Why did Korea, Japan, and Taiwan follow distinct modernization trajectories, despite their similar histories, cultures, and positions in the international system? All three had credit-based, price-administered financial systems; yet these similarly structured systems were wielded differently to help produce widely divergent industrial structures. While small and medium enterprises (SMEs) in both Japan and Taiwan flourished as the major employers and exporters, the underdevelopment of SMEs in Korea remained unmistakable. Despite the strong growth of Korean SMEs in the 1980s, the nation still had far fewer such establishments than either Japan or Taiwan (see Table 1).

This article has two aims: (1) to explain differences in financial policy toward small business among the three countries and (2) to account for similarities in the process of policy change over time. The evidence suggests that economic policymaking in East Asia is best explained not by the technocratic preferences of an elite bureaucracy, nor by the bottom-up pressures of organized interests, but by political exigencies and the choices of the regime coalition. Each ruling group had to win a competition for power with other elite policy factions and then had to build paternalistic, or patrimonial, authority in the eyes of society. These political tasks were central in shaping financial policy.
TABLE 1  Variations in Small Business Activities in Korea, Japan, and Taiwan

<table>
<thead>
<tr>
<th></th>
<th>Korea (%)</th>
<th>Japan (%)</th>
<th>Taiwan (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of SMEs per 1,000 people</td>
<td>4.3 (1988)</td>
<td>7.2 (1986)</td>
<td>6.7 (1986)</td>
</tr>
<tr>
<td>SME share of manufacturing employment</td>
<td>57.6 (1986)</td>
<td>74.4 (1986)</td>
<td>70.6 (1985)</td>
</tr>
<tr>
<td>SME share of manufacturing value-added</td>
<td>37.6 (1985)</td>
<td>54.7 (1985)</td>
<td>42.5 (1985)</td>
</tr>
<tr>
<td>SME share of manufacturing exports</td>
<td>35.0 (1986)</td>
<td>60.0+ (1986)</td>
<td>60.0+ (1986)</td>
</tr>
</tbody>
</table>


The argument here builds upon, but also modifies, earlier models. Developmental state arguments\(^1\) have sharpened our understanding about how these Asian states outperformed the market by showing what kind of intervention facilitated late industrialization, but they have not addressed the question of why the state intervened the way it did. East Asian countries are far more network-oriented than their Western counterparts, and what Noble calls the “new Japan, Inc.” school has convincingly shown that the policymaking process was not the one-way street portrayed in earlier developmental state models but rather a series of policy networks between the government and the private sector.\(^2\) But networks continually shift while network models cannot specify the relative power of each player or network and therefore leave policy differences indeterminate and unexplained. Also, placing too much emphasis on the consensual nature of the government-business relations slights the conflictual and power-based nature of policy making—that is, politics. By expositing the dynamics among the state power holders, bu-

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reaucrats, and societal groups, therefore, the *dirigiste* coalition politics model that this article develops sheds light on the political origins of financial policymaking.

Before I begin, a brief aside on terminology is in order. The terms “SMEs” or “small businesses” used interchangeably in this article denote manufacturing enterprises with no more than 300 employees in Korea, albeit with some exceptions allowed since 1992 for labor-intensive industries. Japan's official definition of small manufacturing business varies marginally from that of Korea's: enterprises with no more than 300 employees or total paid-in capital of ¥ 100 million. Japan's more flexible definition permits use of either the number of employees or the total paid-in capital as the criterion for small business. As for Taiwan, it officially defines small manufacturers as those firms with no more than total paid-in capital of NT$ 40 million and total assets of NT$ 120 million. Probably because its industries have been heavily labor-intensive, Taiwan since 1982 has stopped using the number of employees criterion in defining SMEs, which makes international comparison harder. And whereas Korea and Japan use only quantitative criteria, Taiwan utilizes an additional, qualitative criterion of “independent management,” a measure that can be used to exclude small subsidiary firms of large enterprises from the SME category.

While the official definitions of small business in the three countries are not exactly the same, most of their statistics on SMEs are actually based on the number of a firm's regular employees. In practice, therefore, the contrast between Korea and Taiwan is not as great as one would expect. The Taiwanese definition just tends to be stricter: independence as well as under 300 employees in manufacturing.

