However, in the absence of 'systematic vulnerability', they never established the same type of state developmental mechanisms that we saw in Post-war Northeast Asia (Doner et al. 2005).

⁷¹ My intention was to study only three most similar cases in detail. China was therefore excluded from my case selection.

foreseeable future. Such resilience of the developmental state is attributed to two major sources: In terms of the democratic transition of the country, as the empowered social classes are not willing to challenge the mammoth CCP regime, the ruling CCP clearly have no incentive to make democratic concessions. Consequently, the government endeavours to further tighten its control over the country and co-opt the emerging middle-class interests by improving its delivery of public goods such as better air quality, food safety etc. In terms of the industrial structure of the country, China's SOE- and FDI- dominated economy offers another source of the resilient developmental state. From the very beginning of China's state-led economic development, business elites in the domestic private sector were clearly squeezed in between technologically more advanced international firms and powerful SOEs. As the country embarks on a new stage of industrial upgrading, these chaebol-like SOEs remain the key instruments of government to complete its ambitious development projects, while the private sector dominated by SMEs continues to provide the main source of job creation.

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