THE UNEASY TASK: CONSOLIDATING DEMOCRACIES IN THE GLOBALIZATION ERA

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Introduction

Towards the end of 20th century, we are living in very "interesting days"[1]. During the first half of 1998, we witnessed the collapse of thirty years old Suharto dictatorship in Indonesia, financial and economic crises in Russia and declaration of Peter Drucker that he is afraid of emergence of dictatorships in South Asia, since these countries have many similarities with inter-war period Central European countries.(IHT, 1998)

Although that these events are not directly related at the first sight, they are good examples of developments of the last decade of 20th century. During last ten years, three mainstream phenomena occurred simultaneously: economic liberalization of third world countries, transition to democracy of East European and Latin American countries and globalization of the world economy. Causal links between these three different but not distinct phenomena are still matters of discussion. Does economic liberalization lead to democratization? Or, does globalization lead to both economic liberalization and democratization? Or, are globalization and economic liberalization synonymous or inclusive? These are some of questions asked by students of social sciences varying from economy to sociology, from political sciences to management.

In this paper, my major aim is to discuss the relationship between two of these three phenomena: relationship between democracy and globalization. I will try to answer these questions: how so called globalization effects democracies? Is it harmful or supportive for both of new and old democracies? Does it make sustaining a democratic regime harder or easier?

In order to answer these questions, first part of the paper will put emphasize on the concept of globalization, especially discussing different definitions and historical roots of globalization. In the second and third parts of the paper, I will try to answer

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[1] A well known Chinese malediction says "I wish you very interesting days"

how globalization affects first the state, second the society. And, in the last part of my theoretical part, I will try to expose the interaction between democracy and globalization.

My empirical part is composed of a comparison of two countries: Peru and South Korea. Peru is an interesting case, because this country experienced a democratic transition in 1978 and a democratic reversal in 1992. Nowadays, an elected president rules the country however, its legitimacy is a matter of discussion. South Korea also experienced a democratic transition, however a reversal did not occur yet. What makes South Korea interesting is the economic crisis experienced by this country during the last quarter of 1997.

Globalization: Different Meanings:

It is clear that to make a clear definition of widely used concept of globalization is not an easy task. Different definitions varying from simple to complex, unidimensional to multidimensional and coherent to incoherent exist. In this part of my paper, I will try to clarify this concept and later to expose its dimensions and evaluation within time.

It is possible to make different definitions of globalization from different disciplines of social sciences. Although that many people admit globalization as an economic phenomenon, sociologists take it firmly as a cultural process too, even a hegemonic one. Geographers use this concept to question the nature of territory as the physical and psychological field of state. In political sciences and international relations, globalization is both an exogenous and endogenous variable since its determinants are subjects of discussion and it determines nature of relationship of the Westphalian actors of the world politics. (Cerny, 1996: 621).

Despite this conceptual chaos[2] for all practical purposes, I prefer to put emphasis on economic and political dimensions of the concept, parallel to Hirst and Thompson who argue:

"… Because we believe that without the notion of a truly globalized economy, many of the other consequences adduced in the domains of culture and politics would either cease to be sustainable or become less threatening" (Hirst and Thompson, 1996: 3).

According to Held, one of the most prominent figures of globalization literature, globalization means integration of previously segmented parts of the world economy and emergence of an economy that operates through the *globe*:

"Today goods, capital, people, knowledge, images, communications, as well as crime, culture, pollutants, drugs, fashions and beliefs, readily flow across territorial

[2] chaos is used here as the situation prior to the order

boundaries…. The existence of global systems of trade, finance and production binds together the prosperity and fate of households, communities and nations across the world. Territorial boundaries are therefore arguably increasingly insignificant insofar as social activity and relations no longer stop – if they ever did- at the water's edge" (Held and McGrew, 1993: 263)

It is clear that being optimistic up to this degree does not necessitate for making an efficient and comprehensive analysis of the situation. Rather, I prefer to use less idealistic and more pessimistic approach: by using idyllic models of international and global economies of Hirst and Thompson and admitting globalization as a process towards the global economy.

According to Hirst and Thompson, in a globalized economy, distinct national economies are subsumed and rearticulated into the system by international transactions. This global economic system become autonomized and socially disembedded, as markets and production are truly global. In this economy, nation-states have no or very little power of governance, multinational corporations (MNCs) are transformed to transnational ones. The opposite idyllic model, the international economy is characterized with existence of national economies as principal entities. Trade and investment produce growing interconnection between these still national economies. Trade relations are functions of national specializations and inter-national investments are done through strategic preferences. (Hirst and Thompson, 1996: 8-13). This typology will help us to determine where we are now, how far from the international economy and how close to the global one.

In order to be able to make such an analysis, what is needed is a historical analysis of events which has led us to the discussion of existence of such an economic order. Since globalization is a merely new concept, which became popular during late 1980s, a closer analysis of post-1970 period will be helpful to understand the nature, scope and depth of the change. I preferred using 1970 as a milestone since the rapid change experienced by the world economy started with the collapse of the Bretton Woods system. The Bretton Woods agreement is important as a determinant of the course of international economy from many aspects. First of all, as a result of its restrictive and suspicious treatment of international finance –both Keynes and White, fathers of the agreement believed that a liberal financial order was compatible with the new welfare state- the Bretton Woods (BW) system helped government to assure a certain level of capital flow with lower risks to finance their developmental and welfare expenditures. Secondly, this system indirectly created a favorable environment for subsequent deregulation and liberalization of international financial activities as a result of increased market confidence in the safety of international financial transactions in the late 1950s and rapid expansion of demand for international financial services as a consequence of trade expansion of 1950s and 60s provided by the liberal trade system of the BW. In addition to these successes of the BW system that led to its collapse in August 1971, enormous surplus flows from OPEC countries as a result of 1973 oil price increases and increased power and pressure for new instruments of conservative, inward looking financial cartels that faced with intense competition became first steps towards the existing financial order that will be discussed below in details. (Helleiner, 1994: 165).

The collapse of the BW system was not the single determinant of the changing world economic order. A second development was the rapid increase in oil prices as a result of first and second oil crises. First implication of this increase became increased import burden of all oil importing countries. However, some of these countries, especially first world countries became successful in covering this burden through increasing export prices. Between 1970-79, terms of trade declined by 0.7 points for non-oil exporting third world countries and this decline continued during 1980s by 0.4 points. Despite this decline in terms of trade, average growth rate of third world countries became 5.7 per cent in 1970s and 4.1 per cent in 1980s. (Stallings, 1992: 51). The answer to the question of how third world countries stimulated economic growth is clearly observable through a closer analysis of capital flows to third world countries. Between 1973 and 1983, total external debt of developing countries increased to 809 billions USD from 102.4 billions USD (Balkan, 1993: 142). These numbers are clear indicators of debt led growth of third world countries during 1970s.

Second important implication of increased oil prices was huge foreign exchange surpluses of OPEC countries that seek risky and profitable areas of investment. Since first world countries were experiencing economic recession; commercial banks channelled these funds, petrodollars to third world countries that stimulate economic growth through external debt. Consequently, ratio of total commercial banks credits to developing countries increased to 34 per cent in 1983 from 6 per cent in 1970 (Balkan, 1993: 142).

This economic situation did not continue long. According to Öniş, commercial bank lending was highly concentrated and the international banks were heavily exposed in a limited number of economies. The significant increase in commercial bank credits has resulted in shortening maturities, raising of interest rates and bunching of repayment. Moreover, increased international competitiveness that is discussed above led to the uncontrolled borrowing to third world countries without taking necessary conditions of safeguard into account (Öniş, 1998: 80). This situation resulted in a debt crisis in 1982. Although that a few number of countries including Turkey, Zaire and Peru experienced debt service problems, since commercial banks did not take any measure for preventing forthcoming crisis, the bubble burst on August 13rd, 1982, when Mexico declared that it could not continue to debt service as originally contracted. Although that it was possible to prevent or to postpone the crisis by preparing a package of aid; commercial banks reacted by cessation of voluntarily lending. This shock therapy resulted in deepening financial crisis and expansion of the crisis to other developing countries (Stallings, 1992:60).

With the expansion of the financial crisis, the banks decided to form a coalition to deal with the crisis that aims to reschedule debt payments, provide new money from international banks and additional funds by international institutions and restructuring of borrower' economies by reducing trade and budget deficits and channelling funds to debt service rather than economic growth (Stallings, 1992: 60).

Most interesting point of this strategy was the role attributed to international institutions such as the International Monetary Fund (IMF) and World Bank. The IMF, which began to play an important role in renegotiating debt and postponing default in 1950s, took the pivotal role in debt negotiations of 1980s. First of all, the IMF was providing necessary economic information during negotiations. Secondly, it was proposing an economic program that formed the basis of the standby agreement. Thirdly, it was playing an active role as the monitor and evaluator of the debtor's economic policies to ensure its adherence to the conditions (Lipson, 1992: 283).

This important role played by the IMF has two important outcomes. First of all, with the addition of the Baker Plan of 1985, the IMF gained important credibility as an international institution backed by both of commercial banks and governments of G-7. Although that effectiveness of the IMF stabilization programs is still a matter of discussion; (Öniş, 1998: 11, 84) thanks to its credibility gained during 1980s, the IMF has still an important role in international economy.

Second and more important consequence of the IMF conditionality is visible in components of typical IMF stabilization and structural adjustment programs. Typical programs of the IMF are based on a monetarist description of existing problems. This monetarist description that is labelled as the "Washington Consensus" by Pereira (1993), bases on the assumption that "an exclusive reliance on markets will of itself bring a massive reallocation of resources across sectors and processes" (Pereira, 1993: 6,18). According to this approach, economic crisis is caused by a) excessive state intervention, expressed in protectionism, over-regulation and oversized public sector, and b) economic populism, depicted as fiscal laxity, unwillingness to eliminate the budget deficit. Consequently, economic reforms should in short run combat economic populism and control the budget deficit, and in the medium term should embrace a market oriented strategy of growth, that is reduce state intervention, liberalize trade and promote exports. Most common elements of these programs are liberalization of both trade and investment, removal of protectionist policies, reducing size of the state.[3] These programs were implied in many countries from different regions of the world, from Latin America to East Asia.

In addition to diffusing liberalization programs promoted by both increased international power of the IMF and ideological diffusion as a result of relative successes of Reaganomics and Thatcherism (Kahler, 1992: 92); developing countries pursued liberalization programs as a result of changing environment.

First of all, decreased availability of commercial loans and decreased official direct assistance funds led the developing countries to seek for new resources of foreign exchange. First of these new resources was obtaining foreign exchange through exports as provisioned in structural adjustment programs of the IMF. During 1980 and

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[3] For a detailed list of the IMF measures see Pereira (1993), Kahler (1992), Öniş (1991/1998)

1994, overall average growth rate of exports of low income and low middle income become 5.5 and 11.2 per cents. (World Bank, 1996). Another way of attracting foreign exchange was decreasing entry barriers to foreign direct investment, also provisioned by the structural adjustment programs of the IMF. Ratio of foreign direct investment to total long-term resource flow increased to 46.5 per cent in 1990 from 13.5 per cent in 1980. (World Bank, 1996). Third way of getting more and more foreign exchange was attracting short term and portfolio capital by using interest rate differentials (Öniş, 1998: 515). According to Griffith-Jones and Stallings, portfolio capital flow to developing countries increased to 37 billions USD in 1992 from 4 billions USD in 1980. (Griffith-Jones and Stallings, 1995: 146).