**The Analytical Framework**

Two main factors explain financial policy toward small business: the degree of organization of SMEs and the type of regime coalition. I use two measures of SME organization: (1) organizational cohesion and (2) membership size. Japan has a strong tradition of organized SME interests, while Korea and Taiwan do not. As of 1997, Japan's National Federation of Small Business Associations (NFSBA) had well over 35,000 SME cooperative associations; the Korea Federation of Small Business (KFSB) had 710 such members; while Taiwan's nominally peak organization—the National Association of Small & Medium Enterprises (NASME)—counted only 14 associations and less than 2,000 member companies. Reflecting the cohesiveness of Japanese SME interests, over one-third of the NFSBA's budget still derived from the annual dues paid by its member associations, even though the government's subsidy had continuously risen. By contrast, membership
<table>
<thead>
<tr>
<th>Organization of Small Business</th>
<th>Type of Regime Coalition</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Strong</td>
<td>Modernization strategy</td>
<td></td>
<td></td>
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<td></td>
<td>Unbalanced</td>
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<td></td>
<td>Financial policy</td>
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<tr>
<td></td>
<td>Large-firm oriented, though small firms funded locally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Japan in the 1950s and 1960s</td>
<td></td>
<td></td>
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<tr>
<td>Weak</td>
<td>Modernization strategy</td>
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<td>Financial policy</td>
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<td></td>
<td>Large-firm oriented</td>
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<tr>
<td>Country</td>
<td>Korea in the 1960s and 1970s</td>
<td></td>
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<tr>
<td>Japan in the early 1970s</td>
<td>Modernization strategy</td>
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<tr>
<td></td>
<td>Balanced</td>
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<tr>
<td></td>
<td>Financial policy</td>
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<tr>
<td></td>
<td>Small-firm oriented</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Japan since the early 1970s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea in the early 1980s and Taiwan except in the early 1970s</td>
<td>Transition to small firm-oriented policy, though large firms still better funded overall</td>
<td></td>
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</tr>
</tbody>
</table>

Postwar dirigiste regime coalitions in the three states can be classified as either growth- or stability-oriented. A growth-oriented coalition is one that pursues rapid growth at almost any cost, including high inflation, regional imbalance, or great concentration of wealth. A stability-oriented coalition, in contrast, is one that actively pursues small business support and thus economic development with stability, equity, and redistribution. Growth-oriented coalitions chose “unbalanced” modernization strategies, while stability-oriented coalitions chose “balanced” ones. Modernization strategy runs the

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4. The modernization debate cast in terms of Albert Hirschman’s “balanced” vs. “unbalanced” economic development strategy started in the late 1960s in Korea, the point in time when the nation embarked on a full-scale, export-led industrialization strategy in its Second Five Year
gamut of government policies, including ones both macroeconomic (budget, tax, and monetary) and microeconomic (industrial). By adopting unbalanced strategies in situations of economic backwardness, growth-oriented coalitions concentrate scarce government-controlled capital into strategic industries. The balanced strategies of stability-oriented coalitions employ credit allocation policies more favorable to small firms. Table 2 gives a simplified classification of financial policies in the East Asian cases.

The *dirigiste* coalition politics model explains not only the snapshot differences but also remarkable similarities in processes of policy change. The model underpinning political dynamics developed here builds on Cheng and Noble and uses two main causal variables. The first variable is domestic or international crises or both, whose threat to the regime causes political leaders to alter their coalitions and strategies. As Stephen Krasner's "punctuated equilibrium" model explains, exogenous shocks can create moments of openness to change in otherwise static institutional configurations. Hence, this article closely investigates the crisis years in the wake of which the East Asian states shifted to balanced modernization strategies: the late 1970s in Korea; the late 1960s and early 1970s in Japan; and the 1949 flight of the Kuomintang (KMT) government to Taiwan.

It should be noted in passing, however, that crisis is neither sufficient nor necessary a condition for change in power balance or in strategy choice. Not all exogenous shocks disrupt the equilibrium enough to lead to modification of regime coalitions or institutional arrangements. Nor is regime-threatening crisis necessary for existing balance of power to shift to alter modernization strategy. One intriguing example would be the passing of Meiji oligarchs from the scene mostly by way of natural deaths, which led to the rise of the military and militarism in Japan in the first half of the 20th century. But strong state authorities such as those in Korea frequently did make or reverse major policy decisions even without any crisis.

As for the second causal variable, it is the shifting balance of power between regime coalitions within the statist institutional structure and policy


Static Variations and Dynamic Changes in Financial Policy toward Small Business

In the following section, I outline the financial policy changes toward small business implemented in Korea, Japan, and Taiwan as well as the remarkable policy variations across the three countries. In particular, it illustrates the causes of policy changes. Because of space limitations, Korea in the early 1980s provides the main body of evidence, with comparisons drawn through brief examinations of the policy change processes in Japan's Liberal Democratic Party (LDP) in the early 1970s and the post-1949 KMT in Taiwan.

Korea

The chaebol-based, growth-at-any-cost strategy taken by the Park Chung Hee regime (1961–79) smothered the development of Korea's small business. That military authoritarian government's political survival required a strategy that delivered quick and rapid economic growth and tight control of the society and economy. The result was a sword-won coalition in which the chaebol were used to achieve the regime's developmental aims. The banks were the major source of external funds for the corporate sector through the mid-1980s, while small businesses suffered. The SME share of deposit money banks' credit had stagnated in the 1970s and in fact declined significantly in the latter half of the decade owing to a change in the definition of SMEs (5–199 regular employees until 1972, but 5–299 thereafter).

But the successor regime that lasted 1980–88 under another military strongman, Chun Doo Hwan, initiated marked changes in its SME policy. It gave small firms better access to bank credits than large firms. The SME share of bank credits being disbursed increased to 45% by the mid-1980s from 20%–30% during the 1970s. That reversal in the credit allocation re-

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7. For a full discussion on the strategic choices that the Park regime made and how the choices in turn engendered a dirigiste developmental disease in Korea, see Hun Joo Park, “Dirigiste Development as Disease: The Political Sources of Financial Policy toward Small Business” (Seoul: Korea Development Institute, 2001), esp. ch. 4.

resulted not just from the regime's elimination of preferential interest rates to export and heavy and chemical industrialization (HCI) sectors in which the chaebol predominated but also from a policy of requiring banking institutions to reserve a certain portion of industrial credit for small firms. Nevertheless, as the following section on Japan details, Korea's financial support for SMEs remained far smaller than Japan's.

**Japan**

Prime Minister Ikeda Hayato (1960–64) championed a postwar unbalanced modernization strategy in Japan, pulling together a national consensus for industrial expansion. His income doubling plan of the 1960s (formally adopted and launched by the cabinet on December 27, 1960) crystallized this policy of state-led, unbalanced, and aggressively debt-financed industrialization. As the governing LDP's financial policy stayed skewed in favor of big business, small firms, which historically had had relatively low asset bases, remained susceptible to high rates of bankruptcy. As a result, even after the LDP dramatically buttressed its financial support for SMEs in the early 1970s, the Japanese corporate bankruptcy rate stayed high in the late 1970s. The 1977 bankruptcy rate of 1.31% (or 18,471 failed firms), for instance, was four times higher than that in the U.S.

Nevertheless, SMEs under Japan's growth-oriented coalition were clearly better funded than Korea's. To be sure, big city banks funneled scarce capital into large firms both in Japan of the 1950s and 1960s and in Korea of the 1960s and 1970s. But in Japan, small enterprises could turn to numerous local banks and credit cooperatives. As of 1956, these local financial institutions supplied 59% of the total SME loans and the public banks a mere 8.1%. In Korea, local banks remained undeveloped and non-banks only incipient, and in any case allocated even less of their loans to small firms than

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10. Historically, there exists a close correlation between the change in financial policy or money flow and the change in the activity of small manufacturers. See MTI, Chungsokip'yonram [Handbook of small business] (Seoul: MTI, 1993); and Park, “Dirigiste Development as Disease.”


big banks did. Hence, the SME share of the credits from all financial institutions in Japan reached 40% by the early 1960s and 45% later in the decade.\textsuperscript{14}

Yet even against this backdrop, Japanese SME policy of the early 1970s was a dramatic shift. As Calder has shown, loans from three governmental SME-oriented financial institutions (People's Finance Corporation, Small Business Finance Corporation, and Central Cooperative Bank for Commerce and Industry) grew explosively in the early 1970s, soon surpassing government loans to big firms (provided by the Japan Development Bank and the Export Import Bank of Japan).\textsuperscript{15} The no-collateral program of the People's Finance Corporation in 1973—funding manufacturing firms with under 20 workers and to service enterprises with under five workers—was a particular success.

As Kim demonstrates, the public financial institutions specializing in SME financing maintained about a 12% share of all SME loans through the 1970s.\textsuperscript{16} Only after nationwide city banks sharply increased SME credits after the early 1980s did the public financing corporations' share slip to around 7%. In brief, largely thanks to the special SME financial institutions, the SME share of all outstanding loans in Japan reached 52% by the mid-1970s, up from less than 45% in 1970.\textsuperscript{17}

\textit{Taiwan}

Perhaps the most striking difference in industrial structure between Taiwan and Japan or Korea is that Taiwan's big private groups remain considerably smaller, less diversified, and less leveraged. SMEs in Taiwan have been almost as thriving as those in Japan, although not as good at accumulating high technologies. As of the mid-1980s, SMEs in Taiwan employed 70.6% of its workforce versus 56.2% in Korea.\textsuperscript{18} Taiwanese SMEs, like their Japanese counterparts, were also the country's major exporters. In the mid-1980s,

\begin{itemize}
  \item \textsuperscript{14}Nakamura Hideichiro et al., \textit{Gendai chusho kigyoshi} [History of the modern medium and small enterprise] (Tokyo: Nihon keizai shinbunsha, 1981).
  \item \textsuperscript{16}Kim Dae Sik, \textit{Chungsokiop chiwonkumyung chedowa chongch'aekewi munjeomkwa kaesenpangan} [The problems and reform measures of financial system and policy for small business support] (Seoul: Small Business Research Institute, 1995).
  \item \textsuperscript{17}Nakamura et al., \textit{Gendai chusho kigyoshi}. The augmented financial policy bias toward SMEs in Japan was particularly remarkable because up until the mid-1980s, the corporate sector raised 89% of its external funds through indirect finance, while only 11% through direct finance in the domestic or foreign capital markets. Yoshio Suzuki, \textit{The Japanese Financial System} (Oxford: Clarendon Press, 1987), p. 13.
\end{itemize}
Taiwanese small firms' exports were more than 60% of the country's total, as contrasted with only 35% in Korea.\footnote{Ibid. See also Small and Medium Industry Promotion Corporation (SMIPC), \textit{Major Statistics of Small and Medium Industries} (Seoul: SMIPC, 1991), pp. 160–66, 171–78.}