This historical overview of changes experienced by the world economy during 1970s and 80s shows that increased economic openness of countries and subsequent integration of the world economy became a result of reactions of individual countries to changing economic environment. Nevertheless, other factors than economic ones should not be neglected. Information revolution of 1980s, ideological hegemony of the Reaganomics and end of the cold war are some of these important factors that affected the course to globalization. However, I prefer not to emphasis on them, since such a discussion is not within the limits of this paper.

In this part of the paper, I will determine and expose some dimensions of globalization. Parallel to the conceptual chaos, there are many different answers given to the question of "what the dimensions of globalization are". According to Ohmae, a management guru, globalization is "… the often instantaneous movement of people, ideas, information, and capital across border" (Ohmae, 1995, 131). Gereffi defines five characteristics of globalization: i) intensified global competition and new centers of production, ii) technological innovations and consequent shrank of "space and time”, iii) increased role of Transnational corporations, iv) emergence of a global financial system and v) changing role of the state (Gereffi, 1995: 102-103). Arrighi states that globalization is not more than increased power of Transnational Companies and fastened financial interactions. According to them, these two pillars of globalization are tools facilitating to enhance the unipolar US hegemony by creating opportunity spaces for rapid industrialization and higher rates of economic growth for semi-sovereign states such as S. Korea and Taiwan (Arrighi, 1997). According to a group of scholar, globalization is the reaction of capitalism as a world system to the crisis of 1970s. Most distinct characteristics of the situation is the emergence of the tripolar (or the triad) center, namely United States, Japan and Germany or European Union; and the lack of necessitated governance institutions (Amin, 1993: 16,42).

Despite this conceptual dissensus about dimensions of globalization, it is possible to underline some common characteristics attributed to the process: a) financial transactions (movement of capital), b) trade (movement of goods), c) transnational production. In the following part of the paper, I will discuss these four dimensions of globalization.

a) financial flows

It is clearly observable that financial flows after 1980s changed both in volume and in kind. According to Table 1. below that exposes this change, total net transfers of foreign capital increased to 530 billions USD in 1992 from 69 billions USD in 1982. This is a clear indicator of increased volume of financial flows. Another exciting finding of Table 1, is the changing nature of financial flows. First of percentage of portfolio investment to total net inflows increased to 48.6 per cent in 1991-92 from 20.2 per cent in 1980-82. Ratio of other long term capital flow and exceptional financing that includes commercial loans decreased to 18.5 per cent from 43.6 per cent. Since official transfers and direct investment remained same about 14 and 20 per cents, it means that commercial loans are replaced by portfolio investment.

Table 1 also exhibits a clear difference between industrialized and developing countries. According to this table, direct investment and other long term capital are replaced by portfolio investment in industrial countries while other long term capital flow and exceptional financing are replaced by portfolio capital and direct investment.

Another important finding of Table 1 is the distribution of funds across industrialized and developing countries. In 1980-82, industrial countries got 92.3 per cent of portfolio investment, 36,4 per cent of other long term capital, 60.5 per cent of official transfers and 60.4 per cent of investment income. In 1991-92, percentage of portfolio investment did not change significantly, while percentage of other long term capital increased to 93.7 per cent, of official transfers to 78.9 per cent and of investment income to 98.6 per cent. These numbers are clear indicators of the fact that the volume of international capital flows increased however industrialized countries continued to get the lion's share.

Changing nature of foreign capital flows to third world countries is also indicated in Table 2. According to Table 2, after a sharp decrease in 1982, short term capital flows to third world countries increased to 33 billions USD in 1993 from 5 billions USD in 1983.

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Table 1. Annual average long term net inflows and net transfers of foreign capital by type of flow, 1980-92 (billions of USD)

	1980-1982			1983-86			1987-90			1991-92		
Type of Flow	Ind.	Dev.	Total	Ind.	Dev.	Total	Ind.	Dev.	Total	Ind.	Dev.	Total
Official Transfers	23	15	38	26	16	42	51	20	71	97	26	123
Direct Investment	37	18	55	43	14	57	138	23	161	109	45	154
Portfolio Investment	48	4	52	112	3	115	188	6	194	374	37	411
Other Long Term Capital	32	56	88	17	12	29	78	-7	71	119	8	127
Exceptional Financing	7	17	24	12	33	45	3	40	43	1	29	30
Total net inflows	147	110	257	210	78	288	458	82	540	700	145	845
Investment Income	114	74	188	126	84	210	241	93	334	212	103	215
Total Net Transfers	33	36	69	84	-6	78	217	-11	206	488	42	530

Note: Ind= industrial countries, Dev= developing countries.
(Source: (Griffith-Jones and Stallings, 1995: 146).

Table 2. Annual Private Capital Net Flows (All Developing Countries

		1978-1981	1982-1989	1990	1991	1992	1993	1990-1993
Long Term	US$ mill.	53512	34581	44548	57560	98971	157656	89684
	% Exports	12.3	5.9	5.4	6.5	10.9	16.6	10.1
	% GNP	2.7	1.2	1.1	1.4	2.4	3.7	2.2
Short Term	US$ mill.	22586	5379	13097	23404	28873	33546	24730
	% Exports	5.2	0.9	1.6	2.7	3.2	3.5	2.8
	% GNP	1.1	0.2	0.3	0.6	0.7	0.8	0.6
Total	US$ mill.	76098	39961	57645	80964	127844	191202	114414
	% Exports	17.5	6.8	7	9.2	14.1	20.2	12.8
	% GNP	3.8	1.4	1.4	2	3.1	4.5	2.8

Note 1/ Includes all developing countries in the Debtor Reporting System of the World Bank as reported in the World Debt Tables 1994-95. Private long-term net flows comprise long-term debt net flows from private creditors and equity net flows, both direct and portfolio, as reported in the World Debt Tables. Private short-term net flows are total short-term debt net flows as reported in the World Debt Tables (which excludes IMF). Therefore, imputed flows due to the accumulation of interest arrears and to debt stock reduction operations are not included. Note 2/ Percentages of exports and GNP are based on accumulated flows over the entire period reported, so they may differ from the simple averages of annual percentages.

Source: Debtor Reporting System and World Debt Tables 1994-95 (World Bank).

b) Trade

Second dimension of globalization has been defined as trade, increased flow of goods across borders. A study of World Bank shows that between 1980 and 1994 average annual rate of growth of imports of all countries became 7.9 per cent and this ratio was 15.6 per cent for exports (World Bank, 1996). This rapid increase of volume of trade may be admitted as an indicator of higher level of economic integration and increased economic openness of countries.

However, these number should not lead to overemphasize world economic integration. First of all, Table 3 clearly shows that higher income countries experienced higher rates of growth in both of imports and exports. It may be considered as a clear indicator of the fact that increased trade volume does not mean integration of all countries. Work of Hirst and Thompson (1996) show that despite this rapid increase of exports, the Triad (EU, USA and Canada and Japan) and ten most important developing countries still get 83.9 per cent of global exports. These findings challenge the conventional wisdom that globalization means integration of all countries. Nevertheless, increased average openness of all groups of countries should not be neglected.

Table 3. Annual Growth Rates of Exports and Imports

	Imports			Exports		
	1980-94	1980-90	1990-94	1980-94	1980-90	1990-94
low income	2,66	-0,63	3,40	5,49	2,03	3,30
low middle income	12,08	1,31	10,70	11,24	4,15	6,70
high middle income	11,77	0,32	10,69	11,56	4,93	6,15
higher income	10,40	5,12	5,10	37,50	5,83	29,72
Total	7,95	1,37	6,46	15,57	3,85	11,02

(Source: World Bank, World Development Report, 1996)

c) Transnational Production

Transnationalization of production has been admitted as the most important dimension of globalization. Gereffi argues that

“as almost every factor of production –money, technology, information and goods- moves effortlessly across borders, the very idea of distinct US, German or Japanese economies is virtually meaningless. In an era where products consisting of many components are made in a wide variety of countries, what is a “US” computer, a “German” car, a “Japanese” camera….” (Gereffi, 1995: 101).

As it has been previously argued, a transnationalized production argument bases on some assumptions about the world economy. First of all, movement of all factors of production is free that investors have the opportunity to choose most profitable places for their production facilities. Secondly, and as a consequence of the first assumption, transnational corporations are chief actors of the economic game. Since foreign direct investments (FDI) are managed by foreign corporations, it is possible to argue that FDI is a good measure of transnationalized production.

Table 1. above presents that during last twenty years, FDI became an important source of finance for both industrialized and developing countries. Ratio of FDI to total net inflows increased to 31 per cent in 1991-92 from 16.36 per cent in 1980-82. However, same Table shows that share of developing countries in total FDI inflows decreased to 14.3 per cent in 1987-90 from 32.7 per cent in 1980-82. Reversal of trend after 1990 may be attributed to emergence of Eastern European countries as new markets for investment.

Hirst and Thompson show that despite increased volume of FDI, multinational corporations did not become successful in transforming to transnational corporations. First of all, they present that between 70 and 75 per cent of MNC value added was produced on the home territory. Secondly, remaining activity of MNCs was centered on some countries that may lead to the conclusion that economic activities of MNCs are clear indicators of regionalization of the world economy rather than globalization. For example, Asia and Latin America got 90 per cent of total FDI inflows to developing countries between 1990-93 (Hirst and Thompson, 1996: 68, 96) .

An evaluation of these three major dimensions of the process so called "globalization" indicates that the situation of the world economy is far from being "globalized" in idyllic terms. Total volume of financial transactions and capital flows increased, however industrialized countries continued to have the lion's share. World trade volume expanded, however higher income countries experienced both higher levels of growth of exports and lower levels of growth of imports. Foreign direct investment increased, however first activities of multinational corporations remained home limited and secondly, FDI flows intensified on certain regions of the world, rather than creating a base for transnational production.

All of these dimensions show that the world economy is not globalized in Hirst and Thompson's conception of the global economy. Nevertheless, it has to be accepted that there is an important stimulus in the world economy towards more economic openness. For all practical purposes, instead of trying to introduce new concepts such as "weak" or "strong" globalization, I prefer to use commonly accepted term of "globalization". As Shakespeare said four hundred years ago, "whatever the name of rose, rose smells like rose". In the next part of the paper, I will discuss effects of this stimulus on the state, the society and finally on democracy.

Globalization and the State

Effects of globalization on the state became an important field of scientific inquiry. Parallel to, or perhaps as a consequence of conceptual chaos about the phenomena itself, answers given to the question of how globalization affected the nation state[4] are innumerable and away from being consensual. In this chapter some of answers given to this question will be elaborated by emphasizing works of advocators of different approaches. Of course, these works are far from being representative of all of a stream of scientific study. Nevertheless, I preferred to use them, since they represent most common elements of their approaches.