What makes the Taiwanese case doubly interesting is that the \textit{dirigiste} state in Taiwan never aggressively used the financial system as an industrial policy tool, although its control over the financial institutions was as firm as in the other East Asian states. Taiwan's central bank and 16 commercial banks dominated the banking sector—or for that matter the entire financial system—in terms of financial assets and outstanding loans. The Taiwanese equity market stayed underdeveloped. The combined assets of the central bank and the commercial banks amounted to well over 70% of those of all financial institutions in Taiwan. Although it began to change after the early 1990s, the old commercial banks were all wholly or partly (at least over 50%) government-owned and therefore entirely subject to government regulations, not to mention the central bank.\footnote{Jia-Dong Shea, “Taiwan: Development and Structural Change of the Financial System,” in \textit{The Financial Development}; and Ya-Hwei Yang, “Taiwan: Development and Structural Change of the Banking System,” in \textit{ibid}. See also Tun-jen Cheng, “Guarding the Commanding Heights: The State as Banker in Taiwan” in \textit{The Politics of Finance in Developing Countries}, eds. Stephan Haggard, Chung H. Lee, and Sylvia Maxfield (Ithaca, N.Y.: Cornell University Press, 1993).}

Furthermore, the KMT state had statutes for encouraging investment in specified sectors (which changed over time) although such targeting was more limited than in Korea or Japan. But KMT targeting mainly allocated industrial credits to military and state-owned enterprises (SOEs), and to a lesser extent to exporters. Especially in the 1950s, when the party-state pursued import substitution industrialization, it closed the domestic market and supplied preferential industrial investment funds to SOEs. As a result, the SOEs accounted for some 57% of total industrial production in the early 1950s (steadily declining to about 20% by the mid-1980s).\footnote{Alice Amsden, “The State and Taiwan’s Economic Development” in \textit{Bringing the State Back In}, eds. Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge: Cambridge University Press, 1985), p. 91.}

As late as 1983, 30% of bank loans in Taiwan went to the SOEs; and the KMT and its government directly or indirectly controlled about half of total corporate assets (NT$ 380 billion) in Taiwan in the 1980s.\footnote{W. Bello and S. Rosenfeld, \textit{Dragons in Distress} (San Francisco: Institute for Food and Development Policy, 1990), pp. 232–33.}

Nonetheless, SMEs did receive special, if limited, financial treatment. Besides funneling low-cost bank loans to the export sector, where small firms thrived, the KMT established eight SME banks by reorganizing savings and loan companies. The SME banks' share of all financial institution assets grew from 2.2% in 1976 to 5.8% in 1991. And the SME share of Taiwan's
outstanding bank loans steadily and incrementally increased to almost 40% by 1988. Also, by contrast with the Korean authorities, the KMT never repressed and in fact encouraged the development of an unregulated curb market, a major source of small firms' external funds (Japan no longer had any significant unregulated financial sector by the mid-1950s). Although curb market interest rates were higher, credit availability, not cost, posed the most pressing problem for the business sector in the rapidly growing economy. The curb market supplied about 30%–40% of the external corporate funds in Taiwan.²³

**Dirigiste Coalition Politics and Financial Policy Change**

There was great similarity in the historical and institutional processes of policy change toward SMEs across three countries under study, despite the striking differences in policies themselves. This section discusses the causes of financial policy alterations as regime shifts led from unbalanced modernization strategies to balanced ones. At base, it was the key state power-holders rather than bureaucrats or interest groups who determined the financial policy shifts.

**Korea**

The domestic and international crises of the late 1970s hastened the downfall of the growth-driven coalition and its unbalanced modernization strategy. By then, there were clear signs of failure in the overly ambitious HCI drive on which President Park staked so much political capital. Inflation got out of control. Unemployment soared. In the 1978 National Assembly election, for the first time the ruling party failed to win more popular votes than the opposition, despite the less than perfectly free and fair electoral environment. Korean exports experienced negative growth in real terms in 1979 and after the second oil shock the economy contracted by 4.8% in 1980, the first negative growth since Park began the state-led modernization.

Only by exploiting the crisis situation was Chun Doo Hwan able to take power and subsequently establish a stability-oriented political coalition. But the ground-shaking crises of the late 1970s did not directly cause Korea's switch to balanced modernization. The new power holders had three alternative modernization strategies from which to choose. The first was to continue the strategy of chaebol-centered, highly inflationary heavy and chemical industrialization. A second was to free the market from tight government control, treating government intervention as the cause of economic problems in

Anglo-American style. And the third approach was to adopt a less unbalanced modernization strategy, borrowing from the Japanese experience of the 1970s.