Kenichi Ohmae argues "since nation-states were created to meet needs of a much earlier historical period, they do not have the will, the incentive, the credibility, the tools, or the political base to play an effective role in the borderless economy of today…. The bottom line is that they have become unnatural – even dysfunctional- as actors in a global economy because they are incapable of putting global logic first in their decisions. Nation-states are no longer meaningful units in which to think about economic activity" (Ohmae, 1995:131). According to Ohmae, this failure of the nation state is a result of some numerous factors. First of all, "often instantaneous movement of people, ideas, information and capital across borders" resulted in decreasing control of national governments on these factors of production. Secondly, with the information revolution, "tastes and preferences" begin to converge since people become more aware about how other people live. Third, the nation state, "which was a powerful engine of wealth creation in its mercantilist phase", has become an equally powerful engine of wealth destruction" (Ohmae, 1995:130)..Consequently, the nation state will be replaced by regional states such as California, Northern Italy and Southern China (Ohmae, 1995:133).

It is clear that other scholars even if they are from the mainstream economics, are not so optimistic about effects of globalization on the state. According to Held and

[4] I prefer to use "the state" since most of the states are still nation-states

McGrew, we have to distinguish two concepts: sovereignty and autonomy. They argue that autonomy of the nation state is reduced as a result of different factors. First of all, the end of the Cold War and replacement of the bipolar world order by a multipolar one, resulted in emergence of new supranational security institutions such as the North Atlantic Cooperation Council, the Western European Union and the Conference on Security and Cooperation in Europe. Secondly, after the Second World War, states increasingly engaged in multilateral forms of international governance such as the GATT and the UN. Third, and the most important for our discussion, "there is a disjuncture between the formal authority of the state and the spatial reach of contemporary systems of production, distribution and exchange which often function to limit the competence and effectiveness of economic policies" (Held and McGrew, 1993267-269).

Internationalization of production resulted in increased power of transnational corporations (terms belong to Held and McGrew), which organize production, marketing and distribution on a regional basis. Secondly, globalization of banking and financial services has transformed the finance sector such that "a single global financial market now exists with almost round-the-clock trading" (Held and McGrew, 1993: 268). These two factors erode capacity of the nation-state to pursue autonomous economic management since every economic decision may lead to the reaction of "global" or "transnational" actors thus failure of the economic policy (Held and McGrew, 1993: 270).

According to Hirst and Thompson, the role of nation states changed: "Nation states should be seen no longer as 'governing' powers, able to impose outcomes on all dimensions of policy within a given territory by their own authority, but as loci from which forms of governance can be proposed, legitimated and monitored. Nation states are now simply one class of powers and political agencies in a complex system of power from world to local levels, but they have a centrality because of their relationship to territory and population" (Hirst and Thompson, 1996: 190).

Such a short review of literature about the effects of globalization on the state exhibits some common characteristics of arguments. First of all, emergence of a global finance resulted in decreasing economic autonomy of the state vis-à-vis international actors including speculators to investment funds. Although that scope of globalization of financial activities remained limited as it has been discussed above, increased need of political authorities for foreign exchange resources and increased share of short term and portfolio capital in total capital flows to developing countries, results in decreased state autonomy on monetary and fiscal policies. Crises of Turkey and Mexico in 1994 are clear examples of how irresponsible monetary and fiscal policies of political authorities result first on a fiscal crisis, later on an economic crisis (Öniş, 1998: 378, 526). Moreover, recent crises in Asia and Russia are other examples of how short term financial flows affect economic situation in a country.

Secondly, trade policies of nation states are limited in this economic environment. According to Öniş, "trade protection as an instrument of systematic economic policy, however is no longer available to present day developing countries, or available only on very limited scale, following the pressures for liberalization and reform which affected the whole of the developing world during the 1970 and the 1980s, and more recently the the ex-socialist countries in the context of the early 1990's" (Öniş, 1998: 378)

Third, since FDI became important as a foreign exchange resource, bargaining power of nation-states vis-à-vis MNCs decreased. Withdrawal of IBM from India as a result of pressures of the Indian government in 1979 was a good example of power of national governments. Nonetheless, it is not possible to talk about such an autonomy since many countries compete for attracting foreign direct investment by using new pull incentives. Any radical decision of the government may lead the withdrawal of foreign companies and result in a subsequent crisis of balance of payment.

What is important here for us, is not only limited autonomy of nation states. It has to be considered that the nation state gave up some of its powers voluntarily. In addition to external pressures, as a result of neoliberal economic policies implemented by governments voluntarily or by force resulted in some important consequences. First of all, the state gave up its welfare promoter position through social security spendings and privatization. Secondly, the state abandoned its developmentalist mission. Third, it has been engaged in international agreements such as the GATT, the NAFTA for Mexico and the Customs Union for Turkey voluntarily (Weiss, 1997: 11-15). Reasons of this withdrawal of the state from economy are ideological rather than technical, however discussing this ideological effect is not within the limits of this paper. Nevertheless, whatever the main reasons are, the state in globalization era is in a relatively weaker position compared to pre-globalization period.

Globalization and the Society: Distributional consequences:

Although that neoclassical economic theory argues that higher level of economic integration and removal of trade barriers would result in an efficiency improvement; outcomes of globalization are far from being equal for every society in the world.

According to Qureshi (1996), a World Bank economist; “Globalization has profound implications for developing countries. It creates important new opportunities--wider markets for trade, an expanding array of tradables, larger private capital inflows, improved access to technology. The outward-oriented reforms being adopted by more and more developing countries make the latter both agents and beneficiaries of globalization--these reforms both contribute to globalization and expand opportunities for developing countries to participate in its benefits. By promoting efficiency and productivity and providing a friendlier environment for exports and foreign investment, outward-oriented reforms have been key to recent improvements in the developing countries' economic prospects" (Qureshi; 1996).

However, the picture is not so optimistic for developing countries. Distributional consequences of globalization may be measured at two different levels: at the state level and at the societal level. Meaning that, globalization creates inequality among states, some states become poorer and some others become richer. Secondly, globalization leads to inequality among different societal groups.

First, I will make a description of how globalization affected "global" distribution of the welfare. Table 4 below, produced from World Bank (1996) exhibits economic performances of different groups of countries.

Table 4. Macroeconomic Performance (1980-94)

	Annual Growth Rate	N	Change in Purchasing Power Parity	N	Average Inflation	N
low income	-1,17	45	-6,04	44	58,67	50
low middle income	-0,34	35	-9,98	32	61,57	37
high middle income	1,29	16	0,99	16	90,14	16
higher income	1,99	26	3,83	24	4,85	24
Total	0,07	122	-4,12	116	53,31	127

World Bank, 1996

Table 4 does not indicate an overall growth in the world economy between 1980-1994: average growth rate was about 0.06 per cent. However, it does not mean that the world economy shrank during this era. By analyzing first column of Table 4, it is possible to observe variance between groups of country: while average growth rates of low and low-middle income countries were negative, high middle income and higher income experienced positive rates of growth during this period. This may be considered as a clear indicator of worsening income distribution among countries. Second column provides a better example of this argument: according to Table 4, purchasing power of countries declined in average. However, not all countries experienced such a decline. While PPP (purchasing power parity) scores of low and low-middle income countries declined by 6 and 9 per cent; high middle income and higher income experienced increases in PPP scores. Another indicator of worsening global income distribution is average inflation rates of the countries exposed in Table 1. According to this Table, all of countries experienced higher inflation rates during this period: 53 per cent. Nevertheless, the gap between lower and higher income countries is also visible: while average inflation rate of the high income countries is 4.85 per cent; other countries experienced much more higher rates of inflation. Higher inflation rates of the high middle income countries is a result of economic fluctuations experienced by Latin American and Eastern European countries during this period. It is possible to make a phrase summarizing findings of this table as during this period global income distribution worsened.

This worsened income distribution is not reasonless. First of all, not all countries are equally benefiting from "opportunities" of globalization. Table 3 above clearly shows that there are significant differences among groups of countries in respect of export and import growth rates. According to Table 3, the world economy experienced positive rates of growth in terms of both imports and exports. Imports increased by 7.95 per cent and exports increased by 15.57 per cent per year during this period. It may be considered as a clear example of increased world trade. However, there are some important dissimilarities among countries. First of all, higher income countries experienced higher rates of growth of imports and exports. Furthermore, their volume of exports increased much more higher than their import volume (29.7 per cent vs. 5.1 per cent).

Table 5. Export vs. Imports Growth Rates

	X/M	X/M 80-90	X/M 90-94
low income	2,07	-3,24	0,97
low middle income	0,93	3,17	0,63
High middle income	0,98	15,42	0,58
Higher income	3,60	1,14	5,83
Total	1,96	2,81	1,71

World Bank, 1996

Table 5. above indicates this important variance among countries. While ratio of exports' growth rate over imports' growth rate is positive for all of the countries, only higher and high middle income countries experienced positive rates of growth that indicates the existence of a competitive advantage. It may be considered as an example of worsening balance of payments problem for rest of countries since enlarging exports/imports gap leads worsening balance of payments and increased import dependency.

Table 6. Export Structure

	Change in Export Concentration		Change in Terms of Trade	
low income	-1,24	26	-21,58	42
low middle income	-22,33	22	-9,16	25
high middle income	-18,98	14	-10,03	15
higher income	-18,38	27	3,91	27
Total	-14,44	89	-10,83	109

World Bank, 1996

Table 6 above shows changes in export concentration of countries and terms of trade. Export concentration is an index that measures homogeneity of exports. If a country exports only one good, this index will be 1. Decreasing export concentration shows increased product differentiation and better competitive advantage in world markets. Terms of trade is the indicator that measure relative movement of export prices against that of import prices. An increase of terms of trade means increased competitive advantage in world markets and higher benefits from trade.

According to Table 6, export concentration of all countries decreased by 14.5 per cent, meaning that the world economy experienced product differentiation in exports. Nevertheless, not all of countries similarly accomplished this change. Decrease of lower income countries became much lesser than all other countries. Similarly, only higher income countries experienced positive rates of growth in terms of trade meaning that dependency of all other countries increased. These findings may be considered as clear examples of argument that globalization is not equally beneficial for all of countries.

Substantial difference among countries is also visible in the investment dimension of globalization process. It is so far argued that according to many economists, increased volume of foreign direct investment is the most important indicator of globalization. Table 1 above clearly showed that industrialized countries continue to get the lion's share from foreign direct investment. Of course, it is a significant indicator of uneven nature of globalization. Moreover, not all developing countries benefit from increased volume of foreign direct investment. Table 7 below shows apportionment of foreign direct investments to regions.

Table 7 Annual Long-Term Private Capital Net flows (By Region, Millions USD)

	1978-81	1982-89	1990	1991	1992	1993
Sub :Saharan Africa	4673	2490	920	1548	676	2144
East Asia	7906	9633	20520	25556	42538	62782
Latin America	28850	10311	10651	22755	27894	57708
Middle East and North Africa	4100	3484	167	-130	1609	1618
South Asia	684	2786	2606	2978	1786	5643
Europe and Central Asia	7299	5784	9649	4599	24330	27759
	55409	36381	46503	7707	100825	159647

Source: Arias and Montiel, 1995 p.11

According to this table, share of East Asian countries in total foreign private capital flows increased to 39 per cent from 14 per cent; share of Latin American countries decreased to 36 per cent from 52 per cent. Sum of Sub-Saharan Africa, Middle East and North Africa is 2 per cent of total private capital flows. This variation between different regions of the "globe" is a clear indicator of negative distributional consequences of globalization.

Nevertheless, negative distributional consequences of globalization are not limited with its effects on worsening income distribution between countries. Rather, it also leads to negative distributional consequences within countries. According to Rodrik, "first, reduced barriers to trade and investment accentuate the asymmetry between groups that can cross international borders and those that cannot. In the first category are owners of capital, highly skilled workers, and many professionals, who are free to take their resources where they are most in demand. Unskilled and semiskilled workers and most middle managers belong in the second category" (Rodrik, 1997; 5)
A reconsideration of dimensions of globalization may easily show existence of a gap between societal groups and facilitate to answer the question of which societal actors are losers from globalization. It is so far argued that despite its limited scope, first important dimension of globalization is the increased volume of financial flows. This increase may lead to two different distributional consequence. First, the static one is, as a result of increased capital mobility, capital owners may use their funds by investing in areas with highest profits and shift them as quick as possible to maximize their profits. Consequently, capital owners are the first societal winner group of globalization. Second effect of increased capital mobility, the dynamic one, is the increased risk of financial transactions. Since short term capital is highly mobile, as a result of a monetary or fiscal policy, or another unpredictable reason, foreign capital may leave the country. Financial crises of East Asia and recent Russian crisis are good examples of such a situation. These crises showed that a financial crisis may easily be transformed to an economic crisis. Under such a situation, capital owners are naturally among losers, however, as a result of increased capital mobility, they have the opportunity to cover their losses by "hedging" and other tools. And, it is quite observable that other societal groups, for example workers have no such an

opportunity. Consequently, potential losers of this process are fixed income sectors of the society.

Second dimension of globalization is increased trade volume. Although that developing countries are not among beneficiaries of this increase; some societal groups even in these countries may be benefited from this dimension of globalization. Winners of increased exports are well-known: export oriented sectors of the economy, namely export oriented industrialists, and if there is producers of exportable agricultural goods. Consequently, workers of these industries are among winners of increased export volume. Winners of increased imports are also well known: importers of these goods and upper classes that have to opportunity to consume more and more. If this situation occurs after a period of industrial protection, all segments of the society will be benefited of this increased import volume, since all of them have the opportunity to buy goods cheaper. However, the calculus of openness is not so simple that even every segment of society will be among winners. First of all, domestic oriented industrialists and producers of previously protected goods, agricultural or industrial are losers of this increased openness. Consequently, agricultural workers and workers of previously protected industries are also losers of this increased volume of imports and exports (Rodrik, 1994, 66-68).

Thirdly, increased volume of foreign direct investment has also important distributional effects. This increase also has static and dynamic consequences. First of all, increased volume of FDI creates employment opportunities for host countries. Consequently, workers of FDI attracting countries are among winners of this process since increased demand for laborforce means increased wages. Naturally, domestic industrialists that face with the competition of foreign companies, and workers of these sectors are among losers. The dynamic effect of increased volume of FDI is a result of its increased mobility as a result of deregulated investment environment and increased competition of developing and even developed countries to attract foreign capital. It is so far argued that governments faced with urgent need for foreign exchange gave up their bargaining power. Thus, exit option of foreign firms are now less costly than pre-globalization period, and their mobility significantly increased. Under these conditions, a foreign firm may easily liquidate and shift its investment in order to make higher profits. If such a withdrawal occurs, workers of these firms are mostly harmed segments of the society. Moreover, decreased bargaining power of governments vis-à-vis to T(M)NCs leads to lower levels of work conditions requirements, to attract foreign capital; and thus worsening average working conditions for all of workers since domestic producers will also make pressures to lower these standards, in order to keep their competitiveness against T(M)NCs.

Since implementation of neoliberal adjustment policies occurred simultaneously with globalization, distributional consequences of globalization also include consequences of these policies. According Baer and Maloney, “yet, because of the abandonment of many policies which were ostensibly designed to improve income distribution, and because of the economic hardships accompanying them, neoliberal poliy packages have come under fire being socially regressive” (Baer and Maloney, 1997:311). First important distributional consequence of neoliberal packages, is the sharp decline of real wages. Baer and Maloney states that “numerous authors have noted that after any crisis, the source of income of the upper classes, capital, flows to areas of high return globally, while immobile bears the burden of adjustment at home” Moreover, gross domestic investment also declined dramatically. (Baer and Maloney, 1997: 315).

Globalization and Democracy

In order to make an analysis of effects of globalization on democracy, first, we need to make a clearer definition of the concept of democracy. However, to find a detailed and adequate definition of democracy is not an easy task. Diamond quoted that more than 550 "subtypes" of democracy have been identified by Collier and Levitsky (Diamond, 1996:21). Thus, instead of making a long list of alternative definitions of democracies, I prefer to refer to the definition of democracy of Przeworski.

According to Przeworski, "democracy is a system in which parties lose elections. There are parties: divisions of interests, values, and opinions. There is competition, organized by rules…. Yet beneath, all the institutional diversity; one elementary feature –contestation open to participation- is sufficient to identify a political system as democratic" (Przeworski, 1991:10). In his collaborated article, Przeworski describes his/their conception of democracy as follows: "our definition of democracy is a minimalist one. We follow Robert A. Dahl's 1971 classic Polyarhcy in treating as democratic all regimes that hold elections in which the opposition has some chance of winning and taking office" (Przeworski et. al., 1996:39).

Beyond this definition, the most important point of Przeworski, his definition of democracy as the rule of the game. According to him, democracy is an equilibrium point, which has been accepted by all political actors from political parties to the military and the populace. Consequently, consolidation of democracy is dependent to viability of this equilibrium. Przeworski describes the situation as follows:

"Democracy is consolidated when under given political and economic conditions a particular system of institutions becomes the only game in town, when no one can imagine acting outside the democratic institutions, when all the losers want to do is to try again within the same institutions under which they have just lost. Democracy is consolidated when it becomes self-enforcing, that is when all the relevant political forces find it best to continue to submit their interests and values to the uncertain interplay of the institutions" (Przeworski, 1991:10)

Since the approval of the rules of the game is crucial for the viability and the consolidation of democracy, democracies survive as long as none of political actors uses its exit option and attempts to change rules of the game.

"Hence, the minimal chance required to stay within the democratic system depends on the value of losing in democratic interplay of interests. Those political forces that have an outside option –the option of subverting democracy or provoking others to subvert it- may stay with the democratic game if they believe that even losing repeatedly under democracy is better than a future under an alternative system" (Przeworski, 1991:31)

Consequently, survival of the game, is highly dependent to the satisfaction of players: "… if some important political forces have no chance to win distributional conflicts and if democracy does not improve the material conditions of losers, those who expect to suffer continued deprivation under democratic institutions will turn against them, To evoke compliance and participation, democracy must generate substantive outcomes: it must offer all the relevant political forces real opportunities to improve their material welfare" (Przeworski, 1991:32)

From this perspective, democracy may be considered as a coalition of different societal groups that perceive it as the most appropriate way of regulating competition and this coalition survives as long as the majority of its members are satisfied from democracy as the rule of the game.

Przeworski discussed implications of this definition of democracy by especially emphasizing on political dynamics of economic reform. This discussion is important for us, since many developing countries experience globalization, economic reforms and democratic consolidation simultaneously, even that these three processes are components of the same phenomena.

First of all, economic reform is a problem of establishing a certain level of public support to these reforms. Przeworski states that “to advance reforms, governments must either seek the broadest possible support from unions, opposition parties, and other encompassing and centralized organizations…” (Przeworski, 1991: 182). Logic behind this emphasis on participation of political actors lays upon the fact that every reform process leads a temporary loss of welfare and consequent popular reaction. Hence, this public discontent results in decreased support for government. Since politicians seek for popular support, when they will be face to face with popular discontent, they will try to recover their popular support in order to keep their offices in next elections. Geddes labels this situation as “politician’s dilemma” and states that unless increasing benefits of cooperation of societal actors will be increased, successful implementation of reforms is impossible. (Geddes: 1994: 27-30).

Confidence of societal actors is crucial in first sustaining reforms and secondly in consolidating democracy. According to Przeworski, “people’s evaluation of their future streams of consumption depends on how certain they feel that their consumption will in fact increase as a result of present sacrifices. They are willing to suffer in the short run if they believe in the long run (Przeworski, 1991: 169). Dependent to their level of confidence, voters will vote for alternative reform strategies. If they have higher level of confidence, they will support radical strategies; if they have little or no confidence, they will prefer moderate strategies, even that they will veto radical strategies. (Przeworski, 1991: 173).

Lower level of confidence may also lead to weakening of democracy. Przeworski describes as follows:

“Since a temporary deterioration of material conditions is inherent in any reform process, neither decress or concertation generate immediate economic improvement. … And as pressures mount, governments begin to vacillate between *decretismo* and *pactismo* in search of peaceful resolution of conflicts…. As a result, governments appear to lack a clear conception of reforms and the resolve to pursue them. The state begins to be perceived as the principal source of economic instability. Then comes the time for sorcerers with yet another magic formula. Once confidence in reforms is eroded, each new government tries to make a clean break with the past by doing something that people have not yet learned to distrust. The effect of this style is to undermine representative institutions… The political process is reduced to elections, executive decress, and sporadic outbursts of protests" (Przeworski, 1991: 186).

As democracy is weakened because of this stop and go reforms, pursuit of reforms may result in political destablization. "At some point, the alternative may become either to abandon reforms or to discard the representative institutions altogether. Authoritarian temptations are inevitable. The claimor of discordant voices, the delay caused by having to follow procedures, and the seeming irrationality of conflicts inescapably cause impatience and intolerance among the proponents of reforms…. And on the other side, as suffering persists, confidence erodes, and the government seems less and less competent, temptations are born to defend one's interests at any cost, even at the cost of democracy" (Przeworski, 1991: 187).

Following this argument, we can discuss implication of globalization upon democracy. It is previously argued that globalization has important impacts upon the society and the state. First of all, globalization creates inequalities within societies and between societies. For some segments of the society, globalization creates important opportunity spaces to enlarge their material welfare, and for others, it results in declining levels of welfare. As it is discussed above, capital owners and export oriented industrialists are generally winners of this process, while workers, some of agricultural producers and medium level managers are loosers. Moreover, neoliberal policies also hurt seriously these segments of society. Consequently, income distribution in the society becomes worser and elasticity of the society to welfare consequences of economic policies as a whole becomes higher.

Secondly, distributional capacity of the state is highly declined as a result voluntary withdrawal of the state from its welfare function as a part of neoliberal structural adjustment programs that are discussed above in details. Moreover, globalization reduced the room of manoeuvre of the state as a result of increased volume of financial transactions, extended openness of economy and magnified power of M(T)NCs. Consequently, the state becomes incapable to compensate losses of loosing segments of the society. Thus, these disillusioned segments may withdrawal their supports first from the government and secondly, from democracy.

From this perspective, a scenario for a democratizing country may be described as follows:

In this country, transition to democracy becomes a) from below, with the support of a democratic coalition including different segments of the society varying from labor unions, student organizations to some business associations or b) from above, with a decision of authoritarian rulers. Even in the second case, a democratic coalition is formed by these societal groups. From below or above, after the transition, first governing party is supported by this coalition, or a coalition of different parties that represent different members of the coalition is formed. This first government has two important tasks: to perform economic reforms and to consolidate democracy. Since each reform program leads to a temporary welfare losses and if losses are not equally distributed within society, this democratic coalition that took the form of an electoral coalition begins to dissolve. The government has two opportunities: to pursue reform and take the risk of loosing next elections or to recover electoral coalition. Generally, the government prefers the second choice and relax the reform program in order to consolidate its support. After a time period, the government faces with economic difficulties as a result of pursued populist economic policies. Thus, it then faces with the same dilemma: to pursue economic reforms or to continue to populist policies. This pendulum movement continues for a while, and confidence to the government is highly eroded because of these oscilliations. If this pendulum movement continues for more than one or two elections, some societal segments become permanent losers and some other permanent winners. This situation leads to dissolve of the democratic coalition, and some losing societal groups may support any other form of governance than democracy since these rules of the game did not satisfy them and not provided them a certain level of material level improvement.