The intellectual and political forces favoring the first strategy centered around the MTI and the older generation of *dirigiste*, Japanese-trained bureaucrats. But the continuing economic troubles of the early 1980s and the excesses of some HCI projects left the HCI model politically discredited, and the new power holders discarded it. But the free market model and the statist balanced modernization model continued to compete with each other. U.S.-educated economists and technocrats have played a central role in policy debates since the early 1980s, succeeding Japanese-trained ones of the previous era. Among them, some believed that a strict American free market system or British-style Thatcherism was necessary to assure the nation's future prosperity. Others advocated a statist modernization that they termed “balanced” and touted as “economic growth with stability, justice, and redistribution.” At the theoretical level, each model constituted what Hall calls a non-falsifiable “policy paradigm”: Each presented an equally plausible vision for attaining continued economic development.²⁴

The Korean modernization debate of the early 1980s did not happen in vacuum but within constraints set by the national context. The statist context—stemming not just from colonialism and rapid modernization, but from the traditional Korean state-society relations—was a powerful influence on the choice made. The historical concentration of power in the central state and the presidency in Korea favored a statist approach, weighing against the free market model. The *dirigiste* state did not wish to yield control of the economy. The bureaucrats and powerholders believed that the government knew better than the market. The *kwajon minpi* idea—literally “officials exalted, people despised”—has run deep in the Korean psyche. The strategic choice was not just about the question of what leading industries to develop but how to set the nation's goals and priorities right.

Yet, interestingly, the line bureaucracies—particularly the MTI—played only a minor role in the SME policy change at the turn of the 1980s. The MTI, after its deep involvement in executing the HCI plan, was preoccupied with efforts to restructure the HCI sector and in assessing what impact the measures the new regime imposed—arbitrarily, in MTI's view—would have on that sector. Grappling with how to sustain heavy and chemical industries,

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the ministry had no time to devote to any new or bold SME promotion policies. But it was not just a matter of the ministry's priorities and past commitments. Rather, the kind of decision that a large change in policy required demanded political support. As the ministry for industries big and small, the MTI in principle had no reason to object to strengthening industrial policies supporting small business. My interviews confirm a consensus existed at least within the MTI's SME Bureau about the need for bolstering small firms. But the ministry officials had to take their cues from the top; they could not call the shots. As Chang Ji-Jong, director of the Small and Medium Enterprise Policy Division at the MTI, noted, “As with all major reforms or radical policy changes, the SME Bureau or even the MTI alone could not possibly initiate such a policy turnabout; the support from above at the political leadership level was critical.” The SME bureau of MTI handled incremental expansion of existing policies and current pressing problems small firms faced as always, but they could not initiate strategic financial policy decisions, which were inevitably matters of political concern.

It is important to grasp that the strategic financial policy changes of the early 1980s was against entrenched chaebol interests. Big business certainly has constituted one of the most powerful interest groups in Korea, as in many societies. Lindblom's celebrated argument notes the privileged position of business in capitalist market economies generally. Yet in Korea, the chaebol groups, despite their wealth, ultimately remained creatures of the state and subject to its authority. The president, acting through the economist-technocrats who managed the Korean state, had the decisive say in recasting the nation's modernization strategy. In that situation, the chaebol could have acted vis-à-vis the state more collectively and forcefully than they did through the Federation of Korean Industries (FKI). But they knew better than to do so, given the strong state's capital-rationing role, their own dependent development history, and the public's experiences of imbalance and socioeconomic inequity. Chaebol groups and the FKI almost always preferred making informal, behind-the-scene's policy recommendations to bringing any issue of concern directly to the public or even voicing their views or interests aloud. They were concerned not to offend state officials or arouse the feelings of many who resented having been marginalized by the

25. Author's interviews with former and current senior officials of the Economic Planning Board (EPB), Ministry of Finance (MOF), and MTI, Seoul, summer 1995. The EPB and the MOF merged to become the Ministry of Finance and Economy at the end of 1994.


28. The FKI remained a strong peak organization (426 chaebol company members) with 150 employees and over 10 billion won annual budget as of 1996.
wrenching process of unbalanced modernization. While pluralistic interest group models and the power elite model of politics presuppose organized societal interests, Korea sorely lacks the organizational bases sufficiently independent of the state to articulate interests non-hierarchically or from the bottom-up.\footnote{Chong-Min Park, \textit{Hankukeui chibangchongchiwa toshikwonryukkujo} [Local politics and urban power structure in Korea] (Seoul: Nanam, 2000).} Far from being responsive to particular pressure groups, the Korean state enjoyed great liberty in conferring blessings and special privileges upon some groups and withholding them from others. Especially during the highly repressive early years of the Chun regime, \textit{chaebol} firms prostrated themselves before their state masters. Even the biggest \textit{chaebol} groups depended on the state for their dominant position in the oligopolistic domestic market structure, in good times, and for access to often gigantic bail-outs in times of crisis.

Nor was Korea's policy change much influenced by the presence of small business as an organized political group. After decades of state-led, unbalanced industrial expansion that enormously benefited big business, small firms were largely unorganized and had little political power. While the number of SME cooperative associations gradually increased in the 1960s (from 117 in 1962 to 176 in 1967), it stagnated thereafter (175 in 1972; 177 in 1977). The number started to grow impressively only in accord with the increasing government support after the early 1980s: from 193 in 1982 to 338 in 1987 and 710 in 1997. Nonetheless, the level of SME interest aggregation and articulation remained painfully low. As of 1997, still only about 37,000 small manufacturers (or 12.3\% of the total) and roughly 24,000 non-manufacturing small firms (1\% of the total) belonged to the KFSB, the supposedly peak organization for representing SME interests. And their membership fees covered less than 5\% of the federation's budget. One KFSB official stated bluntly: "We cannot compete with the financial resources, human networks, and political connections of the \textit{chaebol}.'\footnote{Author's interview with senior KFSB official in Seoul Korea, summer 1995.} The KFSB itself was a creature of the state.

If neither bureaucratic preferences nor interest group pressures adequately explain the financial policy change, then what can? Important or controversial policies were determined at the top. In Korea, power is highly centralized in the Blue House. Knowing who enjoys the president's personal confidence and has access to him discloses a great deal about who has power in Korea. Specifically, the economic secretary to the president wielded enormous power, often to a degree matched by no others. If a secretary could persuade the president, any policy change, however drastic, was well within his reach. For with the president's approval, the secretary could formulate a
policy and pass it down to cabinet ministers in the name of the president. That was exactly how Korea's SME policy changed in the early 1980s.

The economic secretary, Kim Jae Ik, given carte blanche by the president, took the initiative in the early 1980s and directed the MTI and its SME bureau to seek and apply tangible and substantial measures to foster small firms. A Stanford Ph.D. in economics, Kim had been a principal reform advocate as the head of the Economic Planning Bureau at the Economic Planning Board before he was picked by General Chun as his economics tutor and thereby became his best and most trusted economic advisor. Kim's devotion to offsetting the excesses of the big business-centered strategy by fostering the growth of SMEs was an outgrowth of his primary concern, which was to undo the legacy of HCI policies.31 And so once the regime's intention and strategy were set, clearly and credibly, the MTI did its part in formulating and executing the details of new SME policies.

This by no means suggests that Chun was a visionary leader with a genuine sense of mission to correct the wrongs of the past or foster reconciliation. Rather, deep-seated societal resentment about growing inequality was a politically potent reality, and the Chun regime, in need of legitimacy, could capitalize on it. Once the regime decided to use that issue to build political legitimacy, the Japanese practice of using small, flexible subcontractors for big manufacturers like Toyota and Toshiba supplied an economic rationale for the politically motivated strategy. Special treatment for SMEs was then put forward both as a policy to help small business and as an economically sensible industrial policy. Policy measures designed to develop vibrant small suppliers also had the additional advantage of helping to avoid unions, weaken unionism, and cut the cost of labor through big firms' outsourcing of parts and services. Nevertheless, the primary basis for Korea's changed SME policy lay in its political usefulness to the Chun regime.

Japan's was a more mature and democratic political economy than Korea's. Postwar Japan has practiced national and local elections, albeit with some important limitations, whereas Korea for the most part has not. Japan's multimember, single non-transferable vote system forced LDP members to compete with one another as well as with candidates from other parties in the same electoral district, which often engendered distributive, pork-barrel politics. Such access points for electoral influence available particularly at the local or district level facilitated the formation of varying SME associations.

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In the immediate postwar years, in fact, a number of overarching organizations representing SME interests briskly emerged in Japan, including the NF-SBA and the National Federation of Commerce Associations (Zenshoren, a radical group affiliated with the Japan Communist Party [JCP]). Particularly after the worst postwar recession of 1965, which caused rampant SME bankruptcies, the NFSBA and Zenshoren vociferously demanded more government financial assistance for SMEs, especially no-collateral loans. Nevertheless, no policy change was forthcoming. Despite the organizational strength of SMEs, their influence on the state was quite limited and Japan continued its unbalanced modernization strategy, heavily favoring big business, into the early 1970s. The various state subsidies to small firms and farmers were limited to protect the unbalanced modernization. The SME groups were unable to force the LDP regime to give high priority to the development of small firms until the early 1970s.

This began to change only after the December 1972 lower house elections. Observing LDP reluctance to come to terms with the small business pressures throughout the late 1960s, an increasing number of leftist local governments in major urban areas had introduced no-collateral small business loans. The no-collateral loan system attracted SME support. The number of SME associations belonging to the NFSBA dramatically increased by 50% to over 30,000 in less than a decade after 1966, the year when Kyoto first adopted the no-collateral system. The number of nation-wide Zenshoren member firms jumped to over 200,000 by 1972 from less than 80,000 in 1966. In the 1972 general elections, the LDP lost 17 seats in the lower house, garnering only 46.9% of the vote, its worst electoral performance since its creation in 1955, while the JCP hiked its lower house seats from 14 to 38, stunning the “iron triangle” of politicians, bureaucrats, and big businessmen.