Under globalization, this picture becomes more complex. As it is argued above, globalization deepened income inequalities within the society. Thus, tolerance level of losing groups declined. Secondly, the state becomes armless against these distributional consequences, since it gave up them or it has been enforced to do so. Consequently, the state has no capacity to compensate losses of losing societal groups. This increased burden of economic transformation on these societal groups and inability of the state to compensate them, leads to acceleration of dissolve of the democratic coalition.

Naturally, this scenario is not path dependent. Actors of this scenario have possibilities to change their roles and outcomes. The government may prefer include the societal groups to decision making process and thus, try to increase their tolerance level. Or, during the transitional period, some institutions may be established to facilitate communication among societal actors and thus to incorporate them. More important, the government may put special emphasis on distributional consequences of its economic policies, try to compensate them even by attempting to enlarge its room of manoeuvre.

However, if actors of the game do not adjust their roles according to the fact that neglecting distributional consequences of their economic policies may lead to the collapse of democracy; it is possible to observe that consolidating democracy is not an easy task in the globalization era; and the globalization does not per se make democracies survive.

Case Studies: A Tale of Two Countries

In this part of my paper, I will emphasize on two countries from two different regions of the world: Peru from Latin America and South Korea from East Asia. Peru is a good example of a democratic reversal in the globalization era. Although that South Korea is not yet faced with such a reversal, serious economic problems experienced during the last quarter of 1997 and first quarter of 1998, and popular reaction to the government makes it a good case for analyzing interaction between global economic environment and domestic politics. I preferred to use these two countries not as the best representatives of their regions. Rather, these countries are selected because despite huge differences between political economies of these countries, they will allow us to observe how globalization affects democratic consolidation.

Peru: From Authoritarianism to Democracy and Back

In 1967, elected president of Peru, Fernando Belaunde ousted by a bloodless coup by Gen. Juan Velasco. Belaunde, as the candidate of the Populist Party, Popular Action (AP), implemented economic and social reforms, despite hampered by an opposition controlled Congress and faced with a serious economic crisis. Velasco, who assumed the presidency after the coup, dissolved the congress and formed a military dominated leftist administration committed to a participatory, cooperative based model. During his reign, Velasco pursued a manifold reform package. First of all, he introduced a land reform and implied a program to promote life conditions of urban workers. He pursued an educational reform aiming increasing quality of Peruvian human capital. Moreover, during this era, the reformist government encouraged lower class organizations at shanytown neighbourhoods, however failed to incorporate them under the corporatist umbrella of the state. This reorganization of interest groups, extended to industrial and agricultural workers through the establishment of a government agency, named SINAMOS. This organization also failed to incorporate labor groups to the corporatist state (Roberts, 1996:73; Roberts and Arce, 1998:223). With the deterioration of economy, labor militancy grew, internal conflicts increased, leftist movements gained momentum. General Velasco is replaced by General Morales Bermudez as the head of a much more conservative government. The new government halted redistributive reforms, banned strikes, fired striking workers, and adopted an IMF austerity package. These measures caused massive labor reaction. Leftist parties and unions responded with a series of general strikes and mass protest in 1977-78, which included many peasant and shantytown groups as well. (Collier and Mahoney, 1997: 285). The military in turn held elections for a constituent assembly and prepared for a transition to democracy in 1980 (Roberts, 1996:73).

Table 8 Peruvian Presidential and Municipal Elections (percent of valid vote)

	1978 CA*	1980 Pres.	1980 Mun.	1983 Mun.	1985 Pres.	1986 Mun.	1989 Mun.	1990 Pres.	1995 Pres.
Left									
Multiple Parties	29.5	13.9							
United Left			23.9	28.8	24.7	30.5	17.9	8.2	0.6
Acuerdo Socialista/ Izqiuerdo Socialista**							2.3	4.8	
Right/Center Right									
UNO	2.1								
Accion Popular		45.4	35.9	17.4	7.3				1.6
Partido Popular Cristiano	23.8	9.6	10.9	13.9	11.9	14.6			
Fredemo***							31.5	32.7	
Center									
APRA	35.3	27.4	22.7	33.1	53.1	47.1	18.7	22.6	4.1
Independent/Others									
Cambio'90****								29.1	64.4
Union Por el Peru*****									21.8
Others	9.3	3.8	6.7	6.8	3.1	7.8	29.5	2.6	7.5

* Constituent Assembly elections, ** The Acuerdo Socialista was a coalition of small left parties which broke with the IU to participate in the 1989 elections. After incorporating pro-Barrantes independents, the coalition participated in the 1990 general elections as the Izquierda Socialista *** Fredemo was the alliance of the AP, the PPC, and the Movimiento Libertad of Mario Vargas Llosa. **** Cambio'90 was the political movement backing Alberto Fujimori ***** Union Por el Peru was the coalition backing the independent Javier Perez de Cuellar
Source: Roberts, 1996: 74

In 1980, first presidential elections after the coup, ex-president Belaunde, candidate of the Accion Popular, a clientelistic party, was re-elected as president. The Alianza Popular Revolucianora Americana (APRA), a center left party that was admitted as the best organized party thanks to its legacy of a solid base of support among some sectors of the middle and working classes and a regional bastion in the north, was the most important alternative of the AP. (Schmidt, 1996: 321). However, since some of the APRA staff participated to Velasco government, this party was highly identified with the military government. Consequently, in 1980 elections, popular support of this party remained limited. (Bourque and Warren, 1990; 8). After 1980 elections, left parties formed an alliance in September 1980: The Izquierda Unida (IU), and this party took 23.9 per cent in the municipal elections of 1980 and became a challenging alternative to the Right (Roberts, 1996: 74).

Belaunde's rule was highly characterized as a neoliberal regime. First of all, Belaunde's team was assembled from technocrats who had sat out the military years working abroad in banks and multilateral institutions. Naturally, they were reflecting neoliberal priorities: reducing state enterprise and stimulating private investment, opening the economy domestically and internationally through elimination of government intervention in pricing, marketing, and the financial system; reducing tariffs and trade barriers; and maintaining crawling-peg currency devaluations in order to maximize Peru's competitiveness in foreign export markets were among priorities of Belaunde's economic program. (Pastor and Wise, 1992; 87).

According to Bourque and Warren, "Belaunde's second administration, however, proved a great disappointment for those who had hoped the return to democracy would curtail the economic decline of the late 1970s" (Bourque and Warren, 1990; 8). Reasons of this failure were numerous: "privatization was unrealistic, trade liberalization was ill-advised, and inflation management focused excessively on monetary or demand restraint rather than on cost control" (Pastor and Wise, 1992; 91). Between 1980-85, Peru experienced higher rates of inflation, lower even negative rates of growth, and declined terms of trade. Moreover, macroeconomic austerity and orthodox policy further sharpened social divisions: real wages fell over 35 percent from 1982 to 1985. In the same years, the agricultural-manufacturing terms of trade also fell by more then 35 percent, with negative effects -for peasant income. Even the informal sector, a part of the economy that can sometimes benefit from rising inflation, saw its income fall by nearly 20 percent between 1982 and 1985. "In short, the popular classes bore a disproportionate share of the adjustment burden, and the resentment of the poor grew steadily" (Pastor and Wise, 1992; 92-94).

This worsening economic situation led to some important political developments. First of all, revolutionist marxist groups, Sendoro Luminoso and Tupac Amaru gained important power and increased their terrorist activities, including car bombings, an ever widening circle of rural "emergy zones". This increased activity of terrorist organizations, especially of the Sendoro Luminoso responded by the government through increasing repressive activities and supporting military solutions rather than emphasizing on social and economic needs of the region (Bourque and Warren, 1990; 8). Secondly, radical left gaint power, especially in metropolitan areas. Parallel to never declined labor activity, (average number of strikes during this era was about 700 per year, more than last two years of the military regime that was characterized with extraordinary labor militancy); the IU and the APRA, left of the spectrum became major alternative to the AP government (Roberts, 1996:81). Moreover, labor unions were rejecting all attempts of the government to establish a cooperation among societal groups. According to Pastor and Wise, "organized labor opposed this emphasis and was equally eager to demonstrate that the AP-PPC coalition lacked any base of support among workers (Pastor and Wise, 1992; 93).

It was not surprising that, the incumbents had no chance in 1985 elections in which Alan Garcia of the APRA and Alfonso Barrantes of the IU competed for the presidency. Garcia, who was described as a dynamic young leader, clearly identified with the reform elements in the party became president with 53.1 percent of total votes. His opponent, Barrantes did only get 24.7 percent of votes. Meanwhile, the APRA won control of lower and upper houses of the National Assembly. According to Pastor and Wise, Garcia enjoyed a tacit alliance with much of the opposition on the left as well as the support of some business sectors, particularly those tied to finance and nontraditional exports. (Pastor and Wise, 1992; 95).

The APRA government promised to reverse previous policies and pursue worthy social democratic goals, including inflation reduction, economic growth, and income redistribution toward the poor. Discourse of Garcia was also characterized with some populist components. Instead of making a deal with the IMF, Garcia preferred to attack it. He declared that Peru would limit debt service to 10 percent of export earnings. (Pastor and Wise, 1992; 95). The APRA government also made a sharp devalulation to gain competitiveness and then froze the exchange rate to control import costs. Interest rates were mandated downward to reduce the costs of working capital. The real price of government supplied inputs was also reduced, producing a favorable impact on cost pressures. (Pastor and Wise, 1992; 95-97).

However, this program of Garcia was not popular among some segments of the society:

“Garcia's "Plan de Emergencia" was totally short-sighted and produced a short-term boom that did not anticipate the problems resulting from excess demand. With no strategy to deal with growing fiscal imbalances, the period of 1986-89 witnessed an ever-widening public sector deficit. Moreover, Garcia alienated both commercial bank creditors and the international donor community with his plan to limit debt service payments to 10 percent of the country's export earnings. A second phase of his plan, which was to be centered on investment and export growth, never emerged. The Peruvian economy under Garcia grew notably more controlled and distorted. Garcia's actions did little to convince private investors that the government was supportive of their activities. The takeover of the Belco oil company and attempted nationalization of the banking system destroyed the president's credibility in the business sector. The investment environment was further poisoned by political unrest and guerrilla activities, which escalated during the mid- and late-1980s" (CIPE, 1992).