At that point the LDP promptly adapted to snatch the issue of SME support from the opposition, establishing a no-collateral loan program at the national level and quickly expanding the program's size. It was LDP politicians—most prominently, prime ministers Sato Eisaku in the late 1960s and Tanaka Kakuei and Fukuda Takeo in the 1970s—who championed the cause for switching to balanced modernization. Tanaka started the no-collateral loan program for small firms in 1973. Tanaka's earlier “Reconstruction of Japanese Archipelago” plan had raised great expectations in Japan's backward provinces and as a result the LDP did very well in the provinces in the December 1972 election, despite its large losses in urban areas. The LDP needed an urban version of the “Reconstruction” plan.

32. NFSBA, National Federation of Small Business Associations. Zenshoren's membership size as of early 1999 totaled 370,000.
Discussions started within the LDP immediately after the election among Tanaka, Nakasone, then the MITI minister, members of the Industry and Commerce section (bukai) of the LDP, and Diet members from urban areas. A “one-trillion yen fund for improvement of management” plan, about which the Japan Council of Chambers of Commerce (JCCC) had petitioned the LDP in July 1972, served as a basis of discussion. The gist of the plan was to provide no-collateral loans to SMEs through the JCCC. The conservative Ministry of Finance objected, but the LDP under Tanaka considered the plan worth the financial risk if it would bring urban support and votes. In order to turn the favorable loans into LDP support, the ruling party made JCCC the urban equivalent of the rural Agricultural Cooperatives (Nokyo). Nokyo employees knew farmers personally through their provision of various subsidies and the relationship offered a strong basis for LDP support at election times. The LDP implemented the no-collateral loans in such a way as to establish a similarly close relationship between SME owners and the pro-LDP JCCC. In so doing, in particular, Tanaka used the Fiscal Investment and Loan Program (FILP) funds, which had traditionally been off-limits to party jurisdiction. Even after Tanaka resigned as prime minister, LDP politicians kept expanding the size of the program. As a result, the LDP’s financial support for SMEs through specialized government-owned SME financial institutions increased so rapidly after the early 1970s that their credit amount exceeded that of the government's big business credits.

Japan's strategic change in the early 1970s was affected by bottom-up, mobilized, and organized SME interests. However, the altered policy did not directly reflect the power and preferences of small business and contradicted those of big business. The electoral trend in the late 1960s and early 1970s did pose a threat to the regime particularly in local elections, but the threat was averted at the national level by the LDP’s politically motivated financial policy change. The LDP kept majority control of parliament, and thus of the government, until 1993. The policy change was the governing party's paternalistic, preemptive strategy to woo and keep increasingly pivotal SME votes. Not bureaucrats, but top LDP politicians, called the shots.

Taiwan
The KMT that took possession of Taiwan in 1949 chose a balanced modernization strategy that supported SMEs as well as large SOEs, perhaps with the exception of the early 1970s. What critically conditioned the political choice

34. According to Masumi, Nakasone as the then MITI minister initially pushed the project in July 1972 but was unable to obtain the LDP support until Tanaka intervened after the election. See Masumi Junnosuke Gendai Seiji [Modern politics], vol. 2 (Tokyo: University of Tokyo Press, 1985), pp. 486–88. I thank Tadashi Anno for this point.
of the reborn KMT regime now operating in Taiwan was the legacy of its policy disasters on the mainland and its firm grip on a strong state structure and, thereby, on a weak Taiwanese society. The KMT at base remained an alien regime, controlled by the minority mainlanders who had imposed their rule on the indigenous Taiwanese population by fiat. The KMT leaders who fled to the island were in crisis and their survival was in grave doubt. They had lost the mainland in 1949 by failing to control hyperinflation and the corrupt KMT-capitalist link. Many corrupt and rent-seeking officials and capitalists did not follow the fleeing KMT to Taiwan. And consequently, to the reconstituted and far more autonomous KMT government in Taiwan, maintaining macroeconomic stability and curbing the growth of big capitalists—indigenous or mainland—became the paramount concern, making a stark contrast to the chaebol-based developmental pathway that Korea's Park regime chose in the early 1960s.

Not only the formative mainland experience but also the KMT leaders' tight control of the state apparatuses explain why the top political leaders in Taiwan continued to prefer a SME-oriented modernization to one based on big private businesses. In contrast to Japan's LDP, whose organization was extremely weak at the rice-roots level, the KMT remained a strong party with its Leninist organizational structure. State power was highly centralized in the president, who was also the head of the KMT. Through its parallel committees, the party's control reached down not only to every level of government organization but also deep into society. As Gold says:

[The KMT's] rank and file are members of party cells that exist in schools, the military, residential street offices, enterprises, social organizations, and overseas Chinese communities. Their main function is to ensure that party policies are implemented and to resist challenges to KMT domination. Four hundred service centers around the island provide a variety of social services as well as a means of keeping informed of local affairs. “Security offices” (an-ch’uan-shih) in private enterprises, schools, and civic bodies perform a control function. At the local level, party cadres are also charged with selecting candidates for elections and using whatever means are necessary to see them through to victory.