Economic performance of Garcia government was a total failure: After two years of economic growth, the Peruvian economy experienced rapid rates of economic decline, -8.8 per cent in 1988 and –10.4 per cent in 1989. Annual inflation rate increased to 114.5 per cent in 1987, 1722.3 per cent in 1988 and 2775.6 per cent in 1989. Reasons of this economic collapse explained depending to three different factors: First of all, import boom in 1986 and 1987, resulted in declined international reserves, then increased inflation. This shortage of foreign exchange led "dollarization" of the economy. Secondly, the APRA government preferred to imply expansionist policies through government deficits. The economic deficit of the public sector increased to 6.5 per cent in 1987 from 2.4 per cent in 1985. Thirdly, selective price control imposed by the APRA government resulted in "misalignment" in relative prices. While administered or controlled prices rose only 38.4 per cent during the first seventeen months of the program, uncontrolled prices shot up 133.9 per cent. (Pastor and Wise, 1992; 100).

These economic policies of Garcia created important distributional consequences. First of all, increased imports volume and foreign exchange shortages led to the redistribution of income toward capital. Wage share of national income declined to 28.8 per cent in 1988 from 34.4 per cent in 1985, after two years of growth in 1986 and 1987. During this era, profit share increased to 42.5 per cent in 1988 from 38.4 per cent and terms of trade for agricultural sector declined to 53.5 per cent in 1988 from 96 per cent in 1984. Moreover, informal sector income rose over 80 per cent between 1985 and 1987. (Pastor and Wise, 1992; 100-103).

Naturally, economic policies of Garcia were not technical policy mistakes. Rather, Garcia was trying to form a populist coalition that would support the APRA by compensating losers of pre-Garcian neoliberal orthodox policies. However, failure of the APRA government led societal groups to withdraw their supports from the government. As it is argued above, business elites were already suspicious about economic policies of Garcia and despite some limited attempt to incorporate them to decision making process, through regular direct meetings with important business groups; business groups, which were irritated of nationalization attempts of Garcia did not support Garcia's economic policies (Pastor and Wise, 1992; 105-109). Although that working classes were benefited from real wage increases and economic prosperity during first two years of Garcia government, subsequent hyperinflation and economic crisis harmed them seriously and resulted in declining support of working classes for the APRA government. (Pastor and Wise, 1992; 106; Bourque and Warren, 1990: 11). Moreover, economic policies of Garcia were also resulted in declining power of the working class. "Belated efforts to curb hyperinflation under President Garcia's rule caused the Peruvian economy to contract by more than 25 per cent between 1988 and 1990, leading to widespread layoffs among manufacturing workers and public employees, along with a dramatic informalization of the workforce" (Roberts and Arce, 1998: 223). Furthermore, Garcia's economic policies were discredited by the international environment:

"New foreign investment has been a major victim of Peru's political and economic turbulence. Peru's record on attracting new investment has been dismal: Even before Garcia came to power, foreign investment between 1975 and 1984 had grown by a mere 8 percent (annual average), the lowest rate recorded by any Andean Pact country during that period. The rate fell further, to 2.5 percent, between 1984 and 1987" (CIPE, 1992).

When 1990 president elections arrived, economic situation in Peru was dramatic: GNP was declined by 10.4 per cent, the rate of inflation was 2775 percent and the external debt stood at over 19 billion USD (Stokes, 1997:211). Consequently, electoral campaigns of presidential candidates were concentrated on macro economic issues, especially problem of hyperinflation. First important candidate was famous novelist, Maria Vargas Llosa as the candidate of FREDEMO, coalition of the PPC and the AP.Vargas Llosa proposed to resolve the crisis through a neoliberal revolution. According to him, Peru's overgrown state was the main barrier to economic growth and "modernity". The state's role should be restricted to providing essential health, education, and communications services. He was proposing a "radical attack" on inflation with a drastic reduction of the fiscal deficit to stabilize the economy. Fiscal adjustment would be accompanied by structural reforms, including sharp reductions in government personnel, privatization and the repeal of the mercantilist trade protection. Though painful in the short term, the measures promised to increase general welfare in the future (Stokes, 1997:212).

Second candidate, often labelled as “the dark-horse candidate” was Alberto Fujimori, the son of a japanese migrant and a professor of mathematics at the Universidad Nacional Agraria. He was called “the dark horse candidate” because his party, Cambio’90, (Change’90) was not more than an electoral machine organized to manage electoral campaign of Fujimori, and until March 1990, his name was not pronounced among other candidates (Schmidt, 1996: 328). Electoral campaign of Fujimori was based on a centrist position in economic issues. He appealed to the lower and lower middle classes by advocating stabilization measures that would minimize recession and job loss. He opposed a one time draconian fiscal adjusment, the “shock”. Fujimori and his advisors were advocating that a radical economic program would lead to further income concentration, a politically unacceptable outcome in a country with one of the world’s most skewed income distributions. According them, the priority must put on to bring inflation under control through negotiated price controls and wage indexation, only then should gradual adjustments be made in prices of public sector goods and services and in the exchange rate. Contrary to Vargas Llosa’s immediate negotiations with international actors, Fujimori advocated that inflation should be brought under control before debt negotiations commenced. Furthermore, Fujimori envisioned a larger role for the state in the economy than did Vargas Llosa. His platform evoked a “debureaucratized” state that would stimulate selected industrial and agricultural sectors. He opposed Vargas Llosa’s privatization program, instead, he emphasized on increasing efficiency of publicly owned enterprises (Stokes, 1997:213-214).

Although that Llosa took 32.7 per cent of valid votes in the first round, in the second round of presidential elections held in June 1990, Fujimori got 57 per cent of votes and became the president, with the support of the APRA and the left. Most important reason behind this victory of Fujimori is defined as the class based voting. According to Stokes, Vargas Llosa's electoral support was largely urban and middle and upper class while Fujimori was supported by lower and lower middle class. (Stokes, 1997:214). Roberts and Arce state that "lower class urban districts and the poorest regional departments voted overwhelmingly in favor of Fujimori in the 1990 presidential race" (Roberts and Arce, 1998: 225). According to them, the most important factor behind this support of lower classes to Fujimori was his opposition to Vargas Llosa's neoliberal shock program to stabilize an economy in the throes of hyperinflation. (Roberts and Arce, 1998: 225).

Ten days after Fujimori's inauguration on August 7, 1990; "tanks rolled onto the streets of Lima in preparation for the announcement the next day of a package of dramatic price adjustments: the 'shock'" (Stokes, 1997:214). The price of gasoline rose by 3410 per cent, the price of kerosene, used as cooking fuel by poor consumers, by 6964 per cent. Subsidies for many basic foodstuffs were removed, and their prices soared: bread by 1567 per cent, cooking oil by 639 per cent, sugar by 552 per cent and rice by 553 per cent. In addition to this shock program, Fujimori implied economic reforms similar to ones proposed by Vargas Llosa: exchange rate unification and liberalization, reduction and simplification of tariffs on imports, elimination of tariffs on exports, and capital market liberalization. These measures were followed later by fiscal reform, reduction of employment in government ministries and state owned enterprises, privatization of state-owned enterprises and financial institutions, elimination of job security laws, elimination of wage indexation, liberalization of labor relations and privatization of social security. (Stokes, 1997:214-215).

Reasons of this policy switch of Fujimori are still matters of discussion. However, according to Stokes, international actors played an important role in this policy switch.

“If the new president tried to avoid an immediate, painful adjustment his administration would run the course of Alan Garcia’s. If he did not adjust, he ought not to turn to the international financial institutions for help. If he did adjust and complemented ‘realistic’ short term stabilization measures, with structural reforms, the international financial institutions would help him. In other words, if the government did nothing, it would face continued isolation; if it did everything the international financial institutions wanted, it could count on them for full support” (Stokes, 1997:215).

This important role of international financial institutions is visible in Carlos Bolona’s, financial minister of Fujimori government during 1991-93, words:

“The previous president, Alan García, had decided to postpone indefinitely repayment of Peru's massive foreign debts and basically turn the country's back on the international community. As a result, it took a couple of years for us to convince the international community that the Fujimori administration was serious about "re-entering" international markets, to convince the US to lead a support group for Peru, and to obtain approximately a billion dollars to clear our arrears. This was almost an impossible task. In country after country, we spoke about what we were doing, but nobody would believe us. Meanwhile, the IMF and the World Bank expected a lot from us. In essence, they said, "sorry, we can't give you money-yet. First, you need to get your act together." But how on earth could we get our act together without money?” (CIPE, 1995)

Although that Fujimori's shock program, called "Fujishock" led to a sudden decrease in the popular support of the president, by 1992 effects of this economic program have been observed. Inflation decreased to 57.5 per cent in 1992, 10.5 per cent in 1994 and 8.8 per cent in 1995. Despite negative rates in 1991 and 1992, GDP per capita increased by 4.6 per cent in 1993, 11.2 in 1994 and 5.4 per cent in 1995 Fujimori's program was also successful in stimulating international funds. Export volume increased to 4 billion USD in 1995 from 3 billion USD in 1992, while imports rose to 5 billion USD in from 3 billion USD during this period. Volume of FDI increased to 3 billion USD 1995 from 130 millions USD in 1992, meanwhile total debt stock of Peru rose to 33 billion USD from 11 billion USD. (IADB, 1998).

In addition to risen popular support as a result of economic prosperity, Fujimori's popularity increased with the success of the military against the Sendero Luminoso (Bourque and Warren, 1990: 12). Most probably, as a result of this increased popularity, Fujimori decided to make a coup against himself, labelled as "autogolpe".

During his first 15 months, Fujimori enjoyed tremendous policy making power, although that his party, Cambio'90 was not major party in the parliament as a result of weakened positions of traditional political parties of Peru, and power given by the 1979 to issue decrees in any policy area if authority were delegated to it by the legislature. In November 1991, Fujimori issued 126 decree laws on a host of important issues, varying from banning the publication of any information deemed secret by the government to economic issues. However, Fujimori faced with legislative opposition. The legislature modified or repealed 28 of these and censured the minister of agriculture. Moreover, the Court of Constitutional Guarantees ruled against two decree laws (McClintock, 1993:115). Although that such power conflicts are admitted ordinary conflicts between the legislative and the executive branches of government, for Fujimori, these were examples of attack of the opposition to the reform process. An advisor of Fujimori explains the situation as follows:

“Several weeks prior to April 5, the political situation changed when the judicial branch, in a most controversial decision, refused to open the case against former President García. The APRA party, which controlled certain key organizations, including the Court of Constitutional Guarantees, the judicial branch and, to a lesser degree, the Office of the Controller General of the Republic, set in motion a series of activities aimed at uniting and leading the opposition in obstructing the reform process… In its first real opportunity to oppose the reform process, APRA joined efforts with some leftist parties and called for the censure of the Minister of Economy. Depending on the political inclination of the parties, this opposition to the Minister ranged from an overall disapproval of the economic reform program to discontent with the treatment of particular issues” (CIPE, 1992).

On the evening of April 5, President Fujimori announced his self styled Government of Emergency and National Reconstruction, and the military command indicated its support. The night of the coup, security forces had seized several APRA leaders, and had tried to unsuccessfully to capture Garcia. Military officials forced their way into the offices of most of Peru’s main newspapers, newsmagazines and television and radio stations (McClintock, 1993:115). In the week preceding the "self coup", surveys taken by APOYO indicated that only 17% of public opinion approved the performance of Parliament, only 12% approved that of the judicial branch, and only 18% approved that of the Court of Constitutional Guarantees. They also indicated that a scarce 12% of the public had full confidence in the political parties. By deciding to dissolve the Parliament and suspend the operations of the judicial branch and the Office of the Controller General, and by ordering the reorganization of these institutions, President Fujimori reached his peak of popularity with an approval rating of 81% in Lima. Another surprising aspect of this crisis was that 52% of the population perceived the government as continuing to be “democratic” (CIPE, 1992).

This “democratic” regime of Fujimori continued until October 1993, in which elections for the constitutional assembly were held. Opposition parties failed to represent a consensual action. The APRA, the FREDEMO, the leftist Mariateguista abstained and the AP, the PPC and the Democratic Movement of the Left participated. This constitutional assembly (which is called as the “Alka-Seltzer” congress by Belaunde, since Fujimori could dissolve it whenever he felt like it) prepared a constitution that increased powers of the president and allows re-election of the president (McClintock, 1993:119). In 1993 referendum, the constitution was passed, but by a narrower margin, 52.3 per cent to 47.7 per cent. Analysis of results of this referendum showed that Fujimori lost its lower class support, meanwhile won support of middle and upper classes (Roberts and Arce, 1998:230).

Between 1993 and 1995, Fujimori employed an expansionist economic program to sustain a certain level of political support among lower classes. He declared a war on poverty, embarking a campaign to build schools, roads, and public service infrastructure in poor communities across the nation. Spending on poverty relief increased in real terms by nearly 60 per cent in 1994 and another 90 per cent in the election year of 1995. Total government social spending increased from 3 per cent of GDP in 1993 to 7.8 per cent in 1995 (Roberts and Arce, 1998:231-233).

In addition to increased economic prosperity and stability, weakening of the Sendoro Luminoso helped Fujimori to gain important popular support. In 1995 presidential elections Fujimori defeated Perez De Cuellar, ex-secretary general of the UN by 64.4 per cent to 21.4 per cent. Analysis of election results showed that “Fujimori’s support in 1995 was highest in Peru's poorest departments" (Roberts and Arce, 1998:234). It is the clear indicator of success of Fujimori's war against the poverty.

This story of Peru, from authoritarianism to democracy and back, may be considered as a typical example of the democratic reversal in the globalization era. Transition to democracy was achieved with the cooperation of different societal actors, including labor and business elites. However, Belaunde's neoliberal program and Garcia's heterodox program failed to realize expectations of these societal groups. Both these programs harmed working classes, despite a temporary recover in Garcia's government. Garcia's attempt to establish a populist coalition failed as a result of increased international pressures. These programs did not also satisfied business groups because increased economic and political instability and international isolation resulted in increased demands of middle and upper classes for the stability. Center-left and center-right parties were far away from promising a future to Peruvians. Then, it was the time for a hero in Przeworski's words "then comes the time for sorcerers with yet another magic formula" (1991: 186). Fujimori, a professor of mathematics without the support of any party mechanism, supported by lower classes became president by promising economic prosperity with lesser costs to lower classes. However, he did not hesitate to employ a "Fujishock" program with the support of international agencies. Later, by taking advantage of economic prosperity, he suspended the constitution. Even then, public support for this "Caudillo" in McClintock's words (1993), was higher than any political party in Peru. In 1995, Fujimori got the mandate for a new five year term. Nevertheless, it is not possible to answer the question of whether Fujimori will leave his post or not. Without making any speculation for next presidential elections, it is possible to argue that Peruvians defended their interest at the expense of the democracy as Przeworski argued (1991:193). Fujimori summarizes this situtation meaningfully:

“What is more, after the 5th of April we have had the Constituent Assembly and three absolutely faultless elections, with international observers who certified to the integrity of the democratic process. These elections had only one defect: my critics and opponents did not win. That was not my fault. The people made their choice”

South Korea: A Narratum Without An End.

Transition to democracy of South Korea stated at 1987, as a response of increased societal opposition. Since 1960s, South Korea (Korea) was governed by an authoritarian government. Although that some elections were held, they were far being from democratic. Many opposition leaders were banned from political activity. Voting returns were sometimes inflated so as to ensure majorities for the ruling party (Democratic Justice Party, (DJP)). Government held control over the media, thus distorted opposition electoral campaigns. Moreover, the government used its financial power for the direct as well as indirect purchase of voting support. However, such obstacles have not prevented Korean voters from engaging in political participation, and elections never became scenes for mobilized voting. Candidates and parties criticized the authoritarian rule to a degree and voiced demands for policies of democratization. The New Democratic Party of Kim Young Sam, the New Korea Democratic Party (NKDP) were some of political parties that compete against the authoritarian party and even got plurality in elections. Nevertheless, in 1987, Korea was not democratic at all (Cotton, 1989:250).

In 1985 elections, the NKDP led by Lee Min-Woo with the cooperation of Kim Young Sam and Kim Dae Jung, took 29.2 per cent of valid votes and targeted to question the legitimacy of the authoritarian government with the assistance of radical student groups. In February 1986, the opposition launched a petition campaign to prevent automatic succession of the presidency within the DJP, and demanded for a new constitution that would provision direct election of the president by the people. However, the government and the opposition failed to make an arrangement in the parliament about the revision of the constitution. This failure resulted in division of the opposition and formation of a new political party: the Reunification Democratic Party (RDP). Although that the parliamentary opposition failed to enforce the government for democratization, increased student and labor militancy led the DJP to revise the democratization project. In the larger chaebol, a struggle between labor and management took place. Spokesmen of various religions became more vocal in their appeals for the government to return to the path of democratization. Moreover, middle class professionals also were participated student-led protests which grew in scale and in national and international impact. In addition to these domestic pressures, inability of the government to proceed military measures to repress civil disorder because of international pressures and forthcoming Seoul Olympics of 1988; leader of the governing party, Roh Tae Woo decided to lunch a democratization package composed of eight items, including release of political prisoners, to restore Kim Dae Jung's civil rights and to remove restrictions on the press. Furthermore, Roh Tae Woo also declared that free and fair direct presidential elections would be held by the end of the year. (Cotton, 1989:251-253).

First free presidential elections were not a victory for the opposition. Since main denominator of the opposition was being opponent to the DJP, and there were personalistic cleavages among the opposition, it failed to compete against the DJP as a democratic coalition. Roh Tae Woo, the leader of the DJP got 37 per cent of total votes, Kim Dae Jung of the PPD (Party for Peace and Democracy) got 26.5 per cent and Kim Young Sam got 27.5 per cent. Kim Jong Pil, the leader of the fourth party, the New Democratic Republican Party got 8 per cent of valid votes (Han, 1991:93). It was clear that if the opposition would form a democratic coalition, it would easily replace the DJP as the governing party.

However, life was not easy for Roh Tae Woo. In 1988 parliamentary elections, the DJP failed to become the major party: it got 125 of 299 seats. The distribution of seats among opposition parties was as follows: the PPD 71 seats, the RDP 59 seats and the NDRP 35 seats. When all three political parties cooperated they could reject presidential nominations, stall budget deliberations and control the legislative schedule, consequently severely weaken the president's ability to pursue his own policies. (Han, 1991:93).

Industrial relations in Korea had important effect during the transition. Although that labor strikes played an important role in transition to democracy, since there was no labor party under the authoritarian regime, the labor movement could not directly participate in drafting the new constitutions. Moreover, the labor did not play an important role in 1987 and 1988 elections, even that the government party received more support from blue collar workers than the main opposition parties. Reasons of this non-class based voting are numerous, however it is possible to argue that lower level of unionization of Korean workers (Mo, 1996:297). Business also did not play an important role during this process. Since Korea is admitted one of interesting examples of state led industrialization thanks to cooperation of business and the state , in other words “corporatism without labor” , relationship between the government and business elites were very close (Cotton, 1992:523), consequently contribution of business to the transition process would be surprising.

Nevertheless, after the transition picture began to change. First of all, intense political competition among parliamentary parties resulted in the emergence of an opportunity space for the labor movement. The opposition proposed a bill that would radically change industrial relations. However, Roh Tae Woo vetoed this bill which the opposition controlled parliament passed. Following this veto, already mobilized labor militancy gained momentum and during 1988 and 1989 average number of strikes became 1700 while this number was 170 during 1980-1986. Although that Roh Tae Woo government preferred to repress this movement rather than incorporate it, it had to response distributional demands of labor: Real wages increased by 7.8 per cent in 1988, 14.5 per cent in 1989 and 9.4 per cent in 1990 despite labor productivity increased by 14.6 per cent in 1988, 7.2 percent in 1989 and 15 per cent in 1990 (Mo, 1996: 298-299).

The sole problem of the minority government of Roh Tae Woo was not labor movement. There was an important public pressure for investigating past abuses of the authoritarian regime. Although that Roh Tae Woo tried to respond this public pressure (for example, two brothers of Chun (ex-dictator) were arrested), because of organizational linkages of its party, the DJP with the old regime. Thus, Roh Tae Woo had to demand for cooperation of the opposition leaders: in December, Roh Tae Woo and other opposition leaders met in order to design a framework for resolving the Fifth Republic issues including testification of Chun before the National Assembly to answer questions about corruption and abuse of power during his term of office. This cooperation did not remain limited: In January 22, 1990, Roh Tae Woo, Kim Young Sam and Kim Jong Pil announced that three parties merged to form a new Democratic Liberal Party (DLP) that would control two third of the parliament (Hon, 1991:98).

During this era, Korean economy performed well: merchandise exports increased to 75 billions USD in 1990 from 46 billions USD in 1987. Merchandise imports also rose to 38 billion USD from 76 billion USD in 1987. Average GDP growth rate was 8 per cent during this period of time. Private consumption increased by 13 per cent and average inflation rate was 3 per cent However, towards 1992, economy entered to a recession period, annual growth rate decreased to 6 per cent. (IMF, 1994:332).

In 1992 elections, the incumbent party and its leader, Kim Young Sam won election with 42 per cent of total votes. Reasons of this success are matters of discussion, however, Kim Young Sam's reputation as a fighter for democracy despite his coalition with Roh Tae Woo, overall economic performance and lack of a serious institutionalized left wing opposition party are some important factors that determined this electoral victory. (Lee and Sohn, 1994: 2).

Kim Young Sam faced with some important social, political and economic problems: First of all, the Korean economy was experiencing an economic decline and there was a significant pressure for opening up the economy by USA. Secondly, popular discontent against the leaders of the past regime was still alive. Thirdly, labor militancy was continuing to increase. Kim Young Sam started to his reign by declaring a program of liberalization. He planned to decrease substantially the role of the government and encourage participation and creativity in the economy. The plan composed of lowering interest rates and increasing the supply of funds, cutting government's control over the economy and sharing economic burdens by freezing bureaucrats' salaries and prices of manufactured goods. In addition to these economic measures, lowering trade barriers, privatizing government controlled businesses and reducing tax burdens were components of Kim Young Sam's program of "globalizing Korea" (Lee and Sohn, 1994: 5). Later, this program has been fortified by liberalization of financial markets, abolition of the central economic planning agency, opening of various sectors of economy to foreign investment (Lee and Sohn, 1995: 31)

The Korean economy enjoyed a boom in 1994 and 1995 growing about 9 % a year. Few Koreans will admit that they were growing too fast, but they were. The go-for-broke advocates noted that the sectors that were the growth leaders were equipment investment and exports which they interpreted as highly desirable and sustainable, and the inflation rate was just 5% which is about average for Korea, although above other industrial countries. However, resources were under great strain in 1994 and 1995. Labor shortages were popping up everywhere. Imports were rising even faster than exports, and the current account deficit of the balance-of-payments rose to 2% of GDP. Furthermore, the inflation that matters most to households was much above 5% leading to societal discontent (Krause, 1996). Nevertheless, wages continued to rise faster than productivity, consequently Korea lost its competitive advantage in international markets. (Lee and Sohn, 1995: 32) Despite this relative economic prosperity, labor unrest continued and Kim Young Sam preferred to “use the old method of brute police crackdown of labor strikes and disputes. Massive police mobilization continues to come in aid to the management and owners' side. Independent and assertive union leaders are treated like criminals. The police even stormed the sacred Myongdong Cathedral to arrest union leaders, something unthinkable even during the military dictatorships” (Suh, 1995).