The advantages that the KMT asymmetrically held over other political parties also included its huge corporate assets, control of the electronic media, the education system, and the military.

35. I owe this point to Gregory Noble.
The changed KMT regime enjoyed an almost unparalleled degree of autonomy vis-à-vis weak societal forces and pressures in Taiwan. Interest groups and bureaucrats wielded much less influence over the KMT government and its choice of modernization strategy than those in Japan or even Korea did. Taiwan's nation-wide peak association of SMEs had only 14 local member associations in 1997 and has yet to reach 2,000 member companies. Chiang Kai-shek, and Chiang Ching-kuo after him, exercised personal command over state power, mainly through the highly disciplined and centralized KMT party organization, appointing personal confidants to strategic positions in the party-state structure. In short, Taiwan's SME policy emerged almost exclusively from a statist choice dictated by the political concerns of the regenerated KMT elite.

Conclusion
As shown in the three East Asian cases, crises did not dictate the changes in SME-related financial policy: the shifting balance of political power between regime coalitions did. And statist institutional structures and policy legacies shaped the orientations and capacities of regime coalitions and thereby the consequent choice of modernization strategy. Despite the major crises of the late 1970s, Korea's adoption of a balanced strategy failed to materialize until after Chun Doo Hwan's seizure of power and the subsequent rise of stability-oriented coalition in the early 1980s. Although many of the key policy makers at the time were U.S.-trained, market efficiency-oriented economists, the dirigiste policy legacies predisposed a change of strategy within the statist paradigm rather than a market-directed approach. In Japan, similarly, despite mounting sociopolitical pressures from the organized SME interests through the 1960s, the LDP's preemptive switch to a balanced strategy emerged only in the early 1970s, occurring when the party's stability-oriented faction leaders decided to stem what they perceived as an incipient decline of LDP power in the wake of poor performance in the 1972 general elections. In Taiwan, it was not the crisis per se but the legacy of KMT's policy disasters in the mainland that changed the reborn party's modernization strategy. And the strong party-state structure enabled the reconstituted KMT regime to impose its crisis-stricken, survival-driven image of modernization path on both the Taiwanese and those mainland capitalists who followed it in taking flight to the island.

The critical choices were made at the pinnacle of state power in all three East Asian countries. Given the relative weakness of societal forces in checking the power holders' control and exploitation of dirigiste state apparatuses and policy instruments, the control of the state mattered the most in terms of power balance. The critical moments for major policy modification occurred when the elite had to choose between rival visions and interests in
making adjustments in modernization strategy. But the decisive say over the strategic choices lay with central state power holders—those controlling the cabinet in Japan and the presidency in Korea and Taiwan. They did not necessarily staff the bureaucracy—they controlled it. And despite some trouble with the legislature, central power holders in each of the three countries never lost overall control at any time.

Financial policies in East Asia were the outworking of political and economic choices of modernization strategy by dirigiste regime coalitions. Developmental state arguments notwithstanding, career bureaucrats were in no position to make strategic choices. Key power holders decided on a strategy, or strategic shift, which best suited their political needs and interests—including needs for economic growth—by heeding some technocrats and not others. While such decisions were made together with their societal coalition partners, the coalition between the state power holders and societal partner groups remained heavily lopsided: state power holders dominated the dirigiste choice of modernization path. The coalitions were built from above and hence societal interest groups had only peripheral influence on the strategic state choices.

That is not to say that the state was indifferent to societal interests or forming bases of support and popular approbation. Domestic political survival was necessarily among the uppermost concerns. The LDP, of course, was dependent on elections. But for the authoritarian regimes in Taiwan and Korea also, engineering political support was essential. Each remained a divided country facing constant communist threat from its other half. And both the KMT in Taiwan and the military regime in Korea came to power through violent means; their rule always had to contend with the threats to power that illegitimacy and popular disaffection posed for it. The very authoritarian character of the regime underlined the necessity of their building some semblance of popular support or acquiescence.

Hence, concern about the political ramifications of choices of modernization strategy created some room for input from below. But the societal participation was limited. What finally decided each strategic choice was the formation of factions within the ruling elite and their competition for leadership. The dirigiste-style coalition politics did depend upon the perception that the modernization path being followed would meet with a lasting electoral majority or long-term popular acquiescence. However, the key source of political dynamism and change was leaders’ choice of options based on long-term political and developmental goals rather than an optimization responsive or sensitive to immediate organized group interests and shifts in support. Accordingly, policy changes tended to occur in the form of major, abrupt, strategic shifts within the same continuing governing party or elite group.