Second area of reforms of Kim Young Sam, administrative reforms and cleansing bureaucracy created an important constituency for him despite his failure in sharing the burden. First of all, a new electoral campaign law has been introduced that improved opposition party candidates chances to collect donations. Secondly, the use of fictitious names for bank or other financial accounts have been forbidden by a presidential decree. (Lee and Sohn, 1995: 32) Thirdly, following scandals in tax collection and donations to the DLP, ex-president Roh Tae Woo has been arrested, indicted and tried. Former president declared that during his five-year tenure in office he had collected about 500 billion won (650 million USD) from business firms as contributions to his “governing fund”. These declarations of Roh Tae Woo revealed that all of Korea’s top business firms had made “donations” to Roh on a regular basis. Moreover, another ex-president, Chun Doo Hwan also has been arrested and investigated about the December 1977 coup and the Kwangju massacre. (Koh, 1996: 56-57).

Nevertheless, these reforms did not helped Kim Young Sam’s declining popularity. First of all, despite his popular image as a freedom fighter, his record of making a coalition with Roh Tae Woo and inherited organizational links of his party with the old regime, Kim Young Sam was identified with the corrupted old regime. Secondly, he was accused by being funded by Roh Tae Woo’s “governing fund” in 1992 elections. Thirdly, despite his clear position against Chun, his repression of labor movements via police force and his failure to introduce democratization program, resulted in declining popularity of Kim Young Sam and his party, the DLP. Consequently, in 1995 local elections, the DLP won only three governorships and two mayorships. These results were clear signals of decline of the DLP and Kim Young Sam. (Koh, 1996: 57; Suh, 1995).

If Korea would not be faced with a serious economic crisis at the end of 1997, 1997 electoral elections would be characterized as the first normal transfer of the power through elections. However, this economic crisis made the presidential elections of 1997 unique in Korean history. In January 1997, Hanbo Steel collapsed under 6 billion USD in debts, it was first bankruptcy of a leading conglomerate in a decade. This collapse is followed by the failure of: Sammi Steel in March and Kia, in July. In August, Standard & Poor's, the US credit rating agency, promptly downgraded Korea's debt. The two events triggered an outflow of foreign capital. The South Korean currency, the won, dropped sharply. Foreign banks began refusing to roll over short-term loans to Korea. By early November, the slide in the won was accelerating. Foreign currency reserves started the month at $30bn, less than three months' imports. They fell by half in two weeks (Burton and Baker, 1998). In November, the government applied for the IMF bailout. The IMF became successful in preparing a rescue package worth of 57 billion USD to be contributed by the IMF (21 billion USD), the World Bank (10 billion USD), the Asian Development Bank (4 billion USD9 and G7 countries (22 billion USD) (Park, 1998: 3). However, conditions of this rescue are not very easy to meet. IMF managing director Camdessus argued:

“The rescue program comprises strengthened fiscal and monetary policis, far reaching financial sector reforms, and further liberalization of trade and capital flows as well as improvements in the structure and governance of Korean corporations” (Park, 1998: 3). The IMF also attacked to traditional network of business and the state:“The IMF's objectives were to break as much as possible a cozy network of relationships between the government, banks and giant industrial conglomerates that had helped make South Korea a potent competitor on world export markets but eventually created serious problems for its banking system” (Blustein and Sugawara, 1997:1).

Reasons of this financial crisis are numerous and are matters of another lengthy paper. However, in order to understand dynamics of the crisis, we have to review some distributional consequences of the crisis. First of all, the most harmed societal group is the labor. With the economic crisis, virtually every company is under extreme pressure to streamline its operations to survive -- and that means unprecedented layoffs. About 8,000 people a day are losing jobs, mainly in small- and mid-sized companies, and last year's 2.6 percent unemployment rate is predicted to shoot up to 10 or 12 percent by year's end. This inequality in sharing the burden of the economic stabilization resulted in increasing labor militancy. Leaders of the major unions of the country declared that in the absence of more equal distribution of burden, to take to the streets in massive numbers" would remain the sole alternative (Sullivan, 1998: 17).

The presidential elections of 1997 became a chance for Korea. Kim Dae Jung, the candidate of the alliance of the National Congress for New Politics (NCNP) and the United Liberal Democrats (ULD) of Kim Jong Pil won by 40.3 per cent to 38.7 per cent against Lee Choi Hang of the DJP, the incumbent party. Kim Dae Jung, well known as a democracy fighter (he was not participated to the alliance of Roh Tae Woo and two Kims), emphasized on opening Korean financial markets to foreigners, ordering the chaebol (conglomorates), adopting international accounting standarts and most important persuading labor unions to accept new labor laws that allow companies to sack workers (the Economist, 1998b: 75). Election of Kim Dae Jung is a chance for Korea, because of his reputation as a democrat and higher levels of popular support. Furthermore, instead of repressing the labor, he tries to incorporate them. He promised increasing the unemployment fund in order to expand the coverage of welfare funds. At present, less than half of workers are likely to be eligible for support from a welfare fund (the Economist, 1998a: 60). Moreover, President Kim, a longtime ally of organized labor, persuaded the unions to sign a no-strike agreement earlier this year. He warned them that strikes could scare away much-needed foreign investment. He told them that instead of striking, they should funnel their anger into politics by fielding pro-labor candidates in the June 4 local elections, the first time labor union candidates will be allowed to run (Sullivan, 1998: 17).

This short history of democracy in South Korea presents us how democratic consolidation is affected by distributional factors. Although that labor militancy played an important role in the transition decision of Roh Tae Woo, he and other following political leaders did not prefer to include the labor to the democratic coalition, rather, increased labor militancy has been repressed via the use of police force. This exclusion of the labor from the governing process led to increased fragility of the democratic coalition. This coalition that facilitated transition to democracy, failed to takeover the government in first free elections following the transition probably because of exclusion of some societal actors. Moreover, some opposition leaders (Kim Young Sam and Kim Jong Pil) did not hesitate to form a coalition with the governing party in order to exclude other leaders from government "and guarantee their political career. Although that following government of Kim Young Sam attempted for a bureaucratic movement and cleaning the state apparatus, because of their previous alliance with accused politicians and rumours about his financial resources, he failed to form an electoral coalition that would support him. Rather, as a result of his failure to introduce democratization reforms because of opposition from his own party, he has been totally discredited as a politician. Although that he tried to form an electoral support by improving economic prosperity through import led growth and real wage increases, his often use of police force against labor militancy handicapped this attempt. Moreover, for the medium term, these populist economic policy preferences resulted in the most crucial economic crisis of the country during its history. Main reason behind this failure was his attempt to both consolidate an electoral coalition thanks to its populist distributional policies, and liberalize and "globalize" Korean economy. As it is argued above, conflicting nature of economic liberalization and democratization led to the economic crisis.

It is observed that the new president Kim Dae Jung, is aware of this dilemma. He has to imply a very restrictive adjustment program enforced by international actors. However, he tries to incorporate the labor by promising political inclusion despite short-term welfare losses. This may be considered as a good example of Kim Dae Jung is conscious about the fact that success or failure of the program is very dependent to inelasticity of societal groups, especially labor against temporary welfare losses. Consequently, he tries to increase this inelasticity or toleration level by incorporating the labor to the decision making process.

This incorporative attempt of Kim Dae Jung is a turning point for South Korea. If he will be able to convince the labor to support the reform program and later to incorporate it to the decision making process by establishing new institutions, first the economic program will be more viable and Korea democracy will not be under the treat of collapse. If he fails in this task, economic burden of labor will continue to increase, in turn labor militancy will increase. In addition to serious economic problems, this increased militancy will increase the likelihood of re-emergence of an authoritarian regime that will aim to imply the structural adjustment program, regardless of societal groups and repress increased labor militancy. Choice between these two alternatives is very dependent to performance of societal actors and their willingness to compromise and suffer for short term, in return of long term social, political and economic gains.

Conclusion

It is previously argued that major aim of this paper is to discuss the relationship between globalization and democracy and answer whether globalization makes democratic consolidation easier or more difficult. In the first parts of the paper, I tried to expose different meanings of globalization. This discussion showed that the most common (and economic) definition of globalization is the emergence of an economy in the global scale. An historical analysis of last thirty years showed that globalization is a result of voluntary opening up of countries in order to compensate foreign exchange losses caused by the first and second oil crises, the collapse of the Bretton Woods system and debt crises experienced by developing countries.

A review of different dimensions of globalization, a) financial flows, b) trade and c) transnational production showed that despite the rhetoric, the world economy is far being globalized. Financial flows concentrated in a certain regions of the world, especially in developed and transitional countries and China. Similarly, despite overall growth of trade volume, the core countries experienced much more high rates of growth than peripheral countries. Thirdly, production is internationalized and regionalized rather than being transnationalized.

Later, a review of how state has been affected by globalization took place. It is observed that the state lost some of its powers however it has never been so armless advocated by neoliberal scholars. Furthermore, question of whether the state lost its powers or gave up them is still a matter of discussion. Analysis of effects of globalization on the society showed that globalization leads two different source of economic inequality. First of all, since not all countries benefit from globalization, it creates inequalities between societies. Secondly, some segments of the society benefit from globalization and others do not, thus it also creates inequalities within society.

In order to make a coherent analysis of how globalization affects democracy, we needed a clear description of democracy. I preferred to use Przeworski's definition that the democracy is the rule of the game which has been accepted by all players. And, a democracy is consolidated when none of players seek for new rules of the game. This definition leads us to conclude that economic performance and distributional consequences are important since if one of players is not materially satisfied, it may use its exit option and attempt to change rules of the game. Thus, I argued that inequalities created by globalization makes democratic coalitions composed of players that favor the democracy as the only rule of the game in the town, more fragile and disability of the weakened state to compensate distributional inequalities makes difficult to survive for these coalitions. Answer to theoretical question is that consolidating democracy is not an easy task in the globalization era; and the globalization does not per se make democracies survive.

Case studies helped us to give two good examples of this difficulty. Peruvians disillusioned by bad economic performance and worsening income distribution, preferred economic stability and material welfare at the expense of democracy and supported a "caudillo". South Korea did not yet experience a reversal, however, if the new government fails to compensate losses of lower classes, it is possible to observe increasing militancy of labor and students and subsequent emergence of an authoritarian regime.

To conclude, it is possible to argue that despite that globalization and democratization occurred simultaneously, globalization does not facilitate consolidating democracies. And, governments have to pay attention distributional consequences of their economic policies, if they do not want to restore an authoritarian regime. Every democracy is better than non-democracy, since democracy is the rule of game in which players have the chance to change their roles in the game.

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